

Morningstar DBRS Confirms Sfil's LT Ratings at AA (high) with a Stable Trend

BANKING ORGANIZATIONS

DBRS Ratings GmbH (Morningstar DBRS) confirmed Sfil SA's (Sfil or the Bank) ratings, including the Long-Term Issuer Rating at AA (high) and the Short-Term Issuer Rating at R-1 (high). All ratings have a Stable Trend. Sfil's Support Assessment remains SA1. See a full list of ratings at the end of this press release.

KEY CREDIT RATING CONSIDERATIONS

The confirmation of Sfil's Long-Term Issuer Rating at AA (high) with a Stable trend reflects Morningstar DBRS' AA (high) Issuer Rating, with a Stable trend on the Republic of France. Sfil's ratings reflect its statutory ownership by Caisse des Dépôts et Consignations (CDC), which is entirely owned by the Republic of France. Moreover, both CDC and the Republic of France provide letters of comfort in support of Sfil's creditworthiness. As a result, Morningstar DBRS' support assessment for Sfil is SA1.

CREDIT RATING DRIVERS

An upgrade of the Republic of France's credit ratings would lead to an upgrade of Sfil's credit ratings.

Similarly, a downgrade of the Republic of France's credit ratings would lead to a downgrade of Sfil's credit ratings. Any indication of the weakening of the efficiency and timeliness of the support mechanisms between Sfil, CDC and the French State could also lead to a downgrade of Sfil's credit ratings.

CREDIT RATING RATIONALE

Sfil was created in 2013. It is the 9th largest financial institution in France with total assets of EUR 66.9 billion at end-June 2023. Since October 1, 2020, Sfil has been 100% indirectly owned by the French State (rated AA high, Stable Trend, by Morningstar DBRS) through CDC, with the French State retaining one share in the Bank. The reference shareholder, CDC, has provided a letter of comfort to support Sfil's creditworthiness. In addition, the French Republic has also provided a letter of comfort by which it is committed to ensuring that Sfil is able to maintain the continuity of its activities and to honour its financial commitments at any point in time where CDC would fail to do so. This commitment is documented in a letter of comfort issued to the French financial supervisor Autorité de Contrôle Prudentiel et de Résolution (ACPR). As such, Morningstar DBRS considers that both CDC and the French State are committed to ensuring that Sfil is able to pursue its activities in an ongoing manner and to honour Sfil's financial commitments.

Sfil's profitability was down in H1 2023, with net income of EUR 16 million, down from EUR 46 million in H1 2022. Excluding one-offs, net underlying income was EUR 27 million, compared to EUR 34 million in H1 2022. Underlying results were driven by lower reversals of loan loss provisions and higher operating expenses in H1 2023. Total underlying operating income was fairly stable despite the inflationary context and the delay in adjusting the usury rate which affected production in 2022. Sfil's underlying operating expenses were higher in H1 2023 at EUR 62 million compared to EUR 59 million in H1 2022, mainly driven by inflation. Despite this, the Bank's cost base remains relatively low, since Sfil has no branch network and the workforce is small compared to its asset size. Sfil reported a EUR 1 million provision reversal in H1 2023 compared to a EUR 7 million reversal in H1 2022, reflecting

Sfil's very low risk profile.

SFIL's risk profile is mainly driven by its loan book which is very low risk due to the high proportion of French public sector lending. Reflecting the high quality of the portfolio, the non-performing loan (NPL) ratio was around 0.33% at end-June 2023. Sfil's risk profile has not shown signs of deterioration and Morningstar DBRS does not expect Sfil's asset quality to be materially affected in 2024.

Sfil's funding structure is entirely reliant on wholesale funding. The Bank's main funding source consists of covered bonds issued by Caisse Française de Financement Local (CAFFIL). In addition, Sfil has diversified its funding sources, with an EMTN programme of up to EUR 15 billion. Under the programme Sfil raised EUR 1.5 billion in 2022 and an additional EUR 2.3 billion in H1 2023 despite challenging market conditions, evidencing the Bank's good access to market funding. Covered bonds are expected to remain the main source of funding. Sfil also benefits from backup liquidity facilities provided by CDC and La Banque Postale (undrawn as of end-June 2023). In addition, Sfil reported a Liquidity Coverage Ratio (LCR) of 213% and a Net Stable Funding Ratio (NSFR) of 123% in H1 2023.

Morningstar DBRS views Sfil's capitalisation as very solid given the Bank's low risk profile. At end-June 2023, the Bank reported CET 1 and Total Capital ratios of 38.9%, down from 40.3% at end-2022. This was mostly driven by a slight increase in risk-weighted assets (RWAs). The capital buffers are well above the requirements of the European Central Bank's Supervisory Evaluation Process (SREP) for 2023, set at 7.87% for Common Equity Tier 1 (CET1) and 11.70% for the total capital requirement. The Bank's leverage ratio was around 11.3% at end-June 2023, well above the 3% minimum requirement. In addition, Sfil indicated that it already comfortably complies with the minimum indicative MREL requirements.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

There were no Environmental/Social/Governance factor(s) that had a significant or relevant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (January 23, 2024) <https://dbrs.morningstar.com/research/427030/morningstar-dbrs-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>.

Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (June 22, 2023), <https://dbrs.morningstar.com/research/415978/global-methodology-for-rating-banks-and-banking-organisations>. In addition, Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (January 23, 2024) <https://dbrs.morningstar.com/research/427030/morningstar-dbrs-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://dbrs.morningstar.com/about/methodologies>.

The sources of information used for this credit rating include Morningstar, Inc. and company documents, SFIL 2022 Annual Report, SFIL 2022 Presentation, SFIL H1 2023 Semi-Annual Report, SFIL 2022, Q1 2023, Q2 2023 and Q3 2023 Pillar III Reports. Morningstar DBRS considers the information available to it for the purposes of providing this credit rating to be of satisfactory quality.

Morningstar DBRS does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS's outlooks and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <https://registers.esma.europa.eu/cerep-publication>. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see <https://data.fca.org.uk/#/ceres/craStats>.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: <https://dbrs.morningstar.com/research/427224/>.

This credit rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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Initial Rating Date: September 10, 2018

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For more information on this credit or on this industry, visit dbrs.morningstar.com.

Ratings

Sfil

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
29-Jan-24	Long-Term Issuer Rating	Confirmed	AA (high)	Stb	EU U
29-Jan-24	Short-Term Issuer Rating	Confirmed	R-1 (high)	Stb	EU U
29-Jan-24	Short-Term Debt	Confirmed	R-1 (high)	Stb	EU U
29-Jan-24	Long-Term Senior Debt	Confirmed	AA (high)	Stb	EU U

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