CREDIT OPINION

10 June 2024

Update

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RATINGS

SFIL

Domicile	France
Long Term CRR	Aa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aa2
Type	LT Bank Deposits - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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SFIL

Update following rating action

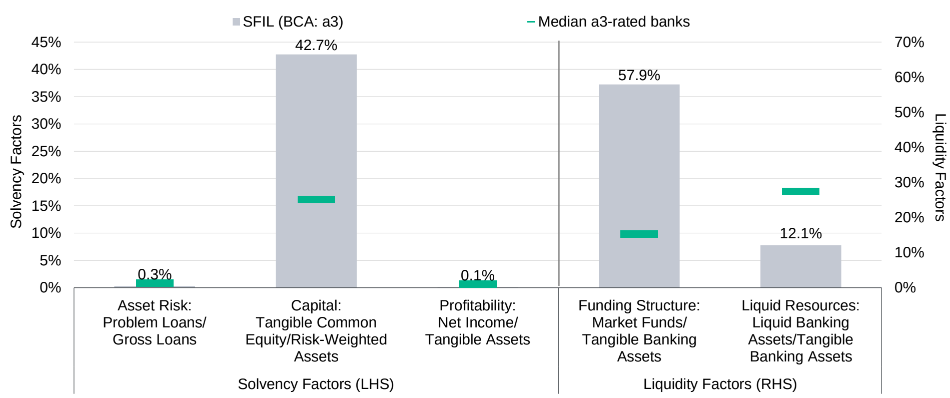
Summary

SFIL's long-term senior unsecured debt and deposit ratings of Aa2 stem from the bank's Baseline Credit Assessment (BCA) of a3, which reflects (i) the bank's leading position in the French public-sector financing, and (ii) a low-risk profile stemming from its solid asset quality and adequate funding and liquidity. SFIL has demonstrated its effectiveness as a major provider of financing to the French local public sector since its creation in January 2013.

SFIL has successfully originated new business through its distribution network provided by La Banque Postale (LBP, A2/A2 stable, baa2) and Caisse des Dépôts (CDC, Aa2 Stable) through its trademark Banque des Territoires. We also believe that the mandate SFIL has been entrusted with by the Government of France (Aa2 stable), which consists in extending long-term export financing backed by a central government guarantee, reinforces its role as a provider of long-term financing and improved its currently moderate profitability. SFIL's very high nominal leverage and moderate historical profitability are consistent with its low-risk profile and assigned public-service mission.

Exhibit 1

Rating scorecard - key financial ratios



Source: Moody's

Credit strengths

» Strong franchise in public-sector financing.

» Close commercial ties with LBP's and CDC's extensive domestic networks.

» Diversification of business activities into long-term export credit financing.

- The French public sector's low-risk.
- Very high probability of government support.

Credit challenges

- Leverage is high because of the very low risk profile of public-sector exposures.
- Profitability is moderate given its business model and low-risk profile

Outlook

The outlook on SFIL's long-term issuer, senior unsecured debt and deposit ratings is stable, in line with the outlook on the Government of France's debt rating.

Factors that could lead to an upgrade

- SFIL's long-term ratings could be upgraded as a result of an upgrade of the Government of France's debt rating.

Factors that could lead to a downgrade

» SFIL's BCA could be downgraded as a result of worse-than-expected asset performance or weakening capitalization.

» SFIL's long-term ratings could also be downgraded in the event of a downgrade of France's sovereign rating.

» A lower BCA, or a significant change in the bank's liability structure that would entail a material reduction in the volume of long-term senior unsecured debt, and, hence, an increase in loss given-failure, would not necessarily lead to a downgrade of SFIL's long-term ratings, given the very high probability of government support assigned to such instruments.

Key indicators

Exhibit 2
SFIL (Consolidated Financials) [1]

	12-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	66,217.0	63,116.0	69,512.0	70,044.0	67,925.0	(0.6)[4]
Total Assets (USD Million)	73,146.9	67,360.4	78,764.5	85,702.7	76,245.7	(1.0)[4]
Tangible Common Equity (EUR Million)	1,736.0	1,744.0	1,713.0	1,666.0	1,618.0	1.8[4]
Tangible Common Equity (USD Million)	1,917.7	1,861.3	1,941.0	2,038.4	1,816.2	1.4[4]
Problem Loans / Gross Loans (%)	0.3	0.2	0.3	0.4	0.7	0.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	42.7	46.5	41.1	32.7	27.3	38.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	8.6	6.3	8.9	12.5	21.1	11.5[5]
Net Interest Margin (%)	0.3	0.3	0.2	0.2	0.2	0.2[5]
PPI / Average RWA (%)	1.5	3.0	2.6	1.3	1.0	1.9[6]
Net Income / Tangible Assets (%)	0.1	0.1	0.1	0.1	0.1	0.1[5]
Cost / Income Ratio (%)	66.9	51.4	49.1	62.2	65.7	59.1[5]
Market Funds / Tangible Banking Assets (%)	57.9	57.1	57.6	57.7	56.6	57.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	12.1	12.0	16.2	14.2	14.2	13.7[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Ratings and company filings

Profile

SFIL is the leading institution for the financing of the French local authorities, with a market share of around 20%-25% at year-end 2023. The bank is owned by CDC, and the French State which holds one single share. On 30 September 2020, the equity stakes of the French government and LBP in SFIL (75% and 5%, respectively) were transferred to Caisse des Depots et Consignations (CDC, Aa2 stable), which now holds all of SFIL's shares but one. SFIL's ownership remains entirely public and its two shareholders are committed to ensuring that the bank's creditworthiness will be preserved, which is enacted in “Letters of comfort”.

SFIL was established in January 2013 as part of the new framework defined by the French government for the financing of the French public sector and approved by the European Union (EU) Commission on 28 December 2012, in the aftermath of the restructuring plan of Dexia Group.

SFIL's activities involve the following entities:

1. The Caisse Française de Financement Local (CAFFIL, formerly known as Dexia Municipal Agency, DMA) is the financing vehicle and issuer of covered bonds. CAFFIL is 100% owned by SFIL and structured as a “Societe de Credit Foncier” (SCF).

2. La Banque Postale (LBP) originates loans through its local network and warehouses them until they are transferred to CAFFIL.

3. SFIL provides services to both CAFFIL and LBP (including commercial support, financial monitoring and risk control, as well as back-office services), and acts as a sponsor bank and a consolidating entity for CAFFIL. SFIL also finances the over-collateralization (OC) required at CAFFIL.

Since the beginning of 2022, SFIL has formed a new partnership with Banque des Territoires (subsidiary of CDC), whereby it offers fixed-rated refinancing, which is complementary to LBP's offer.

Moreover, since 2015, SFIL refinances buyer credit contracts insured by Bpifrance Assurance Export (6th largest global Export Credit Agency - ECA - in 2023) in the name and on behalf of the French State, thus supporting the competitiveness of the major export contracts of French companies.

Detailed credit considerations

SFIL's commercial franchise benefits from LBP's extensive domestic network

SFIL is entrusted with a public-service mandate which consists in financing the French local authorities and hospitals. Since 2015, SFIL has also been entrusted by the French government with providing long-term export financing to the banking industry, backed by a 100% insurance provided by the government. The bank's mission includes the refinancing of large "export loans" extended by other commercial banks. The French government bears the credit risk through Banque Publique d'Investissment (BPI; a subsidiary of CDC)'s France Assurance Export, while CAFFIL (SFIL's covered bond issuing vehicle) provides the bulk of the funding. The European Commission (EC) approved the project on 5 May 2015, and the first refinancing operations took place in 2016. In May 2020, the EC renewed SFIL-CAFFIL's authorization for the financing of export credits for 7 years. As of December 2023, SFIL had refinanced for a total amount of €16.1 billion in contracts. This activity further enhances SFIL's status and importance in the domestic market, whilst diversifying its revenue sources.

SFIL is the leading lender to the French public sector, with a market share of around 20%-25%. Over 2023, CAFFIL acquired €3.4 billion of loans originated by LBP and BdT, bringing the total volume acquired since the creation of SFIL to €37.1 billion as of December 2023. Loan production remained elevated in 2023, increasing 4.9% from 2022 despite higher interest rates that weigh on local authorities' tax revenues.

The refinancing of global expert credit continued to follow the growing ECA market in 2023 (+67% volumes and +36% transactions). As a result, SFIL reported a record year in terms of contracts signed and amounts committed (up to €5 billion from €0.7 billion in 2022 and €2.2 billion in 2021).

On the funding side, outstanding covered bonds (issued by CAFFIL) remained relatively stable at €53.2 billion (€52.9 billion as of year-end 2022), and EMTN outstanding debt (issued by SFIL) amounted to €10.3 billion from €8.6 billion as of year-end 2022. In total SFIL achieved a total volume of long-term debt issuances of €6.6 billion in 2023.

The French public sector is a low-risk asset class

The consolidated loan and securities portfolios of SFIL amounted to €61.6 billion as of the end of December 2023, of which €57.8 billion to the public sector. This total includes the assets inherited from DMA, alongside the new business originated through LBP's and more recently BdT's distribution networks exclusively in France. There are still material exposures outside France (€6.9 billion, or 9% of total credit exposures as of end-December 2023) stemming from the legacy portfolio of DMA, now in runoff. These foreign exposures have been declining since 2013, when they accounted for 30% of the bank's loan and securities book. In addition, the average quality of the portfolio is high, as shown by the 0.3% problem loan ratio[1] as of the end of December 2023.

As for new production of loans to the public sector, we expect the average quality of the production to remain very high, given the restricted scope of customers and loan type allowed by the bank's remit, and in light of the historical performance of such borrowers. We also believe that the credit analysis performed independently by both the originator (LBP) and SFIL on loans before being transferred into CAFFIL's cover pool contributes to fostering the quality of SFIL's exposures.

The ongoing growth in the export credit business bears limited risks, as the buyer credit that SFIL refinances is covered by an ECA guarantee granted by Bpifrance Assurance Export on behalf of the French Republic.

Limited market risk and well-controlled liquidity

In accordance with the requirements of the French legal framework on SCFs, interest rate and currency risks are neutralized at the level of CAFFIL with hedging derivatives. SFIL is CAFFIL's counterparty for some of these derivatives, but immediately covers the resulting positions by contracting derivative transactions in the market.

On a consolidated basis, SFIL's main funding source consists of covered bonds issued by CAFFIL (around 75% of total liabilities as of the end of December 2023). To diversify its funding sources, SFIL set up an EMTN program in October 2016, which totaled €10.3 billion as of December 2023. In addition, in January 2017, SFIL was registered on the list of European agencies, allowing the European Central Bank to purchase its debt instruments, under the public-sector asset purchase program. All these factors reinforce SFIL's stance in the capital markets.

The targeted overcollateralisation at the level of CAFFIL[2] (113.8% as of the end of December 2023) is entirely funded by SFIL. Last, SFIL benefits from back up liquidity facilities from CDC and LBP to cover its liquidity needs (undrawn at the end of December 2023).

Based on the amortization of assets and liabilities, and assuming no new production, CAFFIL would, at all times, have sufficient unencumbered central bank-eligible assets (after haircut and while maintaining an OC of 5% at minimum) to cover any liquidity shortfall that would arise in the case it were unable to refinance maturing covered bonds in the market. The bank's liquidity coverage ratio significantly exceeds the 100% threshold at all times (301% at year-end 2023).

The funding procedure set for the new production — whereby the originated loans are first warehoused on the partner's balance sheet, and subsequently passed onto CAFFIL at a predetermined margin - contingent upon SFIL's underwriting policy being observed - also provides SFIL with a material protection against liquidity constraints. Although we believe such risk is limited, the partners could carry the new originated loans as long as CAFFIL is unable to raise funding at an adequate price.

These factors are reflected in SFIL's Combined Liquidity score of baa2.

Profitability is moderate and leverage high given the business model and the low-risk profile

Consistent with its remit, SFIL generates limited profit - hence the profitability score of b2 in our scorecard - because of (1) the thin margins generated by its loan portfolio, and (2) its high cost base relative to its income generation capacity. We therefore, believe that the bank will have limited capacity to enhance its capital base from retained earnings.

In 2023, the bank's reported a net income worth €56 million, down from €86 million in 2022, mostly due to non-recurring items such as fair value adjustments on hedges and the volatility related to the application of IFRS 9 in the valuation of loans and advances at fair value through profit or loss. Excluding such non-recurring items, net income was broadly flat at €65 million. SFIL's net banking income declined 6% in 2023, since the bank had to refinance cheap funding raised in the mid-2000s at a higher cost. We also expect this negative effect to be offset over the medium term as the legacy assets — originated at a period when margins on public-sector loans used to be very low — amortize and are replaced by the new loans originated by LBP and BdT with higher margins. Operating expenses remained under check in 2023, down 7% or up 1% after excluding the positive effects of lower contribution to the Single Resolution Fund (SRF) and a reduction in taxes.

We expect that the cost-to-income ratio of the bank (67% as per Moody's calculations or 60% excluding exceptional items in 2023) will improve in 2024 as credit export activities will continue to grow and SRF contributions have stopped. This, combined with some expected very low cost of risk, should improve the bank's return on assets (sightly below 0.1% in 2023 per Moody's calculation) and return on equity (3.6% in 2023 per Moody's calculation).

SFIL disclosed a sound Common Equity Tier 1 fully-loaded capital ratio of 37.5% as of the end of December 2023 with a supervisory requirement of 7.92% as of 31 December 2023. However, because of the very low risk weight of exposures to the local public sector (average weighting of 4.9%), SFIL's leverage is very high (the bank's tangible common equity to tangible banking assets ratio was 2.6% at end-December 2023), although it is commensurate with its low-risk profile and broadly similar to that of its main European peers. SFIL benefits, since June 2021, from the Capital Requirements Regulation (CRR2),[3] which excludes so-called “development loans” from the calculation of the regulatory leverage ratio's denominator - regulatory leverage ratio thus stood at a high 9.7% at end-December 2023. Solvency ratios could vary

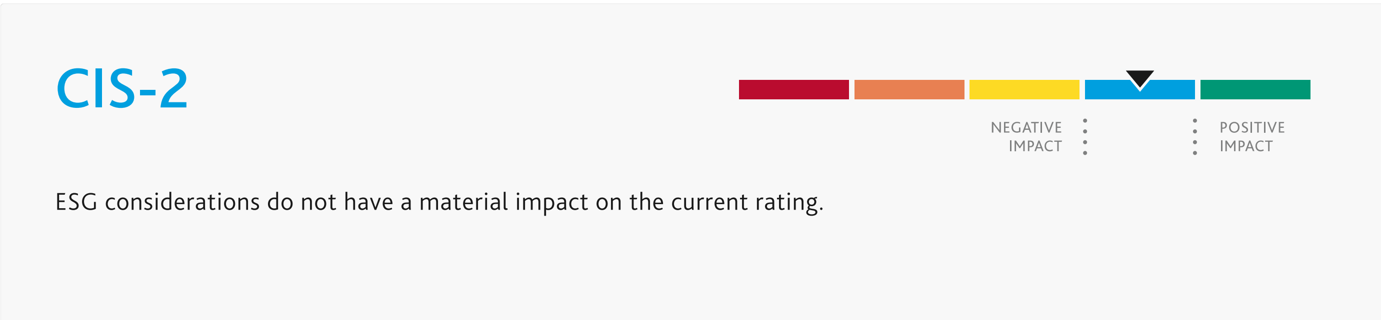
Since February 2021, the Ordinary Insolvency Processing (i.e. liquidation) is the preferred resolution strategy for SFIL, the MREL requirement is thus limited to SFIL's Loss Absorption Amount (LAA).

SFIL's strong capitalization is reflected in its high assigned Capital score of aa2.

ESG considerations

SFIL's ESG credit impact score is CIS-2

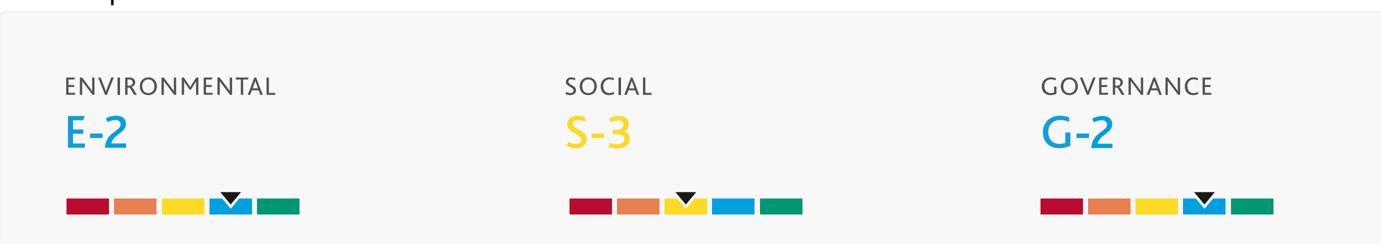
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

SFIL's **CIS-2** indicates that ESG considerations do not have a material impact on the current rating.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

SFIL faces low exposure to environmental risks. Given its role as lender to the public sector, SFIL's exposure to environmental risks is closely aligned to that of the French sovereign, which is low across all categories.

Social

SFIL faces moderate social risks in relation to customer relations and associated regulatory and litigation risks, which require the bank to meet high compliance standards. Customer relations risks related to mis-selling and misrepresentation are however below the industry average, as the bank has no exposures to private companies and no retail activity.

Governance

SFIL faces low governance risks. The bank's risk management policies and procedures are in line with the industry's practices. Ownership is concentrated, however the large presence of independent administrators as well as the domestic developed institutional framework, mitigate associated governance risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss given failure

Despite its ownership and public mandate, SFIL falls in the scope of the EU Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. We, therefore, apply our Advanced Loss Given Failure Analysis to SFIL's liability structure. We assume a residual tangible common equity of 2.6% (Moody's-adjusted leverage ratio as of year-end 2023) and post-failure losses of 8% of tangible banking assets. These are in line with our standard assumptions.

Our Loss Given Failure analysis indicates a low loss given failure for deposits and senior unsecured debt, leading to a two-notch rating uplift from SFIL's a3 Adjusted BCA for these instruments.

Government support

We believe that the probability of government support remains very high for SFIL's deposits and senior unsecured debt, which results in an uplift of two notches. This assumption is based on (1) CDC's commitment, as the reference shareholder, to support SFIL's solvency and liquidity through a letter of comfort, which has been communicated to the French supervisor (Autorite de Controle Prudentiel et de Regulation, ACPR); (2) the State's commitment, as the ultimate shareholder, to support SFIL's solvency and liquidity in case CDC were unable to support it, through a separate letter of comfort, also communicated to the ACPR; and (3) the key role of SFIL in the financing of the French local authorities and hospitals. We also believe that the 2015 decision to expand its policy mandate to export financing also has enhanced SFIL's status and importance in the domestic market.

Counterparty Risk Ratings (CRRs)

SFIL's CRRs are Aa2/P-1

Counterparty Risk (CR) Assessment

SFIL's CR Assessment is Aa2(cr)/ P-1(cr)

The CR Assessment is underpinned by the buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments. The CR Assessment also benefits from one notch of government support, consistent with our belief that governments are likely to maintain operations represented by the CR Assessment as a going concern to reduce contagion and preserve the bank's critical functions.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5
SFIL

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		0.3%	aa1	↔	aa2	Quality of assets	Long-run loss performance
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)		42.7%	aa1	↔	aa2	Nominal leverage	
Profitability							
Net Income / Tangible Assets		0.1%	b3	↔	b2	Expected trend	
Combined Solvency Score			a1		a2		
Liquidity							
Funding Structure							

Market Funds / Tangible Banking Assets	57.9%	b3	↔	baa2	Term structure	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	12.1%	ba1	↔	baa1	Asset encumbrance	Additional liquidity resources
Combined Liquidity Score		b1		baa2		
Financial Profile				a3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aa2		
BCA Scorecard-indicated Outcome - Range				a2 - baa1		
Assigned BCA				a3		
Affiliate Support notching				0		
Adjusted BCA				a3		

Balance Sheet	in-scope (EUR Million)	% in-scope	at-failure (EUR Million)	% at-failure
Other liabilities	53,601	81.0%	53,686	81.1%
Deposits	832	1.3%	747	1.1%
Preferred deposits	616	0.9%	585	0.9%
Junior deposits	216	0.3%	162	0.2%
Senior unsecured bank debt	10,027	15.1%	10,027	15.1%
Equity	1,736	2.6%	1,736	2.6%
Total Tangible Banking Assets	66,196	100.0%	66,196	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	18.0%	18.0%	18.0%	18.0%	3	3	3	3	0	aa3
Counterparty Risk Assessment	18.0%	18.0%	18.0%	18.0%	3	3	3	3	0	aa3 (cr)
Deposits	18.0%	2.6%	18.0%	17.8%	2	3	2	2	0	a1
Senior unsecured bank debt	18.0%	2.6%	17.8%	2.6%	2	2	2	2	0	a1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	aa3	1	Aa2	Aa2
Counterparty Risk Assessment	3	0	aa3 (cr)	1	Aa2(cr)	
Deposits	2	0	a1	2	Aa2	
Senior unsecured bank debt	2	0	a1	2	Aa2	Aa2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
SFIL	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Bank Deposits -Dom Curr	Aa2/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa2
Senior Unsecured	Aa2
Commercial Paper -Dom Curr	P-1
PARENT: CAISSE DES DEPOTS ET CONSIGNATIONS	
Outlook	Stable
Bank Deposits	Aa2/P-1
Issuer Rating	Aa2
Senior Unsecured	Aa2
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1

Source: Moody's Ratings

Endnotes

1 As per Moody's calculation.

2 As a result of its status of a Societe de Credit Foncier.

3 See Regulation (EU) 2019/876 of the European Parliament and of the Council of May 20, 2019 amending Regulation (EU) No. 575/2013 (the Capital Requirement Regulation).

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