



# THE LEADING FRENCH AGENCY SUPPORTING LOCAL INVESTMENT AND EXPORT



Investor Presentation

April 2017

## 1. A PUBLIC SET UP WITH TWO PUBLIC POLICY MISSIONS

- A. FIRST LENDER TO THE FRENCH LOCAL PUBLIC SECTOR
- B. KEY ROLE FOR THE REFINANCING OF LARGE FRENCH EXPORT CONTRACTS

## 2. GROUP FUNDING STRATEGY

- A. CAFFIL - LEADING EUROPEAN PUBLIC SECTOR COVERED BOND ISSUER
- B. SFIL - NEW FRENCH AGENCY ISSUER

### First mission: financing of French Local authority and public hospital investments

- Creation of SFIL in 2013 to ensure a **stable access to long dated funding** for the local public sector
- Leading loan provider to the French local public sector in partnership with La Banque Postale, **market share between 20% and 25%** and **4 billion new loans** in 2016

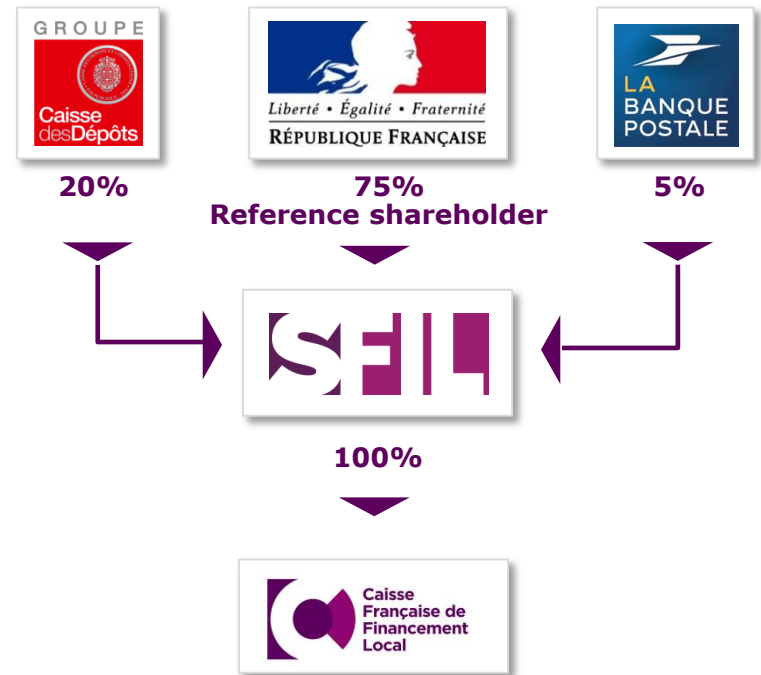
### Second mission: provide financing for large export credits

- New public policy mission entrusted by the French State to SFIL in 2015 to **help enhance the competitiveness of French exporters**
- First refinancing transactions signed in June 2016, transactions with a total volume of EUR 645m in 2016, **EUR 3 billion** refinancing volume as **objective for 2017**



## Public ownership and close links to the French State

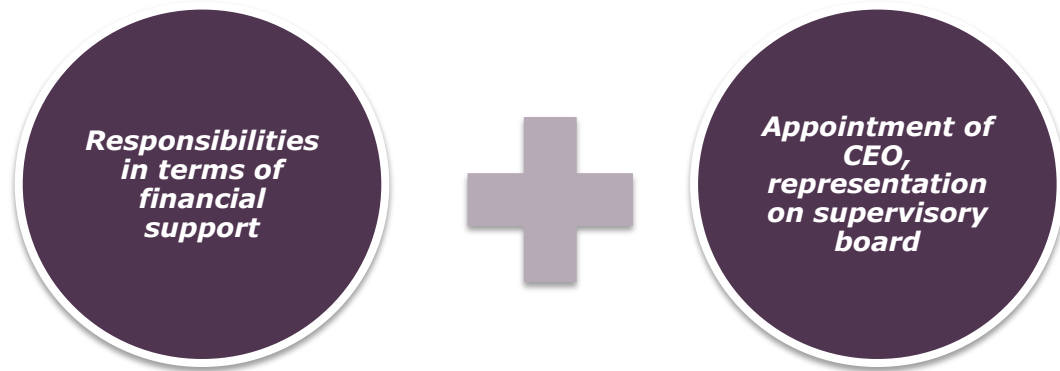
- 100% publicly owned
- Fully regulated financial institution supervised by the ECB and ranked 7<sup>th</sup> credit institution in France by assets
- Debt issued by SFIL **classified as LCR Level 1** based on the **legal obligation of the French government** to protect the economic basis of SFIL and maintain its financial viability (Art. 10.1.(e)(i), LCR delegated Act) and eligible for **asset purchases under PSPP**
- Covered bond issuance via CAFFIL, benchmark issuance classified as **LCR level 1** and eligible for **purchases under CBPP3**



*State support  
documented via a  
letter of comfort*

### The French State has the intention to remain reference shareholder of SFIL in the long run

- Obligation to recapitalize a financial institution if needed: Banque de France may ask shareholders to provide necessary support under Art. 511- 42, French Monetary and Financial Code
- Strict supervision:
  - CEO of SFIL appointed by **presidential decree**
  - French State represented on the **supervisory board**



- Obligations of the reference shareholder are documented via a **letter of comfort** to the regulators, **clearly defining the support and involvement**

*Credit ratings reflect role as public development bank*

## SFIL reached high quality ratings

- Public development bank status, French State as **reference shareholder with specific responsibilities** in terms of financial support
- Critical institution for **two key segments** of the French economy
- **Close supervision by the French State** as majority shareholder
- **Strong capital ratios** and strong support in terms of **liquidity from the shareholders**

| <b>Issuer Ratings</b>    | <b>Moody's</b> | <b>S&amp;P</b> | <b>Fitch</b> |
|--------------------------|----------------|----------------|--------------|
| <i>SFIL – Long Term</i>  | Aa3            | AA             | AA-          |
| <i>SFIL – Short Term</i> | P-1            | A-1+           | F1+          |

|                     | <b>Moody's</b> | <b>S&amp;P</b> | <b>Fitch</b> |
|---------------------|----------------|----------------|--------------|
| <i>French State</i> | Aa2            | AA             | AA           |

Simple balance sheet, activity limited to the refinancing of public sector assets

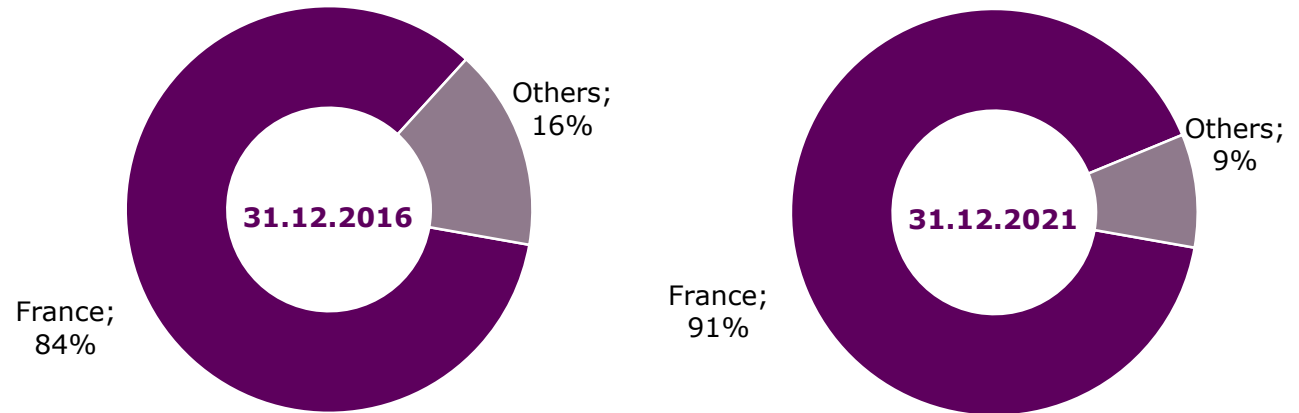
## SFIL Group main balance sheet items

| <i>Consolidated main balance sheet items (including CAFFIL)<br/>December 31<sup>st</sup>, 2016 - (EUR billion)</i> |      |                             |      |
|--|------|-----------------------------|------|
| Loans and Securities   | 54.8 | Covered Bonds               | 50.4 |
|  |      | SFIL Bond Issue             | 1.0  |
|  |      | Refinancing by Shareholders | 6.7  |
| Cash Assets  | 4.9  | Commercial Paper            | 0.6  |
|  |      | Equity                      | 1.4  |
| Cash Collateral Paid   | 2.3  | Cash Collateral Received    | 1.9  |
| <b>CET1 ratio: 24.2% (Basel III phased in)</b>   |      |                             |      |

- Strong capital basis with a **CET1 ratio of 24.2%**
- Long term refinancing mainly via **issuance of covered bonds**, additional liquidity needs provided by shareholders via **liquidity lines**
- **Moderate profitability** in line with role as public development bank

*International legacy portfolio managed in runoff, new lending activity limited to French public sector assets*

## Expected evolution of the public sector portfolio

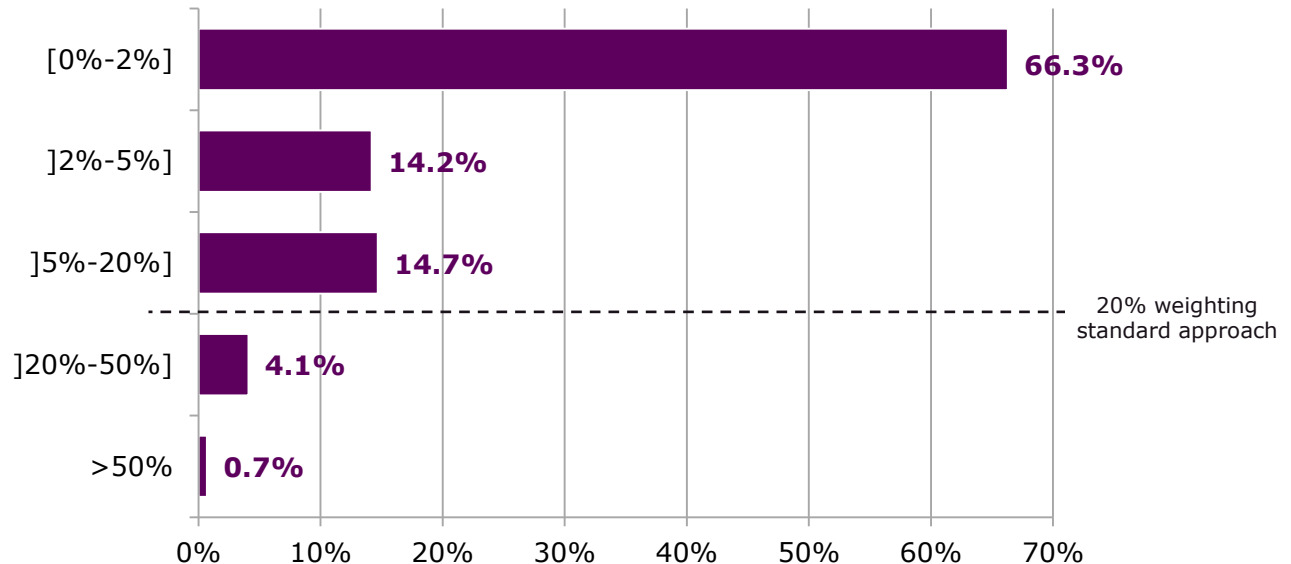


- Close to EUR 60 billion, high granularity with around **16,000 counterparties**
- Origination activity **limited to French assets** :
  - Local government and public hospital loans,
  - Export loans benefitting from a French State guarantee
- **French assets to increase to above 91%** over the coming 5 years:
  - Exposures linked to **export credit activity expected to reach 12%**
  - French local public sector loans **originated since the creation of SFIL to reach 38%**



*Credit quality reflected by low risk weightings under advanced internal model*

## SFIL portfolio by risk weighting as of December 31<sup>st</sup> 2016



- Use of an advanced internal rating model, over 10 years of default statistics, financial and fiscal data and 30 explanatory ratios and risk indicators
- Asset quality is reflected by an **average risk weighting of only 6.2%** versus a standard 20% weighting under Basel II compared to **6.5% in 2015**

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B. KEY ROLE FOR THE REFINANCING OF LARGE FRENCH EXPORT CONTRACTS

## 2. GROUP FUNDING STRATEGY

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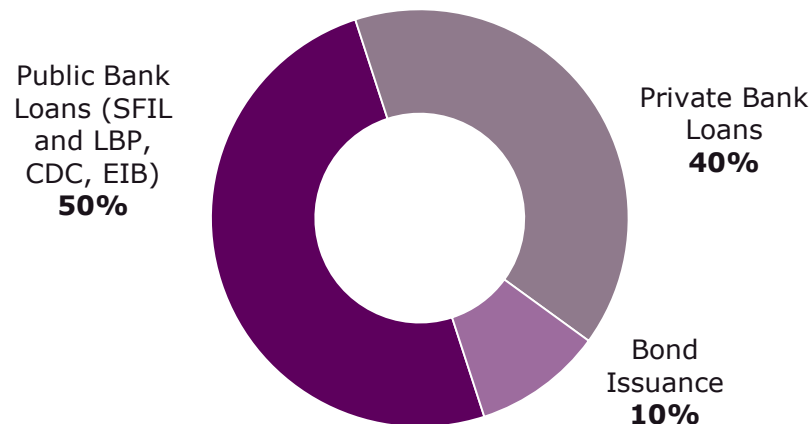
B. SFIL - NEW FRENCH AGENCY ISSUER

*Local authority lending mainly provided by public agencies*

### Strict framework under European Commission supervision

- Scope of lending business is limited to French local public sector
- Pricing at the going market rate, no subsidization – full control of credit risk
- **First lender** to the French local public sector, **market share between 20% and 25%**
- Commercial banks provide only around 40% of French local authority funding needs underlining the need for a public set up

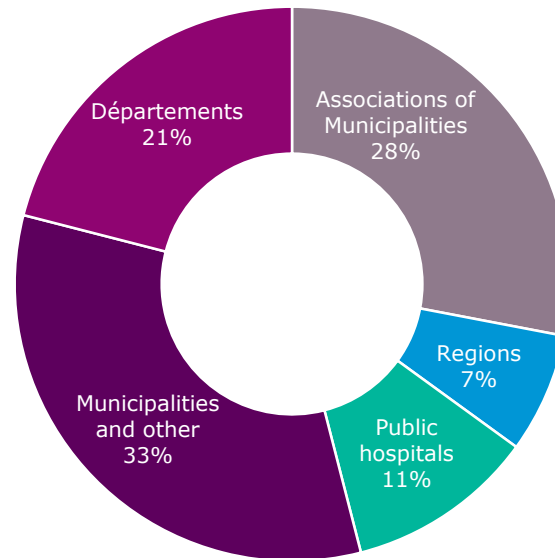
### French local government funding sources 2016



(Source: Standard and Poors, February 2017)

*Municipalities and associations of municipalities represent more than half of the 2016 lending activity*

## 2016 Local public sector lending



- EUR 4 billion in new loans to the local public sector
- Small decline compared to EUR 5 billion in lending in 2015 reflecting reduced funding needs of the local public sector
- Local authorities represent close 90% of the 2016 lending activity with the municipality segment by far the largest sector

*(La Banque Postale and SFIL local public sector lending 2016)*

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*Competitive export financing to support French exporters*

## Exports sector a key priority for the French State to boost GDP growth

- French know-how for capital goods is widely recognized (energy, transportation, defense)
- However, exports represent only 21% of France's GDP, significantly below the EU average (33%)
- Competitive sales finance appears to be a significant success factor

## SFIL and BPI France are in charge of enhancing the French export credit scheme

### **BPI France**

- BPI as sole lender **up to EUR 25 m**
- co-lender for **amounts up to EUR 75 m**



### **SFIL**

- Refinancing by SFIL export contracts **above EUR 75 m**

# KEY ROLE FOR THE REFINANCING OF LARGE FRENCH EXPORT CONTRACTS

*SFIL refinances loans with French public export credit agency guarantee*

## A refinancing platform open to all commercial banks

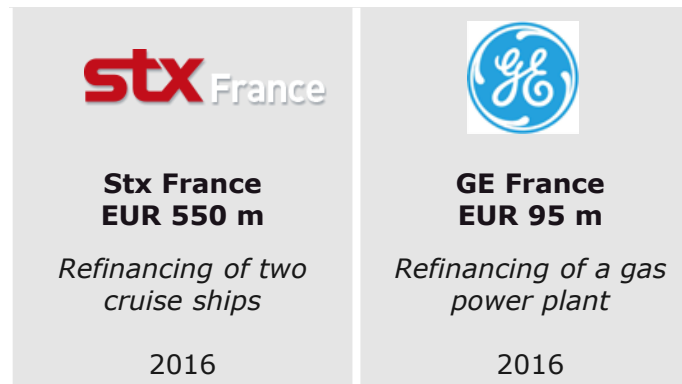
- The vast majority of OECD countries rely on a public set up for the refinancing of export loans
- SFIL acts as **public refinancing platform**, the export bank acts as agent and originator
- Mechanism is comparable to set ups in Sweden (SEK), Finland (FEC), Germany (KfW) and Italy (CDP)
- SFIL activity is limited to **100% French government exposures** - Export credit guarantee managed by Bpifrance Assurance Export, insurance directly provided by the French State



*Refinancing volume of EUR 645 m in 2016, objective to refinance EUR 3 billion of loans in 2017*

## 2016 export refinancing activity

- Framework agreements in place with 18 banks covering **95% of the market**
- Set up presented to **over 30 French exporters** during 2016
- Refinancing transactions for **a total volume of EUR 645 m**



- Close to 60 potential export transactions with a total contract volume of EUR 18 billion to materialize in the coming years identified at the end of 2016
- Objective for 2017: refinancing volume of EUR 3 billion, cruise ships as main sector with an expected share of 66%, followed by energy with 25% and infrastructure with 9%

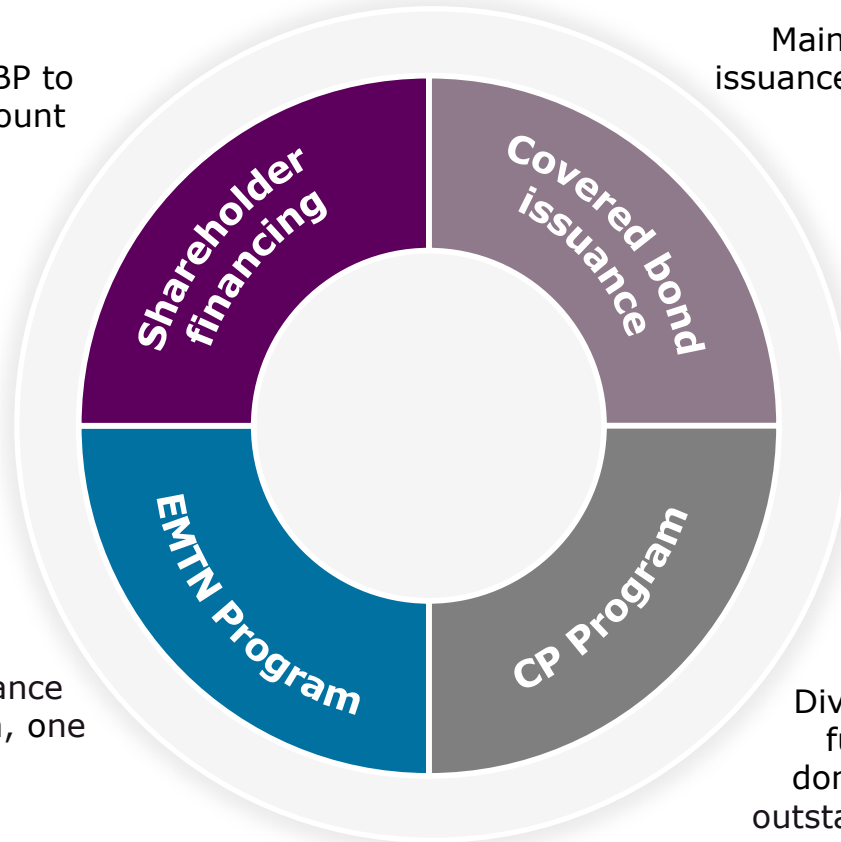


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## Four sources of liquidity for SFIL

Liquidity provided by shareholders CDC and LBP to SFIL for a maximum amount up to EUR 13.75 billion  
**February 2013**

Main source of funding, yearly issuance via CAFFIL between EUR 5 and 7 billion  
**July 2013**



Regular benchmark issuance by SFIL as diversification, one or two benchmark transactions in 2017  
**October 2016**

Diversification of short dated funding via issuance under domestic CP format, average outstanding around EUR 600 m  
**August 2015**

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*Issuance under SCF framework, CRR compliant and hard bullet format*

## Strong covered bond set up

- Cover pool limited to **public sector assets**
- CAFFIL cover bonds are **CRR and UCITS compliant, LCR level 1, CBPP 3 eligible** and benefit from a **10% risk weighting** (standardized approach)
- Issuance under **hard bullet format**
- ECBC Covered Bond Label
- Comfortable level of regulatory **overcollateralization of 111.9%** as of December 31<sup>st</sup> 2016

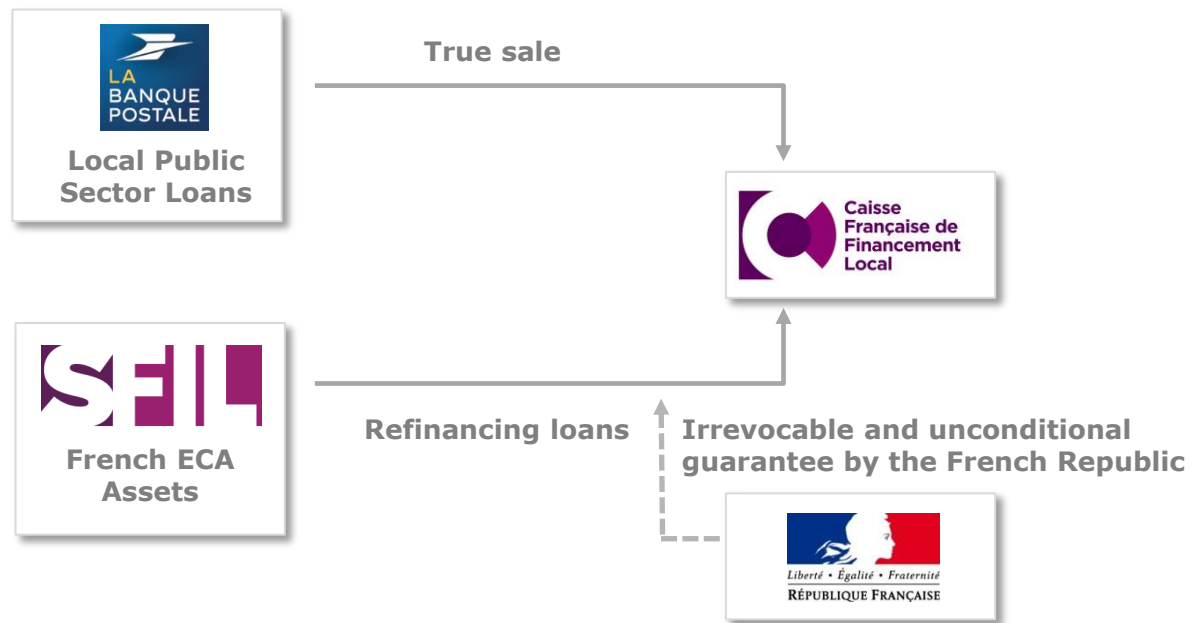
| <i><b>Issuer Ratings</b></i> | <i><b>Moody's</b></i> | <i><b>S&amp;P</b></i> | <i><b>Fitch</b></i> |
|------------------------------|-----------------------|-----------------------|---------------------|
| <i>CAFFIL</i>                | Aaa                   | AA+                   | AA                  |
| <i>SFIL</i>                  | Aa3                   | AA                    | AA-                 |

- Covered bond ratings of CAFFIL are capped one notch above SFIL (and the sovereign) for S&P and at the same level as the sovereign in the case of Fitch

*One single cover pool – French local public sector loans and refinancing loans with French State guarantee*

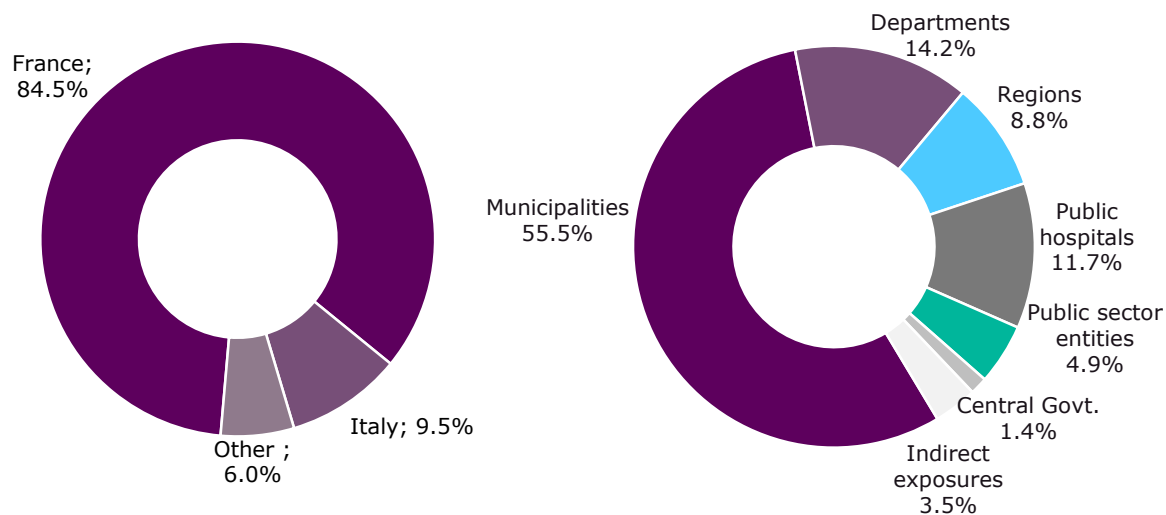
## One single cover pool

- Transfer of local public sector loans from La Banque Postale via true sale to CAFFIL
- Refinancing of export loans via a refinancing loan from CAFFIL to SFIL irrevocable and unconditional 100% guarantee by the French Republic (enhanced guarantee mechanism law n°2012-1510)



*Close to 85% French assets, municipalities represent more than half of the cover pool*

## Cover Pool as of December 31<sup>st</sup> 2016



- Close to 85% French assets, new lending exclusively French
- Highly granular, over 16 000 different counterparties
- Low concentration risk:
  - Sum of 20 largest exposures = 14.2% of cover pool
  - Largest single borrower exposure represents 1.1% of cover pool
  - 20th largest exposure represents 0.4% of cover pool

*(All figures based of CAFFIL cover pool data excluding replacement assets and treasury)*

*Leading issuer -  
focus on long  
maturities*

## Highly regarded covered bond issuer

- 2017 expected issuance between EUR 5 and 7 billion
- Over EUR 50 billion outstanding public sector covered bonds
- Over EUR 21 billion raised since 2013 with 13 benchmark transactions
- Leading benchmark issuer in the long maturity segment, 60% of issuance with a maturity above 10 years
- Regular private placement activity under RCB and EMTN format



*Regular issuance in both benchmark and private placement segment*

## CAFFIL Funding Strategy

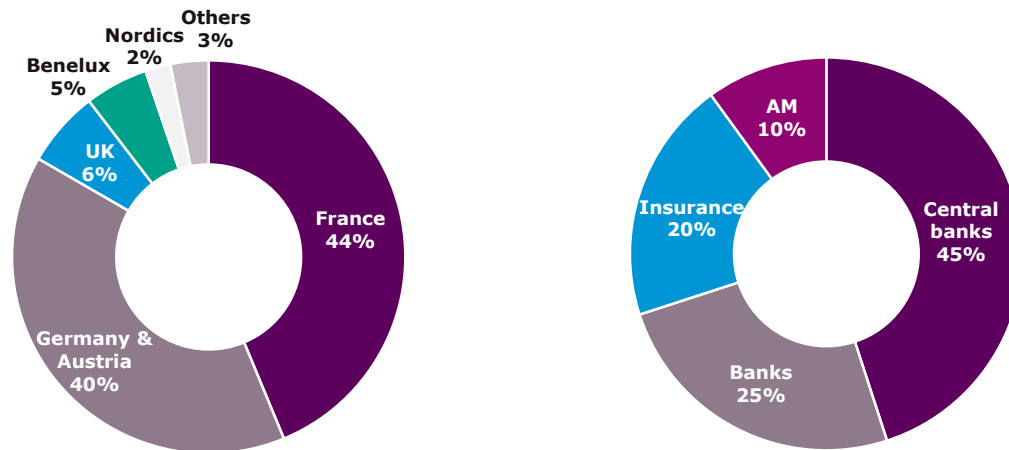


- **Regular benchmark issuer** with a complete reference curve:
  - interest for medium to long duration
  - possible taps with a minimum size of EUR 150m, maximum outstanding volume per bond of EUR 2 billion (tap included)
- **Regular private placement** activity to adapt to investors needs
  - **EMTN and RCB format**, focus on **long maturities**
  - Possibility of lightly structured pay-off in EUR including single callable and CMS-linked issuance
  - Currencies for vanilla transactions : EUR, CHF, GBP, JPY, USD
  - Minimum size: **EUR 10m** – No Maximum size, RCB assignment flexibility: EUR 1m



Four benchmark transactions, medium and long maturities

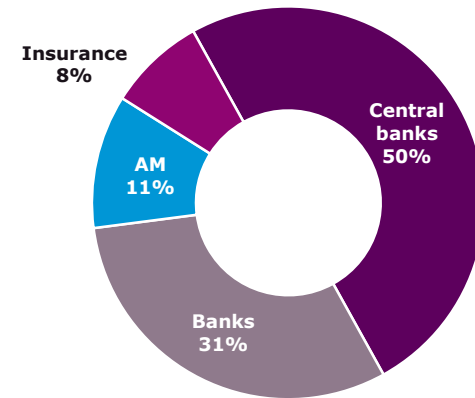
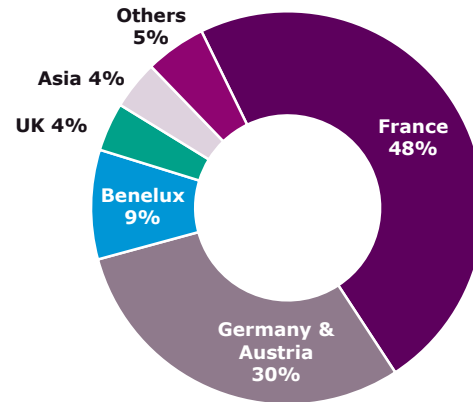
## Investor breakdown of 2016 benchmark issuance



- **January:** First French dual tranche since 2011, first French covered 2016:
  - EUR 1 billion 6 year, MS+7 bps / OAT+ 25bps
  - EUR 500 million 15 year, MS+25 bps / OAT +8 bps
- **April:** EUR 1.25 billion 10 year benchmark at MS+14 bps / OAT +26 bps
- **June:** EUR 1 billion 9 year benchmark at MS+4 bps / OAT+14 bps
- **November:** EUR 500 million 15 year benchmark at MS+17 bps / OAT+1 bps
- Total covered bond issuance by CAFFIL in 2016 including PPs **close to EUR 6 billion, average maturity of 11.5 years**

*Strong start into 2017 with a EUR 1.5 billion 10 year benchmark*

## EUR 1.5 billion 10 year benchmark

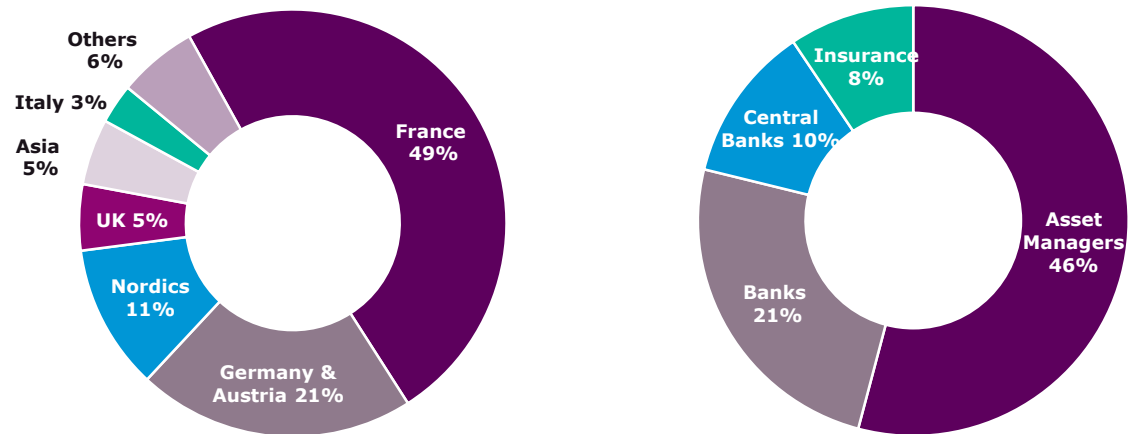


- Successful EUR 1.5 billion 10 year benchmark launched on January 3<sup>rd</sup> - one of the first benchmark transactions of the year 2017
- Issued at a spread of 8 bp above 6-months mid- swaps and 1.5 bp above interpolated OATs
- Regular private placement activity targeting long maturities in Q1 2017
- Around one third of the 2017 funding program already completed in Q1

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*Inaugural Euro benchmark in the French agency segment*

## Highly successful Inaugural issue in October 2016



- Mid term maturity trade with 8y (October 2024)
- Jumbo size : EUR 1 billion with order book reaching EUR 2.2 billion
- Good geographic diversification with over 80 orders collected from 17 countries
- Strong domestic demand (49% placed in France)
- OAT+ 21bps / MS flat
- Secondary levels : OAT +19bps / MS +22bps (March 24<sup>th</sup> 2017)

*Focus on EUR or USD benchmark issuance*

|  <b>SFIL 2017 Funding program</b>   |   |
|--|---|
| <i>Issuer</i>  | SFIL                                      |
| <i>Rating</i>  | Aa2 (stable) / AA (stable) / AA- (stable) |
| <i>Risk weighting</i>  | 20%                                       |
| <i>PSPP eligible</i>   | Yes                                       |
| <i>Format</i>  | EMTN Program Reg. S                       |
| <i>LCR Classification</i>  | Level 1                                   |
| <ul style="list-style-type: none"><li>• <i>Regular benchmark issuer with one or two transactions per year</i></li><li>• <i>2017 funding plan around EUR 1 billion</i></li><li>• <i>EUR and USD issuance</i></li><li>• <i>Maturities between 3 and 10 years</i></li></ul> |   |

- Status as public development bank of SFIL reflected by LCR classification as HQLA Level 1 asset and eligibility for the PSPP
- Two public policy missions:
  - Financing tool for French local public sector investments
  - Refinancing platform for export credit loans reinforces strategic role for the French State
- Strong credit ratings reflect strong support from the French State as reference shareholder
- Covered bond issuance via CAFFIL as leading European public sector covered bond issuer
- Strong asset quality - French public sector assets to represent over 90% of portfolio by 2021



*"We regard Société de Financement Local (SFIL) as a government-related entity, and we believe there is an almost certain likelihood that the French government would provide SFIL with extraordinary support if needed."*

S&P Rating Report April 29<sup>th</sup> 2016

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