S&P Global Ratings

Research

SFIL

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SFIL

Major Rating Factors

Issuer Credit Rating
AA/Stable/A-1+

Strengths

- Almost certain likelihood of extraordinary support from the French state.
- Leading market share in financing French local authorities.
- Funding support from public shareholders.

Weaknesses

- Significantly reduced structured loans portfolio but limited earnings generation still weighs negatively on the bank's risk profile.
- A wholesale-funded business model reliant on investors' confidence.
- Sector and geographic concentration.

Outlook

S&P Global Ratings' stable outlook on Société de Financement Local (SFIL), a French public sector bank dedicated to the funding of domestic local and regional governments (LRGs), public health institutions and export credits 100% insured by the French state, mirrors that on France. As we believe that SFIL will retain its critical role for, and integral link with, the French government, we expect the ratings and outlook on SFIL to move in line with those on France (unsolicited; AA/Stable/A-1+).

We could consider revising the outlook to negative outlook if we revised our outlook on France to negative under a timeframe aligned with the one on the sovereign. We could also downgrade SFIL if we saw any indication of a weakening of SFIL's critical role for, or integral link with, the central government. However, we currently believe that such a scenario is highly unlikely.

Likewise, we could revise the outlook on SFIL to positive if we did the same for France.

Rationale

We equalize our ratings on SFIL with those on France, since we believe that there is an almost certain likelihood that SFIL, a public development bank, would receive timely and sufficient extraordinary support from the French government in the event of financial distress. We base our ratings on SFIL on our analysis of the group. We include in our assessment SFIL's subsidiary, French covered bond issuer Caisse Française de Financement Local (CAFFIL), formerly known as Dexia Municipal Agency, which we view as a core entity of the SFIL group.

SFIL benefits from our view of an almost certain likelihood of government support. We consider SFIL to be a government-related entity (GRE). We assess the likelihood of extraordinary support by the French government as almost certain. We base this on our assessment of SFIL's:

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- Critical role for the French government, due to the economic, political, and social importance of the group's public service assignment.
- Integral link with the French government, which owns, directly or indirectly through state lending arm Caisse des Dépôts et Consignations (CDC) and La Banque Postale (LBP), 100% of SFIL.

SFIL's core mission consists of refinancing new loan production generated by its partner LBP for French LRGs, and to a lesser extent public health institutions. LRGs represent about 70% of total civil public investments in France, which is crucial for the maintenance and the development of infrastructure in France and for support of the national economy. SFIL has been recognized by the European Commission as a development bank, in light of the acknowledgment of a structural market failure in the financing of LRGs.

Although we consider funding issues in the public sector to be less acute than in 2011-2012, when SFIL was designed by the government, we continue to believe that through an economic cycle, without SFIL, the government would likely have to finance LRGs and public health institutions, either directly or indirectly.

In addition, SFIL has been assigned the corollary mission of derisking the stock of sensitive structured loans contracted by the LRGs before the financial crisis. By year-end 2017, we expect SFIL to have derisked 84% of that stock. This significant reduction in exposure has been made possible thanks to support from the central government, who funded exit fees for some LRGs through a special support fund.

In 2015, as part of restructuring of its export promotion policy, the French government assigned SFIL the new public mission of refinancing large export credit. This mission has been recognized by the European Commission as responding to a market failure, confirming that these services were not provided to a sufficient extent by private players. We believe this extension of SFIL's activity reinforces its critical role for the government in resolving market failures in the financial market.

The new export refinancing activity will benefit from a full guarantee from the French state, through its official export credit agency (ECA), Bpi Assurance Export.

SFIL's integral link with France is strongly underpinned by the government's full involvement in SFIL's supervision, management, and strategic decisions. We understand that the governance mechanism in the shareholders' agreement results in the French government having de facto veto rights on SFIL's board.

Although the government does not guarantee SFIL, we think it would likely provide, at any time, sufficient liquidity and capital support for SFIL to operate on an ongoing basis to comply with regulatory requirements and honor its financial obligations. We believe this support would probably be allowed by the European Commission, which considers SFIL to be a development bank.

We continue to assess SFIL's stand-alone credit profile as 'bbb-'. Our assessment of SFIL's SACP incorporates our view of the entity's bank-like business focus on funding LRGs.

We consider SFIL's business position to be constrained by its high business and geographic concentration on refinancing French local authorities and, to a lesser extent, public health institutions, and by its dependence on the financial conditions under which it raises funding in the covered bond market through CAFFIL. At the same time, SFIL

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had a satisfactory market share of 22% in lending to LRGs in 2016, in line with its 20%-26% objective, as it is one of the only lenders to French LRGs to be able to afford long tenors compared with commercial banks. Additionally, SFIL's second mission of refinancing export credits has just started with €650 million of loans granted in 2016, which has allowed SFIL to test the market.

We view SFIL's capital and earnings as strong, reflecting our expectation that the group's risk-adjusted capital (RAC) ratio before diversification and concentration adjustments will stay around 15% for the next two years and its improving but still-modest earning capacity. The bank is still subject to potential tail losses that relate to the ongoing litigation with LRGs and are not captured in our RAC model. Additionally, SFIL's leverage ratio stood at 1.8% as of year-end 2016, much below the 3% expected regulatory requirement. Our central scenario is that SFIL, given its development bank status, will benefit from relaxed regulatory requirements under the upcoming European banking regulation. Absent such a waiver, we would expect a recapitalization of the bank that involves the French state, in line with our assessment of the likelihood of support.

The size of the structured loans has been significantly reduced to €1.8 billion in 2016 from €4.5 billion in 2015, and the reduction of risk has been achieved in structured loans that are potentially the most at risk. The underlying legal risk has also been reduced as the number of litigation cases has shrunk from 132 in December 2015 to 37 as of March 2017. However, we continue to view SFIL's risk position as weak, given its minimal net income generation compared with the still-significant size of its structured loans book.

SFIL is entirely wholesale funded in line with other public sector-focused peers, and remains vulnerable to changes in its funding costs. However, we view the ongoing support received by SFIL from its public shareholders through LBP and CDC as mitigating its wholesale funding profile. Our assessment of SFIL's liquidity is supported by its ability to use its portfolio of assets originating from the public sector as collateral for the European Central Bank lending facility.

SFIL's critical role for the government

Funding LRGs as well as national exports is key for France's economic recovery and is a priority of the central government. LRGs provide about 70% of total civil public investments and are therefore crucial for the maintenance and development of infrastructures in France and the support of the national economy, especially in the current context of sluggish economic growth.

Over the past few years, the state has ensured LRGs' access to funding, demonstrated by:

- The state's financial arm, CDC, has been entrusted with a mandate to provide long-term funding to LRGs in the context of liquidity crises in 2008, 2011, and 2012. In 2013, the CDC inaugurated a €20 billion facility over five years (about one year of total LRG borrowing needs according to our annual forecast for 2015-2016).
- At the central government's request, LBP, a subsidiary of government-related La Poste, started providing loans to LRGs in 2012 in view of the implementation of the SFIL-LBP funding scheme set-up in 2013. LBP, together with SFIL, now provides more than 20% of loans on the LRG market--a level that it has only been able to achieve thanks to ongoing loan refinancing by CAFFIL.
- In February 2015, the French government doubled the size of the fund it had created in 2013 to support LRGs with high exposure to complex loans and encourage them to exit such contracts--part of which have been transferred to SFIL from failed bank Dexia. This swiftly followed the Swiss National Bank's decision to give up the foreign exchange-rate ceiling on the Swiss franc, in which some of the local public debt is denominated.

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- The central government has put in place a series of one-off funding instruments, including 0% budget loans and a €1 billion in investment subsidies.

SFIL owns nearly 23% of the existing LRG debt stock, and will continue to play a leading role in the financing of local authorities in the coming years given that:

- Public entities (including SFIL-LBP tandem) provide over 50% of LRG's funding needs.
- While bank funding supply to LRGs resumed, we continue to believe this situation is more contextual than structural. The amended Basel II market risk framework and the subsequent Basel III requirements introduced risk differentiation through the capture of default risk and other risks such as interest rate risk under the trading book rules and reduced the regulatory advantages of holding quasi-sovereign debt. Additionally, increased competition from other lenders, such as Agence France Locale, a new municipal lending vehicle, and official lenders such as the European Investment Bank (EIB), will continue to depress profits. As a consequence, we believe the commercial bank's current behavior is probably opportunistic in the current context, marked by historically low interest rates.
- French LRGs lack the critical mass to massively tap the capital markets. In 2016, the bond market covered only 11.5% of the sector's financing needs, and we expect this ratio to remain relatively stable in the medium term. We estimate the number of entities with the capacity to issue bonds on the markets on a stand-alone basis to be about 100-150 out of over 36,000. The municipal funding vehicle, Agence France Locale, started its operations in 2015 and generated about 5% of total LRG loans in 2016.
- Financing from EIB (about 13% of new loans in 2016) is earmarked for specific projects and de facto excludes small to midsized LRGs. Financing from CDC (13% of 2016 production) is less competitive given CDC's high financing costs.

Given the above, we expect SFIL will remain the French government's favored tool to address any market failures, or liquidity crisis in the LRG funding sector. We expect LRGs' financing needs to structurally range from €16 billion-€18 billion each year. We also expect hospitals' financing needs to structurally range from €2 billion-€4 billion. In addition, we still believe that SFIL will continue to represent 20% to 25% of LRGs' and hospitals' financing in the short to medium term.

In 2015, SFIL's importance for the French government was reinforced by the expansion of its mandate to export credit refinancing. Until then, France had no institutional tool to refinance export credit and the recent past illustrates the growing reluctance of banks to assume this activity. For instance, in 2008, four banks were necessary to finance a €11 billion nuclear project while 15 banks were necessary in 2013 to finance a similar €3 billion project. The European Commission, admitting that the situation amounted to a market failure, granted approval in 2015 for SFIL to step into the export credit market. By refinancing export credit, SFIL will ease the funding constraints for larger exporters and ultimately enhance the efficiency on this market.

The central government expects that SFIL's new role will bring about a 10% reduction in the cost of exports. In the current sluggish economic growth, the recovery of exports is key for the national economy. Such a role could not be readily undertaken by private sector entities and is integrated in a larger public sector scheme for export support, including export credit guarantees and direct export loans provided by the state's Bpifrance.

State ownership and tight supervision

SFIL is ultimately 100%-owned by the state--75% directly, 20% indirectly through CDC, and 5% indirectly through LBP. The French state is also SFIL's reference shareholder under French law.

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SFIL's board has 15 members:

- The French state (representative appointed by decree)
- Nine members appointed by the General Meeting (including two members proposed by the French state and one representative each for CDC and LBP).
- Five are employee representatives.

In addition, the state shareholding manager has a team dedicated to SFIL.

There is a double-majority mechanism--a majority is required among the representatives of the shareholders for some key decisions--which practically gives the state de facto veto rights. In addition, the state has a strong influence over the decision-making process on issues such as liquidity, the business plan, and actions taken to solve the problem of structured loans.

SFIL's state-appointed CEO is the former head of Agence France Trésor, the state's debt agency. This sends a very strong message to the investor community and stresses the importance to the state that SFIL resumes its activity.

As a financial institution, SFIL must abide by the French banking regulator (ACPR) and treasury's supervision and guidelines for the banking sector. SFIL is also under direct supervision by the European Central Bank. As the reference shareholder, the government receives more detailed and regular information. Lastly, SFIL's scope of business is strictly limited to its two public policy missions.

Close ties to the sovereign

Stress or default would interrupt SFIL's operations. A default of SFIL would be detrimental to the French government's signature as shareholder of reference. It would also cast doubt on other French GREs. In addition, SFIL has and will continue to have significant influence in the local capital market.

Given its role in financing public local investment, a default by SFIL would likely hinder the construction sector and the national economy. This could reach various policy fields including infrastructure, schools, and hospitals--and in a broader sense could harm the French economy's competitiveness. Similarly, a cessation of SFIL's export credit mission would restore the market failure on the export finance market and threaten the ongoing economic recovery.

We do not believe that any commercial private bank would readily take over SFIL's activity either for LRG funding or export credit refinancing.

Strong commitment and ability of the state to intervene

The French state does not give SFIL any explicit guarantee or ultimate legal support, as it does for special status GREs ("établissements publics"). It does, however, express very strong commitment to supporting the group in case of need in a letter of support as shareholder of reference. That means the French state is committed to providing sufficient liquidity and capital support for SFIL to operate on an ongoing basis, to comply with regulatory requirements and to honor its financial obligations.

The indirect liquidity assistance, mainly through CDC, combined with the legislative resolutions aimed at solving the issue related to the structured loans are, in our view, strong signs of ongoing support. In addition, although we do not consider commercial French banks to be GREs, we view France as a supportive country for its banking sector, as

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shown during the 2008 crisis when a law enabling support was adopted very quickly. We believe this could also be the case for SFIL if its needs were higher than the amount already earmarked in France's specific fund to support partly state-owned enterprises. As a bank, SFIL is not formally exempt from the EU's Bank Recovery and Resolution Directive (BRRD). However, we believe that the fact that SFIL is classified as a public development bank gives flexibility for the French state to intervene as a shareholder and extend extraordinary support where needed.

Anchor: 'bbb+' for banks operating in France

The 'bbb+' anchor draws on our Banking Industry Country Risk Assessment methodology and reflects SFIL's predominant focus on France. The economic risk score for France is '3' on a scale of 1-10 (1 is the lowest risk and 10 is the highest). SFIL's weighted-average economic risk is '3.4' with declining exposures to countries outside of France, hence our rounding up to '3'. The industry risk score is also '3'.

Our '3' economic risk score for France reflects our view that its economy is stable and wealthy, with low private-sector credit risk and benefits from a growing population. In our view, the French economy's resilience to adverse external developments has reduced since the onset of the financial crisis because of a rising public debt burden, persistent high unemployment, and decreased external competitiveness of the corporate sector, although now recovering. In the context of modest economic improvements on the back of resilient domestic demand, we expect, however, still-moderate single-digit growth of the outstanding of loans provided by banks. Following a period of modest housing market correction that started in 2012, we forecast that residential real estate prices will continue to increase in 2017 like in 2016 but we do not see currently major economic imbalances. Overall, we believe that the banking sector will maintain sound domestic asset quality. We project stable economic risk.

Our '3' industry risk score reflects our view of financial institutions' reduced ability to extract revenues from their domestic market. The industry faces the challenges of protecting revenues from the effects of low interest rates and of continuing to improve efficiency, while investing into digitalization to meet customers' needs. Domestic funding remains underpinned by stable domestic customer deposits stemming from a high household savings rate and by deep domestic capital markets. We project stable industry risk.

Table 1

SFIL Key Figures

	--Year end Dec. 31--				
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**
Adjusted assets	78,917	83,670	87,998	83,528	92,169
Customer loans (gross)	59,788	63,338	66,285	66,399	72,048
Adjusted common equity	1,365	1,341	1,400	1,488	1,442
Operating revenues	155	98	83	169	257
Noninterest expenses	108	102	99	87	91
Core earnings	24	(47)	(26)	(55)	91

Business position: First lender to the French local public sector but constrained interest margins

Our assessment of SFIL's business position as moderate is supported by its high business and geographic concentrations on refinancing French local authorities and, to a lesser extent, public health institutions. It is also supported by its dependence on the financial conditions under which it raises funding in the covered bond market

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through CAFFIL.

SFIL aims to secure access to medium- and long-term financing for French LRGs and public health care entities. SFIL supports the activity of its covered bond issuer CAFFIL, providing the necessary overcollateralization and cash collateral for intermediated swaps. LBP is responsible for the new loan production that is then transferred to and managed by SFIL. The financing of these new loans, once transferred to SFIL's balance sheet, will be achieved through CAFFIL using covered bond issuance. CAFFIL is also responsible for the refinancing of outstanding loans originated by Dexia before 2012. SFIL also manages the origination of new loans aimed at helping LRGs to refinance the early repayment penalties of their structured loans when necessary.

SFIL benefits from its stable franchise as one of the principal lenders to the French public sector. It derives its raison d'être from being one of the only lenders to French LRGs that are able to afford long tenors. As such, in 2017 an envelope of €2.5 billion of loans with a maturity of more than 15 years will be available. In 2016, the new loan production provided by LBP to French LRGs and hospitals amounted to €3.5 billion, to which SFIL added €0.5 billion of loans earmarked at derisking its clients' structured loans. We thus note that SFIL achieved its ambition to finance 20%-25% of French LRGS' needs, with a 22% market share in 2016 (including financing through bond issuances). However, its market share is lower than what other European development banks peers achieve. Commercial banks provide only around 40% of French local authorities' funding needs, underlining the need for a public set-up. SFIL's margins decreased in 2016 from a high point in 2013 as demand from LRGs was low. This was due to overfunding realized in 2015 and to stiffer competition from commercial banks, given the ample liquidity conditions in the banking sector. We however forecast that margins will stabilize at their current level owing to balancing market dynamics.

In 2015, SFIL was mandated by the government to expand its activities toward export credit. The aim is to acquire export credits originated by commercial banks and 100% insured by Coface acting on behalf and with the guarantee of the French state, and refinance them through covered bond issuance.

As such, under the mechanism, SFIL acts as public refinancing platform and its activity is limited to 100% French government exposures--Export credit guarantee managed by Bpifrance Assurance Export, insurance directly provided by the French SFIL's value added lies in offering longer-maturity, higher-volume and cheaper-price contracts to French groups' clients abroad. SFIL has framework agreements in place with 18 commercial banks and an objective to refinance €3 billion of loans in 2017 after €645 million in 2016. We believe that, should SFIL it be successfully established, its role in refinancing large French export contracts could diversify its business profile. It would, in our view, support its public mission and benefit its net income generation in the coming years.

SFIL's financing and refinancing is done through covered bond issuance by CAFFIL. This wholesale funding model combined with strong exposure to the French public sector structurally constrains interest margins and exposes the bank to adverse movements in the covered bond market. However, SFIL has successfully restored its access to the capital markets and secured strong investor appetite with issuance of €6.2 billion covered bonds in 2016 for an average maturity of 11.5 years.

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Table 2

SFIL Business Position					
	--Year end Dec. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
Total revenues from business line (€ mil.)	139	86	75	155	257
Commercial & retail banking/total revenues from business line	100	100	100	100	100
Return on equity	1.3	(4.2)	(2.4)	(5.1)	N/A

N/A--Not available.

Capital and earnings: An improving level of capitalization

We view SFIL's capital and earnings as strong, reflecting our expectation that the group's RAC ratio before diversification and concentration adjustments will stay around 15% for the next two years and also reflecting its improving but still-modest earning capacity. The bank is still subject to potential tail losses that relate to the ongoing litigation with LRGs and that are not captured in our RAC model.

SFIL's RAC ratio for 2016 reached 15.6% down from 16.3% in 2016; We project SFIL's RAC ratio to further decrease and reach about 14.7% in 2018.

Our main assumptions for our RAC forecasts are:

- An overall 2.0%-2.5% increase in customer loans for 2017 and 2018, reflecting the natural amortization balanced by LBP's new origination and exports loans production.
- A stabilization in net interest margin at 22 basis points, that benefits from the further decrease in the cost of funding as SFIL also diversified its funding with its Euro medium-term notes (EMTN) program. Since 2012, the bank has experienced strong diminishing of its net interest margin but the trend has started reverting in 2016 due to an increase in total loan production and a sizable decrease in the interest expenses base.
- A 3% increase in expenses in 2017.
- Cost of risk positively affected by €5 million of provisions clawbacks in 2017 and 2018.
- A slightly negative earnings buffer.

Additionally, SFIL's leverage ratio stood at 1.8% as of year-end 2016, much below the 3% expected regulatory requirement. Our central scenario is that SFIL, given its development bank status, will benefit from relaxed regulatory requirements under the upcoming European banking regulation. Absent such a waiver, we would expect a recapitalization of the bank that involves the French state, in line with our assessment of the likelihood of support

Table 3

SFIL Capital And Earnings					
	--Year end Dec. 31--				
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**
S&P Global Ratings' RAC ratio before diversification	15.6	16.3	15.4	21.5	N.M.
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	91.4	90.8	92.5	71.0	93.0
Fee income/operating revenues	0.0	(4.1)	(4.8)	(2.4)	(1.6)
Market-sensitive income/operating revenues	8.6	13.3	12.3	31.4	8.6
Noninterest expenses/operating revenues	69.5	104.1	119.0	51.5	35.4

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Table 3

SFIL Capital And Earnings (cont.)					
	--Year end Dec. 31--				
(Mil. €)	2016	2015	2014	2013	2012
Preprovision operating income/average assets	0.1	(0.0)	(0.0)	0.1	N/A
Core earnings/average managed assets	0.0	(0.1)	(0.0)	(0.1)	N/A

RAC--Risk-adjusted capital. N/A--Not available.

Risk position: A diminishing risk of the structured loans portfolio

The size of the structured loans has been significantly reduced to €1.8 billion in 2016 from €4.5 billion in 2015, and the reduction of risk has been achieved in structured loans that are potentially the most at risk. The underlying legal risk has also been reduced as the number of litigation cases has shrunk to 37 as of March 2017 from 132 in December 2015. However, we continue to view SFIL's risk position as weak, given its minimal net income generation compared with the still-significant size of its structured loans book. As a result of its former activities, the number of summons at the request of Dexia's LRG clients peaked at 210 at year-end 2014. Risks stemming from lawsuits are persistent, but the legal framework is very supportive and reduces the size of the risks. The riskiest structured loans ("sensitive" loans) portfolio represented a total of €8.5 billion at the creation of SFIL and €4.6 billion at year-end 2015.

Due to the action of the rescue fund set out by the French state, the number of summons decreased dramatically to 37 as of March 2017.

Considering derisking operations concluded up to March 2017, the amount of sensitive structured loans will reach a maximum of €1.4 billion at end-2017. We have thus witnessed a fast acceleration of the derisking process, which mirrors the deployment of the rescue fund.

Out of the 879 borrowers with sensitive structured loans from the outset, 546 have been derisked to date and 99% of clients have been sent an offer. Of the riskiest loan-bearers, on March 31, 2017, 91% of local governments with less than 10,000 inhabitants who contracted euro and Swiss franc-indexed loans have now been desensitized.

Table 4

SFIL Risk Position					
	--Year end Dec. 31--				
(Mil. €)	2016	2015	2014	2013	2012
Growth in customer loans	(5.6)	(4.4)	(0.2)	(7.8)	N.M.
Total managed assets/adjusted common equity (x)	57.8	62.4	62.9	56.1	63.9
New loan loss provisions/average customer loans	(0.0)	0.0	0.0	0.3	N/A
Gross nonperforming assets/customer loans + other real estate owned	0.9	1.1	0.7	0.4	0.2
Loan loss reserves/gross nonperforming assets	19.0	19.2	23.8	33.1	42.6

N/A--Not available.

Further, we expect the targeted €4 billion a year loan production toward LRGs originated by LBP and held by SFIL to be of high quality. The diversification of the cover pool is satisfactory with top 20 LRGs counterparties representing 14.2% of the cover pool, 1.1% being the largest single credit exposure. We do not believe that the acquisition of export

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credits from commercial banks modifies the risk profile of the bank. Indeed, all these loans will be 100% insured by BPI France Assurance Export acting on behalf and with the guarantee of the French state and are thus similar to an exposure to the sovereign. Lastly, we note that SFIL is fully-hedged against market risk (foreign exchange and interest rate risk) using swap contracts to cover all of its positions.

Funding and liquidity: High wholesale funding mitigated by support from public shareholders

We assess SFIL's funding as average and its liquidity position as adequate.

SFIL is entirely wholesale funded in line with other public sector-focused peers. However, we view the ongoing support received by SFIL from its public shareholders through LBP and CDC as mitigating its wholesale funding profile and concentration on the secured covered-bond channel.

Our funding and liquidity metrics (see "Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions," published July 17, 2013) for SFIL indicate an adequate maturity profile of its funding. Our stable funding ratio stood at close to 92% at year-end 2016 and our one-year liquidity ratio (BLAST) at 0.67%. Our assessment of SFIL' liquidity as adequate is supported by its ability to use its portfolio of assets originating from the public sector as collateral for the European Central Bank (ECB) lending facility (47% of total balance sheet).

SFIL's activities are primarily funded through issuances of covered bonds by CAFFIL. For more details please see "Transaction Update: Caisse Française de Financement Local's Public-Sector Covered Bonds," published on Nov. 9, 2016, on RatingsDirect. In 2016, the ACPR confirmed the covered bonds' eligibility in the LCR L1 category, which has fed SFIL's growing investor base's appetite for these instruments.

Behind SFIL's funding needs that are not fulfilled by covered bond issuances are the financing of overcollatalization at CAFFIL and the cash collateral related to derivatives. CAFFIL systematically maintains a level of regulatory overcollateralization--the ratio of the value of cover pool assets to the value of covered bonds--above 105%. Cash collateral requirements are related to the swaps that are not contracted by CAFFIL directly with external parties, but that are intermediated by SFIL.

The public shareholders provide ongoing funding support to maintain the level of overcollateralization and cash collateral. CDC provides 100% of the liquidity needs of the old activity (loans committed before 2013), 100% of the needs linked to the export credit activity and it funds SFIL's collateral margin calls. CDC's liquidity line is capped at €12.5 billion, of which €5.9 billion have been drawn in 2016, significantly down from €8.1 billion in 2015 as market funding has increased. LBP is responsible for providing 100% of liquidity needs linked to the new activity. LBP's liquidity line is capped at €1.25 billion of which €862 million were drawn in 2016. We expect the total funding from shareholders to steadily decrease, in line with an increasing exposure to market funding.

SFIL is embarking on two market-based issues programs in order to rest on a third funding leg. It has indeed launched a €2 billion domestic commercial paper program in August 2015 with maturities ranging from three to six months and around €600 million outstanding. Additionally, SFIL launched in October 2016 a €1 billion EMTN bond issue.

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Table 5

SFIL Funding And Liquidity					
	--Year end Dec. 31--				
(Mil. €)	2016	2015	2014	2013	2012
Long-term funding ratio	84.1	83.2	84.3	91.0	71.9
Stable funding ratio	91.7	88.6	85.4	90.7	71.2
Short-term wholesale funding/funding base	16.3	17.2	16.0	9.2	28.7
Broad liquid assets/short-term wholesale funding (x)	0.7	0.6	0.4	0.5	0.4
Short-term wholesale funding/total wholesale funding	16.3	17.2	16.0	9.2	28.7
Narrow liquid assets/three-month wholesale funding (x)	1.9	1.1	1.2	0.7	N/A

N/A--Not available.

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- Group Rating Methodology - November 19, 2013
- Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Banks: Rating Methodology And Assumptions - November 09, 2011
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Ratings Detail (As Of May 23, 2017)	
SFIL	
Issuer Credit Rating	AA/Stable/A-1+
Commercial Paper	
Local Currency	A-1+
Senior Unsecured	AA
Issuer Credit Ratings History	
25-Oct-2016	AA/Stable/A-1+
14-Oct-2014	AA/Negative/A-1+
12-Nov-2013	AA/Stable/A-1+
01-Feb-2013	AA+/Negative/A-1+

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Ratings Detail (As Of May 23, 2017) (cont.)

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