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SFIL

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SFIL

Major Rating Factors

Issuer Credit Rating
AA/Stable/A-1+

Strengths:

- Almost certain extraordinary financial support from the French government.
- Leading role in the funding of French local and regional governments and refinancing of export credits.
- 100% public ownership with strong state commitment to support and credit facilities provided by the two other shareholders.

Weaknesses:

- High business and geographic concentration.
- Tail risk of structured loans portfolio albeit decreasing and limited earning capacity.
- Wholesale-funded business model reliant on investors' confidence.

Rationale

We equalize our ratings on SFIL with those on France (unsolicited: AA/Stable/A-1+) because, based on SFIL's critical role for and integral link with the French government, we consider that there is an almost certain likelihood that the government would provide timely and sufficient extraordinary support to SFIL in the event of financial distress. We also continue to view SFIL's subsidiary, French covered bond issuer Caisse Française de Financement Local (CAFFIL), as being a core entity of the SFIL group.

Moreover, we do not see the likelihood of government support as subject to transition risk. As a result, we expect that the ratings and outlook on SFIL will move in line with those on France. Furthermore, we consider the French government's contingent liabilities as limited and unlikely to constrain its capacity and willingness to support SFIL in a timely manner in case of financial distress. More generally, we do not consider the French government's general propensity to support its government-related entities (GREs) to be in doubt.

Our opinion of an almost certain likelihood of government support reflects our view that SFIL:

- Has an integral link with the French government as a 100% public financial institution benefiting from the state's strong commitment of support and tight state supervision.
- Plays a critical role for France as the first lender to French local and regional governments (LRGs) and its increasing role in the refinancing of export credits.

Created in 2013, SFIL is 100% publicly owned: 75% directly by the state, and the rest indirectly through Caisse des dépôts et consignations (CDC; 20%) and La Banque Postale (LBP; 5%), both of which are ultimately fully owned by the central government. 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. Moreover, a presidential decree appoints SFIL's CEO.

Although the state is not legally ultimately responsible for SFIL's solvency as it is for state public agencies ("Etablissements publics d'Etat"), it has expressed its very strong commitment toward SFIL as its shareholder of reference in a letter of support. 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 meet its financial obligations. In our view, the credit facilities from CDC and LBP (ceilings of respectively €10 billion and €1.5 billion), as well as past legislative resolutions aimed at solving an issue related to structured loans, are strong signs of the state's ongoing support.

The creation of SFIL in 2013 was aimed at providing the French LRG sector stable and continued access to long-term funding. SFIL's first mission, therefore, consists of refinancing new loan production generated by its partner LBP for French LRGs, and to a lesser extent financing loans for public health institutions. This access is key, given that French LRGs account for more than 70% of total civil public investments (excluding research and development, expenses in databases, and military equipment). These investments are crucial for the maintenance and development of infrastructure in France and the support of the national economy. The European Commission (EC) has recognized SFIL as a development bank, in light of the EC's acknowledgment of a structural market failure in the financing of LRGs in France. SFIL remains the first lender to the sector, accounting for an estimated 21% of new loans to French LRGs in 2017.

In addition, SFIL has been assigned the corollary mission of derisking the stock of sensitive structured loans contracted by French LRGs. In our view, SFIL has now almost fully resolved this issue, thanks also to the support from the central government, which funded exit fees for some LRGs through a special support fund. Remaining cases of litigation are very few and corresponding financial risks are very limited, given that all recent legal decisions have been in favor of SFIL.

In 2015, as part of restructuring its export promotion policy, the French government assigned SFIL a second mission of refinancing large export credits. This mission has also been recognized by the EC as responding to a market failure, confirming that private players did not provide these services to a sufficient extent. We believe this extension of SFIL's activity reinforces its critical role for the government in resolving failures in the financial market. This export refinancing activity benefits from a full guarantee from the French state, through its official export credit agency, Bpi Assurance Export. This second mission is increasing, and in 2017 SFIL became the main liquidity provider of export credit refinancing with a market share above 50%.

We have also revised our assessment of SFIL's stand-alone credit profile (SACP) upward to 'bbb+' from '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 public health institutions, and by its dependence on the financial conditions under which it raises funding in the covered bond market through CAFFIL.

We have revised our view of SFIL's capital and earnings to very strong, reflecting our expectation that the group's risk-adjusted capital (RAC) ratio before diversification and concentration adjustments will be above 15% for the next two years, as well as its improving but still modest earning capacity and no dividend pay-out. Our new projection also benefits from our recent upgrade of Italy in late 2017, given that SFIL is still exposed to Italian regions. We also consider it important to emphasize that the bank is still subject to potential tail losses that relate to the ongoing de-risking of structured loans with LRGs and some exposure concentrations (the RAC ratio after diversification is 425 basis points lower than before diversification). We will keep monitoring the trajectory of the RAC ratio in case of an unexpected event.

Additionally, SFIL's leverage ratio stood at 1.9% as of year-end 2017, much below the 3.0% expected regulatory requirement. Our central scenario is that SFIL, given its development bank status, will benefit from relaxed or waived regulatory requirements under the upcoming European banking regulation. Absent such a waiver, we would expect a recapitalization of the bank involving the French state, in line with our assessment of the likelihood of support.

SFIL expects to reduce the size of the structured loans portfolio significantly to €1.2 billion by year-end 2018 from €4.5 billion in 2015. It has reduced its exposure to the structured loans that we see as potentially the most risky. Underlying legal risk has also reduced; the number of litigation cases has shrunk to only 23 as of April 2018 from 132 in December 2015. We now assess SFIL's risk position as moderate, reflecting the bank's focus on funding low-risk LRGs in France and its reduction of pockets of risk. A change in SFIL's risk policy, more aggressive origination, or deterioration of credit metrics could lead us to reconsider our assessment of the combined capital, earnings, and risk position.

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 SFIL receives from its public shareholders through LBP and CDC as mitigating its wholesale funding profile. SFIL's liquidity is supported by its ability to use its portfolio of assets originating from the public sector as collateral for the lending facility from the European Central Bank (ECB).

Outlook

The stable outlook on SFIL reflects our stable outlook on France. We believe that SFIL will retain its critical role for and integral link with France. We therefore expect the ratings on SFIL to move in line with those on the sovereign.

We could lower our ratings on SFIL following a similar rating action on France. We could also lower the rating on SFIL if we assessed that its role for or link with the French government had weakened, indicating a lower likelihood of SFIL receiving timely and sufficient extraordinary government support. This could be the case, for example, if the central government were to change SFIL's full public status by reducing its majority share in the bank, or revised the importance that it gives to SFIL's dual mandates.

Conversely, we could raise the rating if France's credit quality were to improve and the likelihood of support for SFIL remained almost certain.

Integral Link With France: 100% Public Ownership, Strong State Commitment To Support And Tight State Supervision

SFIL is 100% publicly owned: 75% directly by the state, and the rest indirectly through CDC (20%) and LBP (5%), which are both ultimately fully owned by the central government.

Although the state is not legally ultimately responsible for SFIL's solvency as it is for state public agencies ("Etablissements publics d'Etat"), it has expressed its very strong commitment to SFIL as its shareholder of reference in a letter of support. 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 meet its financial obligations. Moreover, the state may be obliged to recapitalize SFIL if needed. This is because, under article 511- 42 of the French Monetary and Financial Code, the French central bank could ask shareholders to provide support if needed.

We view the indirect liquidity assistance, mainly through a credit facility provided by CDC (ceiling of €10 billion currently and at least €8 billion until 2038), and previous legislative resolutions aimed at solving the structured-loans issue, as strong signs of specific ongoing state support. More generally, although we do not consider commercial French banks to be GREs, we view the French state as supportive of its banking sector. During the 2008 crisis, for example, it very quickly passed a law enabling support. We believe it would also swiftly help SFIL if SFIL's 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 the French state flexibility to intervene as a shareholder and extend extraordinary support if needed.

The French state is also strongly involved in SFIL's governance. A presidential decree appoints SFIL's CEO. The current CEO is the former head of Agence France Trésor, the state's debt agency. Regarding SFIL's board of directors, it comprises 15 members of which:

- One representative of the French state, appointed by decree;
- Nine members appointed by the General Meeting (of which two members proposed by the French state and one representative each for CDC and LBP); and
- Five are employee representatives.

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 for the likes of business planning, funding, and liquidity.

In addition, the state special agency managing the state's holdings ("Agence des participations de l'Etat") has a team dedicated to SFIL's surveillance.

A Critical Role for France: Dual Mission As First Lender To French LRGs And Increasing Role In The Refinancing Of Export Credits

SFIL's role is strictly limited to two public missions defined by the state:

- Funding LRGs--the reason for its creation in 2013; and
- Export credit refinancing from 2015.

SFIL was created in 2013 to provide the French LRG sector with stable and continued access to long-term funding. This access is key given that French LRGs account for more than 70% of total civil public investments (excluding Research & Development, databases, and military equipment). These investments are crucial for the maintenance and development of infrastructure in France and the support of the national economy.

Over the past few years, the state has ensured French LRGs' access to funding through:

- CDC, which provided long-term funding to LRGs in the context of the liquidity crises in 2008, 2011, and 2012. In 2013, the CDC inaugurated a €20 billion facility over five years, which had been lengthened until 2020;
- GRE La Poste subsidiary LBP--which started at the central government's request--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, provides more than 20% of loans on the LRG market--which 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 structured loans and encourage them to exit such contracts--some of which has been transferred to SFIL from 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 local public debt is denominated; and
- The central government's series of one-off funding instruments, including 0% budget loans and investment subsidies.

SFIL/LBP is therefore key to French LRGs' funding and remains the first lender to the sector, accounting for an estimated 21% of new loans in 2017. In our view, it will continue to play this leading role in the coming years, with a market share of 20%-25%, given that:

- We expect commercial banks' funding supply to remain almost stable in nominal amounts meaning a market share of around 35%. This supply could even potentially decrease with the implementation of the Basel III regulatory framework, especially regarding the leverage ratio for which SFIL, as a public development bank, is likely to benefit from exceptions;
- Funding from the European Investment Bank (more than 15% of new loans in 2017) remains earmarked for specific projects and generally excludes small-to-midsize LRGs. Funding from CDC (less than 10% of 2017 production) remains, for the time being, generally less competitive;
- The majority of French LRGs lack the critical mass to tap the capital markets in any significant way. In 2017, the bond market covered 14% of the sector's financing needs. This competitive funding source could increase in the coming years but we do not expect it to become the main source of French LRGs' funding because we estimate the

number of entities with the capacity to issue bonds on the markets on a stand-alone basis to be about 150-200 out of more than 35,000;

- Municipal funding agency Agence France Locale did not fulfil its initial business plan and its market share in 2017 remained only 3%-4%, as in 2016.

SFIL's second state-entrusted mission is also ramping up. In 2017 SFIL became the main liquidity provider for the refinancing of export credit, with a market share above 50%. Until 2015, France had no institutional tools for such refinancing and banks has been reluctant to engage in this activity. For instance, in 2008, four banks were necessary to finance a €11 billion nuclear project, while in 2013 a similar €3 billion project needed 15 banks. The European Commission, admitting that this situation amounted to a market failure, granted approval in 2015 for SFIL to step into the export credit market. By refinancing export credit, SFIL eases the funding constraints for larger exporters and ultimately enhances market efficiency and the competitiveness of French exporters. Private-sector entities could not readily undertake such a role. It is fully integrated into a larger public sector scheme for export support including export credit guarantees managed by Bpifrance Assurance Export and direct export loans provided by the state's Banque Publique d'Investissement.

Anchor: 'bbb+' for banks operating in France

Our anchor for a commercial bank operating only in France is 'bbb+', based on an economic risk score of '3' and an industry risk score of '3' on a scale of 1-10 ('1' is the lowest risk and '10' is the highest).

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 economy's resilience to adverse external developments has been reduced by a relatively high public debt burden, elevated unemployment projected to decline only slowly, and the corporate sector's decreased external competitiveness. Low interest rates, domestic demand, and the eurozone's growth momentum have more recently supported an economic catch-up phase after several years of stagnation in France. We forecast growth of 2.2% in 2018 and 1.8% in 2019 and we expect net government debt of about 88% of GDP in 2020-2021. Residential property prices increased again in 2017, which may continue amid low interest rates in 2018 before slowing. Growth of domestic loans to the private sector has not been big enough to imply a credit bubble, but private sector debt is on a significant upward trajectory. We anticipate that French banks will post credit losses on domestic operations at historical lows for 2017 at an estimated 18 bps, before slightly increasing in 2018 due to provisioning on loans to small and midsize firms and, to a lesser extent, consumer loans, as well as slightly higher provisions on corporate loans. We believe, however, that the banking sector will maintain sound domestic asset quality. We project stable economic risk.

Our '3' industry risk score reflects our view that financial institutions are operating in a less favorable environment, with low interest rates compounded by a wave of residential loan interest-rate renegotiations and regulated-rate savings constraining prospective revenues. As for many neighboring peers, the capacity to control operating costs, notably in the retail businesses, will be key in the next two years as investments in technology remain important. French banks have generally made progress in improving their funding and liquidity metrics over the past five years, even though the large ones remain dependent on short-term wholesale funding to fund large securities portfolio, and we expect this will continue. We project stable industry risk.

Table 1

SFIL Key Figures

(Mil.€)

	2017	2016	2015	2014	2013
Adjusted assets	72,403	78,917	83,670	87,998	83,528
Customer loans (gross)	57,067	59,788	63,338	66,285	66,399
Adjusted common equity	1,491	1,386	1,341	1,400	1,488
Operating revenues	204	155	98	83	169
Noninterest expenses	113	108	102	99	87
Core earnings	66	24	(47)	(26)	(55)

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

Our assessment of SFIL's business position as moderate is supported by its high business and geographic concentrations on refinancing French local authorities and, less so, public health institutions, and its dependence on the financial conditions under which it raises funds in the covered bonds market 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. La Banque Postale is responsible for new loan production, which is then transferred to and managed by SFIL. The financing of these new loans, once transferred to SFIL's balance sheet, will be done through CAFFIL using covered bond issuance. CAFFIL is also responsible for the refinancing of outstanding loans originated by Dexia before 2012. SFIL manages the origination of new loans aimed at helping LRGs 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 to be able to afford long tenors. As such, in 2018 an envelope of €2 billion of loans with a maturity of more than 15 years will be available. In 2017, new loan production provided by LBP to French LRGs and hospitals amounted to €3.4 billion. We thus note that SFIL achieved its ambition to finance 20%-25% of French LRG's needs, with a 21% market share in 2017 (including financing through bond issuances). However, its market share is lower than that of other European development bank peers. Commercial banks provide only around 40% of French local authorities' funding needs, underlining the need for a public set-up.

In 2015, SFIL was mandated by the government to expand into export credit activities. The aim is to acquire export credits originated by commercial banks and insured by Bpifrance Assurance Export and refinance them through covered bond issuance. As such, under the mechanism, SFIL acts as a public refinancing platform and its activity is limited to 100% French government exposures--Export credit guarantee managed by Bpifrance Assurance Export. SFIL's value added lies in offering longer-maturity, higher-volume and cheaper-price contracts to French groups' clients abroad. SFIL has framework agreements with 23 commercial banks; it refinanced €2.6 billion of loans in 2017 after €645 million in 2016. We believe that 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 both in the secured and unsecured segment. It managed to attract strong investor appetite with issuance of €6 billion covered bonds in 2017 and € 2 billion of senior unsecured.

Table 2

SFIL Business Position

	2017	2016	2015	2014	2013
Total revenues from business line (€ mil.)	184	139	86	75	155
Commercial & retail banking/total revenues from business line	100	100	100	100	100
Return on equity (%)	3.8	1.3	(4.2)	(2.4)	(5.1)

Capital and earnings: Very strong level of capital, albeit modest earnings capacity

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

SFIL's RAC ratio for 2017 reached 18.5%, up from 14.3% in 2016 (under our 2017 methodology). SFIL's exposure to LRGs mitigate S&P Global Ratings' RWAs amount as most of this exposure is lightly weighted in our capital model. Furthermore, our recent upgrade of Italy had a material positive impact on SFIL because its Italian exposure still represents 10% of total exposure (see "Italy Upgraded to 'BBB-A-2' on Firming Economic Recovery; Outlook Stable," Oct. 27 2017). We now project SFIL's RAC ratio to slightly increase to reach about 19% in 2019.

Our main assumptions for our RAC forecasts are:

- An overall 1.0%-2.0% increase in customer loans for 2018 and 2019, reflecting the natural amortization balanced by LBP's new origination and exports loans production.
- Reduced NIM and a slight decrease in operating revenues as nonrecurring items were present in 2017. Cost of funding will likely stabilize, benefiting from the funding diversification connected to the bank's euro medium-term note (EMTN) program. From 2012 the bank's NIM diminished markedly but started to increase again in 2016 thanks to an increase in total loan production and a sizable decrease in the interest expense base.
- A 5% decrease in noninterest expenses in 2019 once the rollout of a new IT platform completes.
- Marginal cost of risk in 2018 and 2019. We expect IFRS 9 will have no effect on the provisioning policy (Expected Credit Loss over 12 months is very low for LRGs).
- Positive core earnings between €30 million-€35 million.
- No dividend pay-out and stable increase in total adjusted capital (TAC). We also take into account a positive impact following IFRS9 implementation.

Additionally, SFIL's leverage ratio stood at 1.9% as of year-end 2017, 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.

We will keep monitoring the trajectory of the RAC ratio. A change in SFIL's risk policy, more aggressive origination, or deterioration of credit metrics could lead us to reconsider our assessment of the combined capital, earnings, and risk position.

Table 3

SFIL Capital And Earnings					
(Mil. €)	**2017**	**2016**	**2015**	**2014**	**2013**
Criteria reflected in RAC ratios	2017	2017	2010	2010	2010
S&P RAC ratio before diversification	18.5	14.3	16.3	15.4	21.5
S&P RAC ratio after diversification	14.8	11.1	10.7	10.5	15.5
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	85.3	91.4	90.8	92.5	71.0
Fee income/operating revenues	1.5	0.0	(4.1)	(4.8)	(2.4)
Market-sensitive income/operating revenues	13.2	8.6	13.3	12.3	31.4
Noninterest expenses/operating revenues	55.4	69.5	104.1	119.0	51.5
Preprovision operating income/average assets	0.1	0.1	(0.0)	(0.0)	0.1
Core earnings/average managed assets	0.1	0.0	(0.1)	(0.0)	(0.1)

RAC--Risk-adjusted capital.

Risk Position: The structured loans portfolio is reducing but there's a tail risk

The structured loans portfolio has significantly reduced to €1.2 billion in 2018 from €4.5 billion in 2015, thereby reducing the credit risk associated with these loans. The underlying legal risk has also diminished: litigation cases dwindled to 23 as of April 2018, from 132 in December 2015. We now assess SFIL's risk position as moderate, and consider its capital and risk position to be positive for the rating.

The riskiest structured (or "sensitive") loans portfolio totalled €8.5 billion when SFIL was set up and had reduced to €4.6 billion by year-end 2015. The figure will be down to €1.2 billion at end-2018. This fast acceleration of the derisking process mirrors the deployment of the rescue fund that took place during 2014-2016. The legal framework acts as a mitigant for litigation risk.

Of the 879 borrowers with structured loans from the outset, 653 have been derisked to date and 99% of clients have been sent an offer. Of the riskiest loan-bearers, on March 31, 2018, 93% of local governments with less than 10,000 inhabitants who contracted euro and Swiss franc-indexed loans have now been desensitized.

We also expect loan to LRGs originated by LBP and held by SFIL to be of high quality. The diversification of the cover pool is satisfactory with the top-20 LRG counterparties representing 14.1% of the cover pool, 1.1% being the largest single credit exposure. However, the RAC ratio after diversification is 425 basis points lower than before diversification, which shows some concentration pockets relative to own funds. We do not believe that the acquisition of export 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 therefore 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.

Table 4

SFIL Risk Position					
(Mil. €)	**2017**	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	(4.6)	(5.6)	(4.4)	(0.2)	(7.8)
Total diversification adjustment / S&P RWA before diversification	25.5	29.4	52.3	46.8	38.5
Total managed assets/adjusted common equity (x)	48.6	57.0	62.4	62.9	56.1
New loan loss provisions/average customer loans	(0.0)	(0.0)	0.0	0.0	0.3
Gross nonperforming assets/customer loans + other real estate owned	1.0	0.9	1.1	0.7	0.4
Loan loss reserves/gross nonperforming assets	9.5	19.0	19.2	23.8	33.1

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 funding maturity profile. Our stable funding ratio stood at close to 93% at year-end 2017 and our one-year liquidity ratio (BLAST) at 0.65%. Our assessment of SFIL's liquidity as adequate is supported by its ability to use its portfolio of assets originating from the public sector as collateral for the ECB's lending facility (47% of total balance sheet).

SFIL's activities are primarily funded by covered bonds issued by CAFFIL. For more details please see "Transaction Update: Caisse Française de Financement Local's Public-Sector Covered Bonds," published on Nov. 30, 2017, 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.

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 loans committed before 2013 and 100% of needs linked to export credit activity, as well as funding SFIL's collateral margin calls. CDC's liquidity line is capped at €10 billion, of which €1.9 billion was drawn in 2017, significantly down from €5.9 billion in 2016 as market funding has increased. LBP is responsible for providing 100% of liquidity needs linked to new activity. LBP's liquidity line is capped at €1.5 billion of which €1.062 billion was drawn in 2017. We expect total funding from shareholders to steadily decrease in line with increasing exposure to market funding.

SFIL is embarking on two market-based issuance programs to give itself a third funding leg. It 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 its first U.S. dollar issue in June 2017 through its EMTN program.

Table 5

SFIL Funding and Liquidity					
(Mil. €)	**2017**	**2016**	**2015**	**2014**	**2013**
Long term funding ratio	86.2	84.1	83.2	84.3	91.0
Stable funding ratio	93.0	91.7	88.6	85.4	90.7
Short-term wholesale funding/funding base	14.2	16.3	17.2	16.0	9.2
Broad liquid assets/short-term wholesale funding (x)	0.6	0.7	0.6	0.4	0.5
Short-term wholesale funding/total wholesale funding	14.2	16.3	17.2	16.0	9.2
Narrow liquid assets/3-month wholesale funding (x)	2.5	1.9	1.1	1.2	0.7

Ratings Score Snapshot

Ratings Score Snapshot		
	To	**From**
Issuer Credit Rating	AA/Stable/A-1+	AA/Stable/A-1+
SACP	bbb+	bbb-
Anchor	bbb+	bbb+
Business Position	Moderate (-1)	Moderate (-1)
Capital and Earnings	Very Strong (+2)	Strong (+1)
Risk Position	Moderate (-1)	Weak (-2)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	+5	+7
ALAC Support	0	0
GRE Support	+5	+7
Group Support	0	0
Sovereign Support	0	0
Additional Factors		

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of June 11, 2018)	
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+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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