PRESS RELEASE JANUARY 28, 2025

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

BANKING ORGANIZATIONS

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

KEY CREDIT RATING CONSIDERATIONS

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

CREDIT RATING DRIVERS

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

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

CREDIT RATING RATIONALE

Sfil was created in 2013. It is the ninth-largest financial institution in France with total assets of EUR 70.7 billion at end-June 2024. Since 1 October 2020, Sfil has been 100% indirectly owned by the French State (rated AA (high), Stable trend, by Morningstar DBRS) through CDC, with the French State retaining one share in the Bank. The reference shareholder, CDC, has provided a letter of comfort to support Sfil's creditworthiness. In addition, the French Republic has also provided a letter of comfort by which it is committed to ensuring that Sfil is able to maintain the continuity of its activities and to honour its financial commitments at any point in time where CDC would fail to do so. The French Republic is committed to ensuring that Sfil is able to maintain the continuity of its activities and to honour its financial commitments at any point in time. This commitment is documented in a letter of comfort issued to the French financial supervisor Autorité de Contrôle Prudentiel et de Résolution. In addition, Morningstar DBRS understands that both the reference shareholder, CDC, and the Republic of France have provided a letter of comfort to support Sfil's creditworthiness. As such, Morningstar DBRS considers that both CDC and the French State are committed to ensuring that Sfil is able to pursue its activities in an ongoing manner and to honour Sfil's financial commitments.

Given its public mission, Sfil's profitability is modest. Sfil's net income increased in the first half of 2024 to EUR 38 million, compared with EUR 16 million in H1 2023. This was partly due to nonrecurring items. Recurring income was EUR 31 million, compared with EUR 26 million a year earlier. Profitability remains relatively low with total operating income representing roughly 0.16% of Sfil's total assets in H1 2024, and net income represented 0.043% of total assets. Sfil's operating expenses were lower in H1 2024 at EUR 60 million compared with EUR 69 million in H1 2023, as the contributions to the Single Resolution Fund ended and operational costs were well controlled. The Bank's cost base is relatively low, since Sfil has no branch network and the workforce is small compared with its asset size. Sfil's operating costs represented only 0.14% of total assets in H1 2024 on an annualised basis. Sfil reported EUR 4 million in loan loss provisions in H1 2024, or less than 1 basis point of Sfil's financial assets at amortised costs, compared with a EUR 11 million reversal for the full-year 2023, reflecting Sfil's very low risk profile.

Morningstar DBRS considers Sfil's risk profile to be solid, underpinned by high-quality exposures and low levels of market and operational risk. Sfil's risk profile is mainly driven by its loan book, which is very low risk because of the high proportion of French public-sector lending, reflecting the generally high quality of the portfolio and the low risk profile of the French public sector. The export credit agreement refinancing activity does not materially affect Sfil's asset quality given the guarantees provided by Bpifrance Assurance Export on behalf of the French State. The nonperforming loan ratio was 0.20% compared with 0.23% in 2023.

Sfil's funding structure is entirely reliant on wholesale funding. The Bank's main funding source consists of covered bonds issued by Caisse Française de Financement Local, which aligns with the Bank's loan exposure to the French public sector. In addition, Sfil has diversified its funding sources, with a euro medium-term note programme of up to EUR 15 billion. In H1 2024, Sfil raised EUR 4.9 billion, of which EUR 4.2 billion was issued in the public market, evidencing the Bank's good access to market funding (EUR 2.25 billion was unsecured bonds and EUR 2.0 billion was covered bonds). Morningstar DBRS expects covered bonds to remain the main source of funding. Sfil also benefits from backup liquidity facilities provided by CDC and La Banque Postale (undrawn as of end-June 2023). In addition, Sfil reported a Liquidity Coverage Ratio (LCR) of 270% and a Net Stable Funding Ratio of 123.5% in H1 2024.

Morningstar DBRS views Sfil's capitalisation as very solid given the Bank's low risk profile. At end-June 2024, the Bank reported Common Equity Tier 1 (CET1) and Total Capital ratios of 37.3%, down from 38.9% a year ago, well above the requirements of the European Central Bank's Supervisory Review and Evaluation Process for 2024, set at 8.56% for CET1 and 12.5% for the total capital requirement. Starting in Q3 2024, Sfil will calculate risk-weighted assets reflecting the fact that, under new rules, exposure to most French local authorities will be aligned with French sovereign risk in respect to prudential requirements. This means that local authorities will benefit from a risk factor of 0%, which will further increase Sfil's capital ratios.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS
There were no Environmental/Social/Governance factors that had a significant or relevant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (13 August 2024), https://dbrs.morningstar.com/research/437781.

Notes:
All figures are in euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (4 June 2024), https://dbrs.morningstar.com/research/433881. In addition, Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings, https://dbrs.morningstar.com/research/437781, in its consideration of ESG factors.

The following methodology has also been applied:
-- Morningstar DBRS Global Corporate Criteria (15 April 2024), https://dbrs.morningstar.com/research/431186

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

The sources of information used for this credit rating include Morningstar, Inc. and company documents, Sfil 2023 Annual Report, Sfil 2023 Presentation, Sfil H1 2024 Semi-Annual Report, and Sfil 2023 and H1 2024 Pillar III Reports. Morningstar DBRS considers the information available to it for the purposes of providing this credit rating to be of satisfactory quality.

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

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

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

The sensitivity analysis of the relevant key credit rating assumptions can be found at: https://dbrs.morningstar.com/research/446585.

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.

Lead Analyst: Sonja Forster, Senior Vice President
Rating Committee Chair: Vitaline Yeterian, Senior Vice President
Initial Rating Date: 10 September 2018
Last Rating Date: 29 January 2024

DBRS Ratings GmbH
Neue Mainzer Straße 75
60311 Frankfurt am Main Deutschland
Tel. +49 (69) 8088 3500
Geschäftsführer: Detlef Scholz
Amtsgericht Frankfurt am Main, HRB 110259

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

Ratings

Sfil

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
28-Jan-25	Long-Term Issuer Rating	Confirmed	AA (high)	Stb	EU U
28-Jan-25	Short-Term Issuer Rating	Confirmed	R-1 (high)	Stb	EU U
28-Jan-25	Short-Term Debt	Confirmed	R-1 (high)	Stb	EU U
28-Jan-25	Long-Term Senior Debt	Confirmed	AA (high)	Stb	EU U

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
28-Jan-25	EUR 3,000,000,000 Negotiable European Commercial Paper Programme	Confirmed	R-1 (high)	Stb	EU U

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Contacts

Sonja Förster

Senior Vice President - European Financial Institution Ratings

+(49) 69 8088 3510

sonja.forster@morningstar.com

Vitaline Yeterian

Senior Vice President - European Financial Institution Ratings

+(44) 20 7855 6623

vitaline.yeterian@morningstar.com