# THE LEADING FRENCH AGENCY SUPPORTING LOCAL INVESTMENT AND EXPORT

Investor Presentation

September 2018

1. A PUBLIC SET UP WITH TWO PUBLIC POLICY MISSIONS
   - A. FIRST LENDER TO THE FRENCH LOCAL PUBLIC SECTOR
   - B. LEADING LIQUIDITY PROVIDER 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 **EUR 20 billion new local public sector loans** since 2013 with **maturities between 10 and 30 years**

## Second mission: provide financing for large export credits

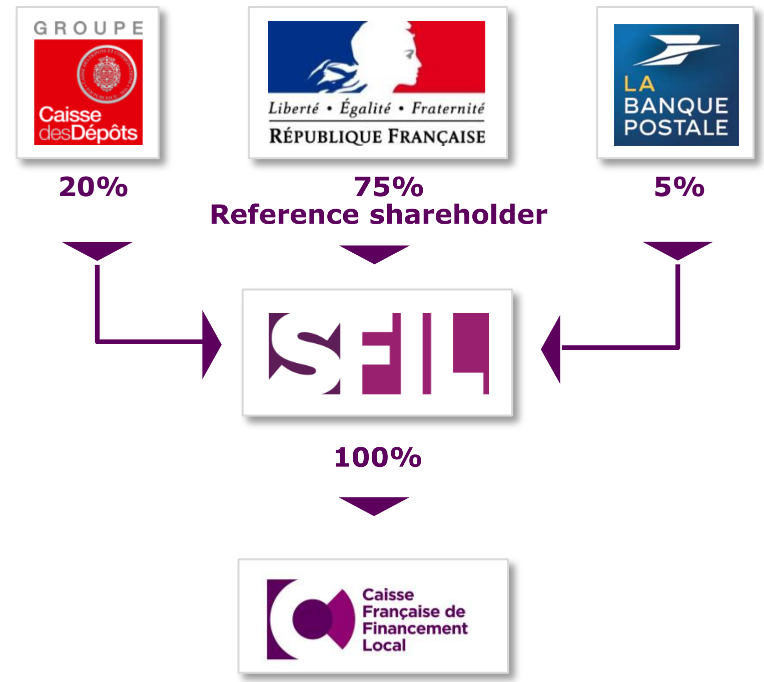
- New public policy mission entrusted by the French State to SFIL in 2015 to **help enhance the competitiveness of French exporters**
- **EUR 5 billion** of loans refinanced since June 2016 - **leading liquidity provider** with a **market share above 50% in 2017** for the re-financing of export loans guaranteed by the State

## Public ownership and close links to the French State

- 100% publicly owned
- Fully regulated financial institution supervised by the ECB and ranked 7th 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

*"The issuer is a* ***credit institution incorporated or established by the central government*** *of a Member State … [that is]* ***under the legal obligation to protect the economic basis of the credit institution and maintain its financial viability throughout its life-time…"*** (Article 10.1.(e)(i), LCR delegated Act, October 2014)

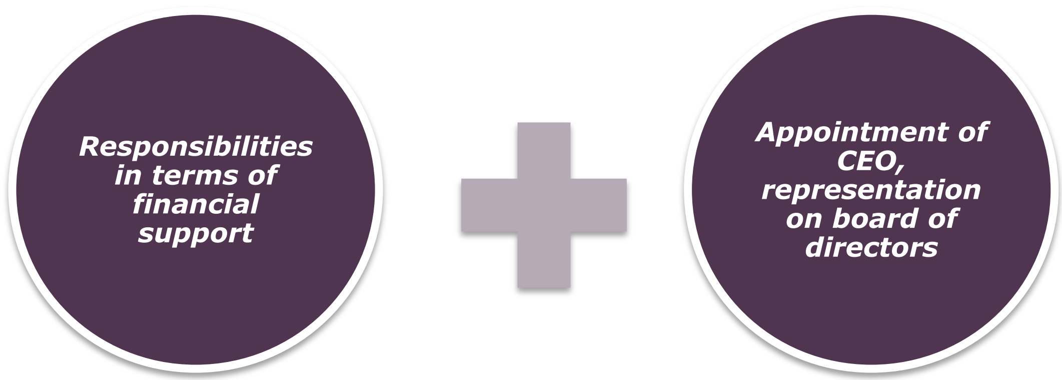
- Covered bond issuance via CAFFIL, benchmark issuance classified as **LCR level 1** and eligible for **purchases under CBPP3**



*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 **board of directors**




- 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**

| | Moody's | S&P | DBRS | Fitch |
|---|---|---|---|---|
| *SFIL – Long Term* | Aa3* | AA | AA (high) | AA-** |
| *SFIL – Short Term* | P-1 | A-1+ | R-1 (high) | F1+** |

| | Moody's | S&P | DBRS | Fitch |
|---|---|---|---|---|
| *French State* | Aa2* | AA | AAA | AA |

* Positive outlook
** SFIL will no longer request a rating from Fitch beyond the end of 2018.

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

## SFIL Group main balance sheet items

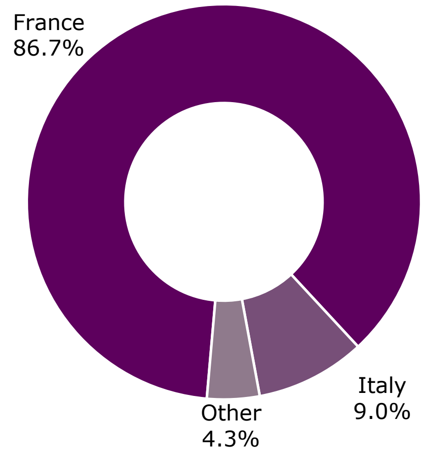
***Consolidated main balance sheet items (including CAFFIL)***
***June 30th, 2018 - (EUR billion)***

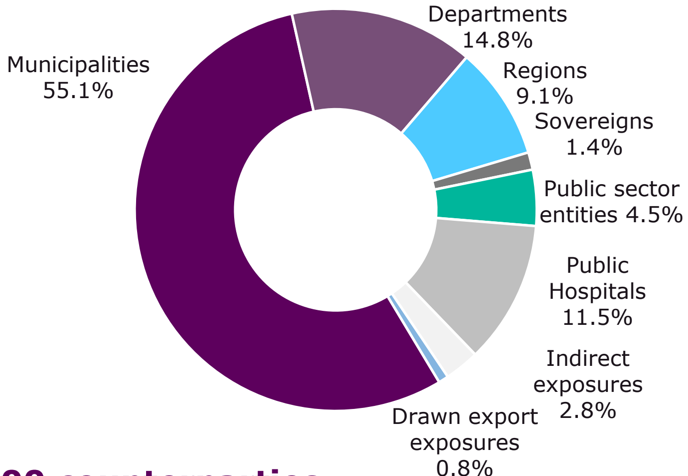
| | | | |
|---|---|---|---|
| *Total assets* | *73.9* | *Total liabilities* | *73.9* |
| *Loans and securities* | *56.1* | *Covered bonds* | *51.2* |
| *Cash assets* | *3.0* | *SFIL bond issuance* | *4.9* |
| *Cash collateral paid* | *2.2* | *Shareholder refinancing* | *2.0* |
| | | *Commercial paper* | *0.7* |
| | | *Equity* | *1.5* |
| | | *Cash collateral received* | *1.2* |
| ***CET1 ratio: 22.2% (Basel III 'fully loaded')*** | | | |

- SFIL capital levels **very significantly above 2018 SREP requirements** of CET1 ratio of 7.125%, Tier 1 Capital Ratio of 8.625% and Total Capital Ratio of 10.625%
- Long term refinancing mainly via **issuance of covered bonds,** additional liquidity provided by shareholders and **via SFIL issuance**
- **Moderate profitability** (ROE of 4.3%) in line with role as public development bank

*Over 86% French assets, municipalities represent more than half of the cover pool*

## Public sector portfolio as of June 30th 2018




- High granularity with around **15,000 counterparties**
- Origination activity **limited to French assets** :
  - Local government and public hospital loans,
  - Export loans benefitting from a French State guarantee
- International legacy portfolio managed in runoff, **French assets to increase above 91%** over the coming 4 years
- Drawn exposures linked to the **export activity represent 0.8%** of the portfolio, with commitments of EUR 5 billion as of June 30th 2018 the share will increase steadily

(all figures based on CAFFIL cover pool data)

*Business activity with a focus on financing social infrastructure, export loans within a strict framework*

## Social and environmental responsibility

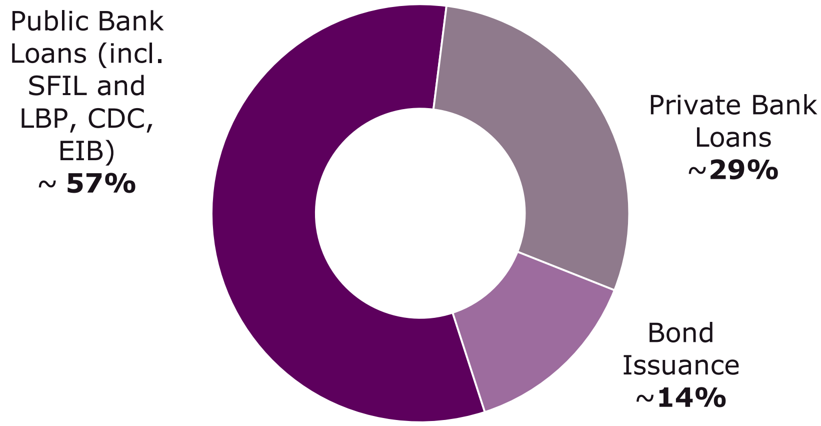
- As leading finance provider for French local public sector investments SFIL plays a central role for the financing of investments in **schools and nurseries, in local public transport and in public healthcare facilities**
- The export financing activity is limited to the refinancing of loans compliant with OECD **environmental and social guidelines**
- Export loans refinanced by SFIL are subject to a social and environmental due diligence by BPI France Assurance Export - for sensitive projects, **a social and environmental impact analysis is publicly available**
- Energy projects **based on coal energy are excluded** from the French public export guarantee mechanism
- ‘Prime’ and ‘Positive’ ratings by Oekom and IMUG for covered bonds issued by CAFFIL confirms the environmental and social commitment of the Group:
- SFIL is committed to expanding its environmental policy and to reducing its $CO_2$ emissions and overall ecological impact – the **Sustainable Development Committee**, plays a key role in this process

*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%** and **EUR 20 billion new local public sector loans** with maturities between 10 and 30 years since 2013
- Commercial banks provided less than a third of French local authority funding in 2017, underlining the need for a public set up

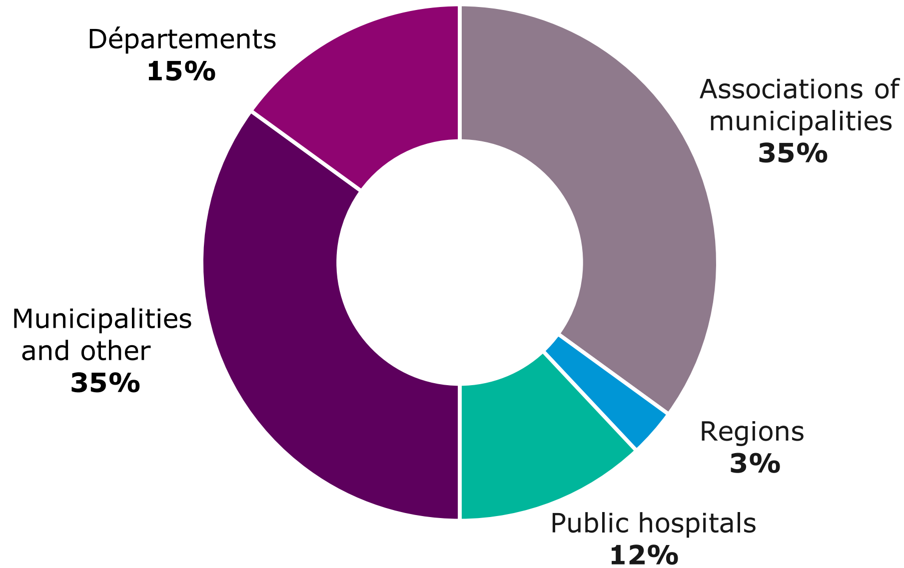
## French local government funding sources 2017 (est.)




(Source: S&P, February 2018)

*Municipalities and associations of municipalities represent 70% of the 2017 lending activity*

## 2017 Local public sector lending




(La Banque Postale and SFIL local public sector lending 2017)

- First lender with **EUR 3.4 billion** in new loans to the local public sector with maturities between 15 and 30 years
- Looking ahead, the local government sector expected to play a key role in the **EUR 57 billion public investment plan** announced by the government in September 2017 focusing on ecological transition, innovation, learning society and the digital State

# AGENDA

*Competitive export financing to support French exporters*

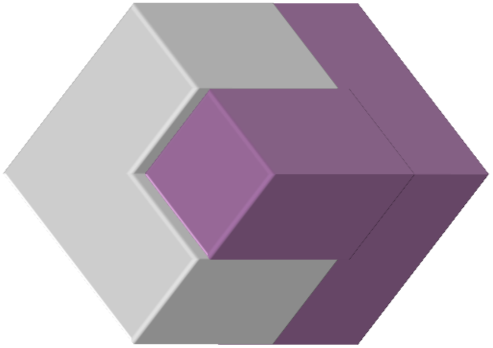
## Exports sector a key priority for the French State to boost GDP growth

- 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 of 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**

*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

*Leading liquidity provider with a market share above 50% in 2017*

## 2016 and 2017 export refinancing activity

- Framework agreements are in place with **23 banks covering more than 95% of the market**
- **EUR 5 billion** of loans refinanced since June 2016 across different sectors of the French economy via 8 contracts
- **Leading liquidity provider** with a **market share above 50% in 2017** for the re-financing of export loans guaranteed by the State
- Very solid outlook for the export refinancing activity with **87 potential transactions** with a total contract **volume of EUR 26 billion**
- Objective for 2018 is a **refinancing volume of EUR 2 billion**
- The State has announced plans to widen the scope of the French public export guarantee mechanism – and the mission of SFIL - **to include strategic projects for the French economy** from 2019 onwards

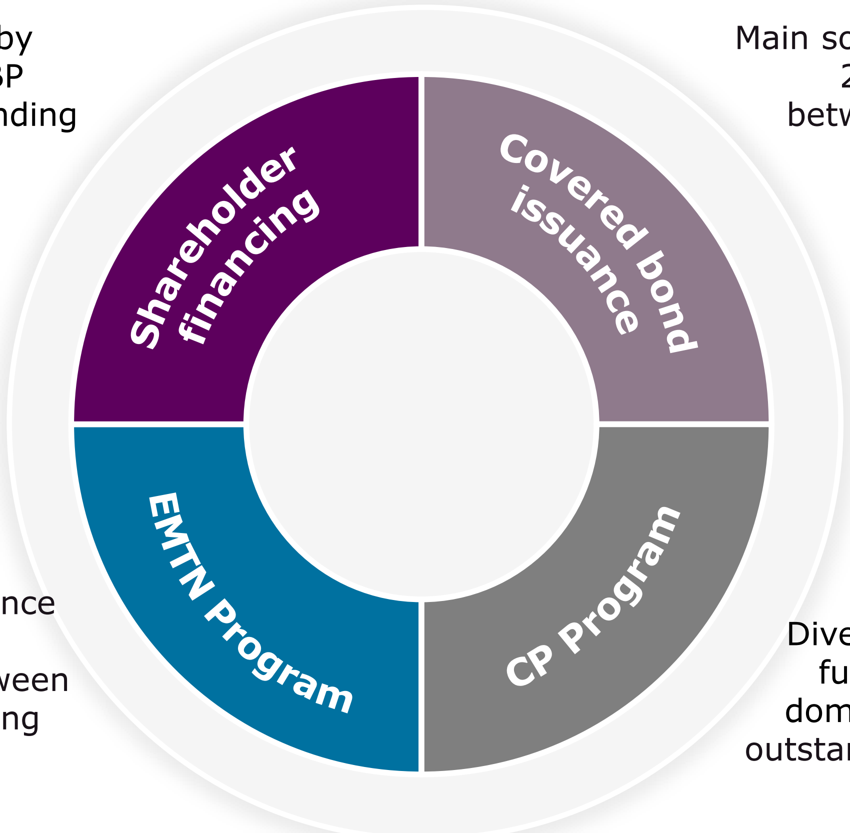
## Four sources of liquidity for SFIL

Credit facilities provided by shareholders CDC and LBP with EUR 2 billion outstanding as of June 30th 2018

***February 2013***

Main source of funding, planned 2018 issuance via CAFFIL between EUR 4 and 6 billion, more than EUR 50 billion outstanding

***July 2013***




Regular benchmark issuance by SFIL, planned 2018 benchmark issuance between 2 and 3 billion. Outstanding close to EUR 5 billion

***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 covered 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 11.8%** as of June 30th 2018

| | ***Moody's*** | ***S&P*** | ***DBRS*** | ***Fitch*** |
|---|---|---|---|---|
| *CAFFIL* | Aaa | AA+ | AAA | AA** |
| *SFIL* | Aa3* | AA | AA (high) | AA-** |

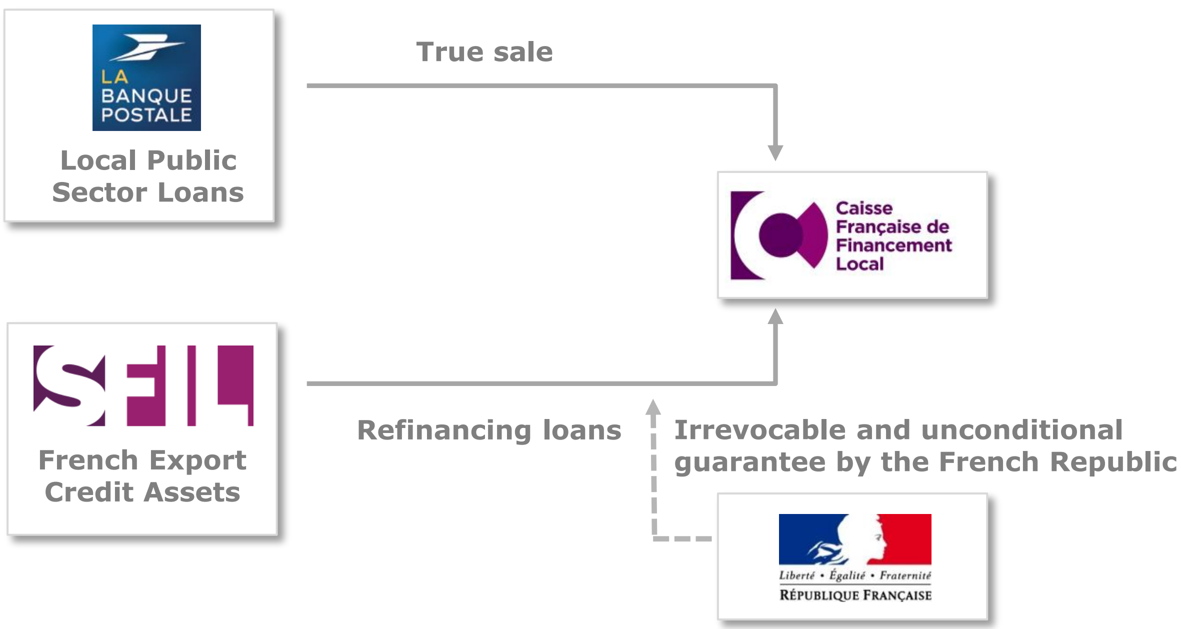
- Covered bond ratings of CAFFIL are capped one notch above SFIL (and the sovereign) for S&P and at the same level as the sovereign in the case of Fitch

* Positive outlook
** SFIL and CAFFIL will no longer request a rating from Fitch beyond the end of 2018.

*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** with an irrevocable and unconditional 100% guarantee by the French Republic (enhanced guarantee mechanism law n°2012-1510)



*Leading issuer - focus on long maturities*

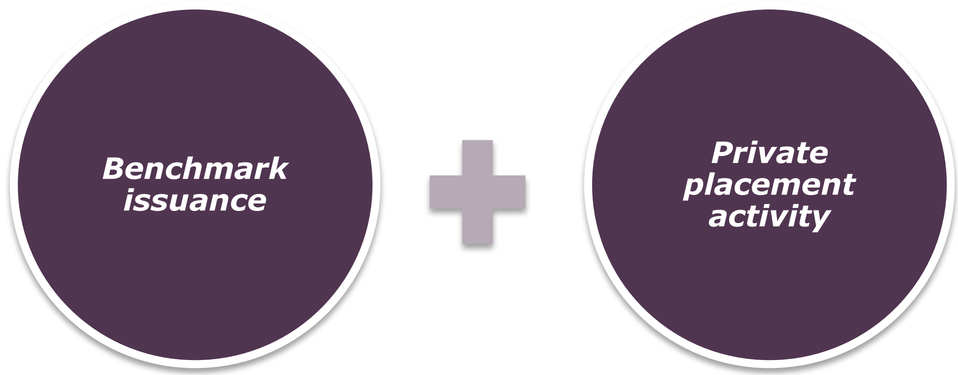
## Highly regarded covered bond issuer

- Annual expected issuance **between EUR 4 and 6 billion**
- Around EUR 50 billion outstanding public sector covered bonds
- Over **EUR 29 billion raised since 2013 with 18 benchmark transactions**
- Leading benchmark issuer in the long maturity segment, **60% of issuance since 2013 with a maturity above 10 years**
- Very strong investor base with **406 investors**
- Regular private placement activity under RCB and EMTN format

| | | | |
|---|---|---|---|
| **Best Euro Covered Bond Issuer** | **Best Covered Bond Issuer** | **Best Euro Covered Bond Issuer** | **Best Covered Bond Issuer** |
| CBR Awards | CMD Portal Awards | The Cover Awards | CMD Portal Awards |
| 2016 | 2016 | 2016 | 2017 |

*Regular issuance in both benchmark and private placement segment*

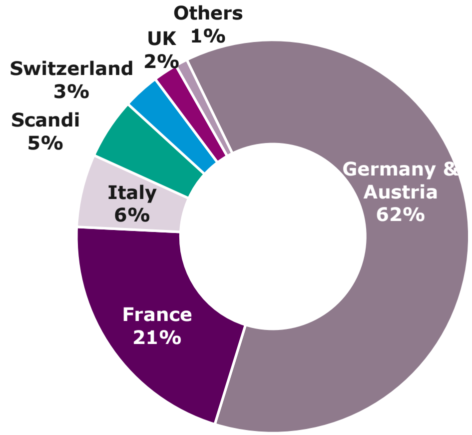
## CAFFIL Funding Strategy

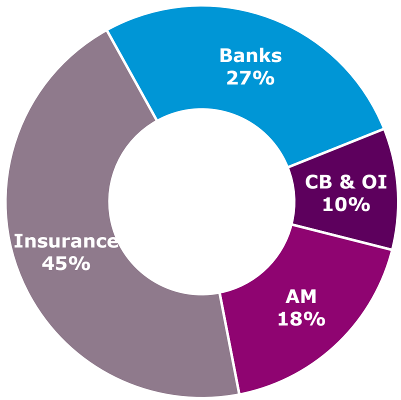



- **Regular benchmark issuer** with a complete reference curve:
  - interest for medium to long duration
  - possible taps with a minimum size of EUR 150m, maximum outstanding volume per bond of EUR 2 billion (tap included)
- **Active private placement** provider to meet investors needs
  - **EMTN and 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

*This transaction confirms the ability of CAFFIL to attract a diversified investor base for long maturities*

## EUR 500 m 20-year transaction

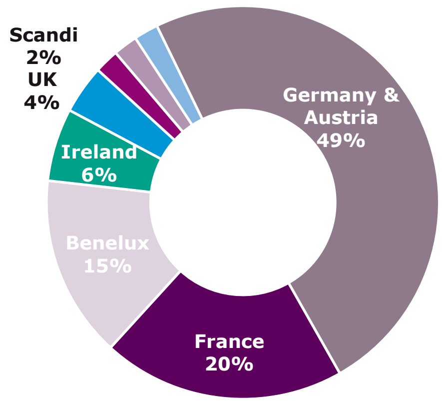


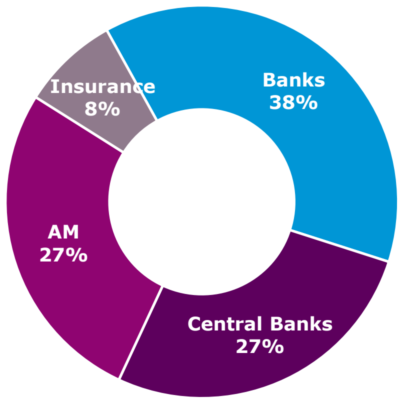




- Third benchmark transaction of the year launched on June 19th 2018 with a volume of **EUR 500 m** and a maturity of **20 years**
- issued at a spread of +14 bps against mid-swaps and 26 bps above interpolated OATs
- This transaction was well received by investors with a large **oversubscription rate (x2)** and **more than 50 investors** involved from different countries
- This transaction allowed CAFFIL to significantly extend its reference curve

*Great success of the second benchmark transaction of the year*

## EUR 1.5 billion 10-year transaction

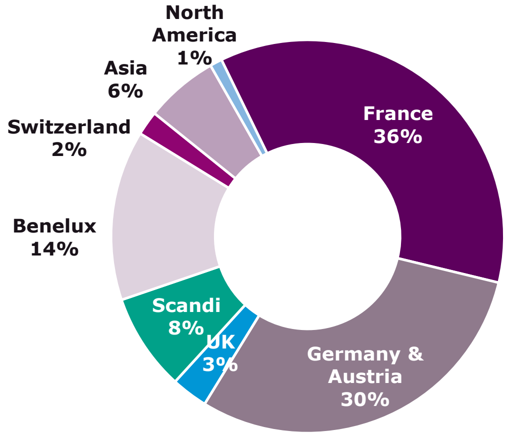


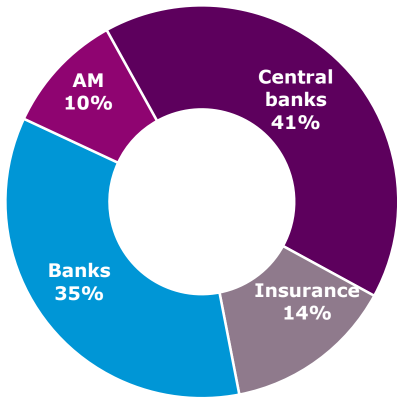




- **Very successful benchmark transaction** launched on April 17th 2018 with a volume of **EUR 1.5 billion** and **a maturity of 10 years**
- issued at a spread of +4 bp against mid-swaps and 26.5 bp above interpolated OATs
- Strong and well diversified demand with an orderbook **close to EUR 2 billion** and around **70 investors involved** from different countries

*Successful start into the year 2018*

## EUR 1.5 billion dual tranche transaction



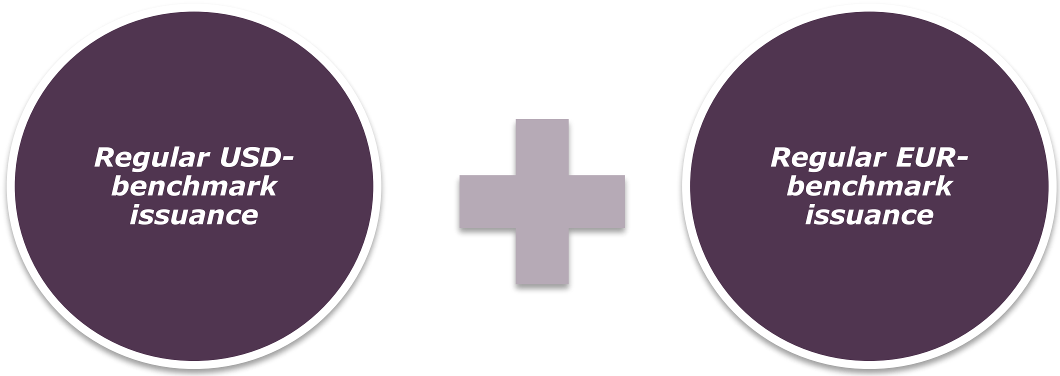




- Highly successful **EUR 1.5 billion dual tranche transaction** (8 and 15 years) launched on January 9th 2018 – the first public transaction of CAFFIL in the year 2018
- 8-year maturity tranche with a benchmark size of EUR 1 billion issued at a spread of -10 bp against mid-swaps and 17 bp above interpolated OATs
- 15-year maturity tranche with a benchmark size of EUR 500m issued at a spread flat to mid-swaps and 10 bp above interpolated OATs
- Strong investor interest for both tranches with a **EUR 2.7 billion consolidated order book** and **close to 100 different investors**

*Focus on a reference curve in EUR and USD*

## Regular benchmark issuance in EUR and USD

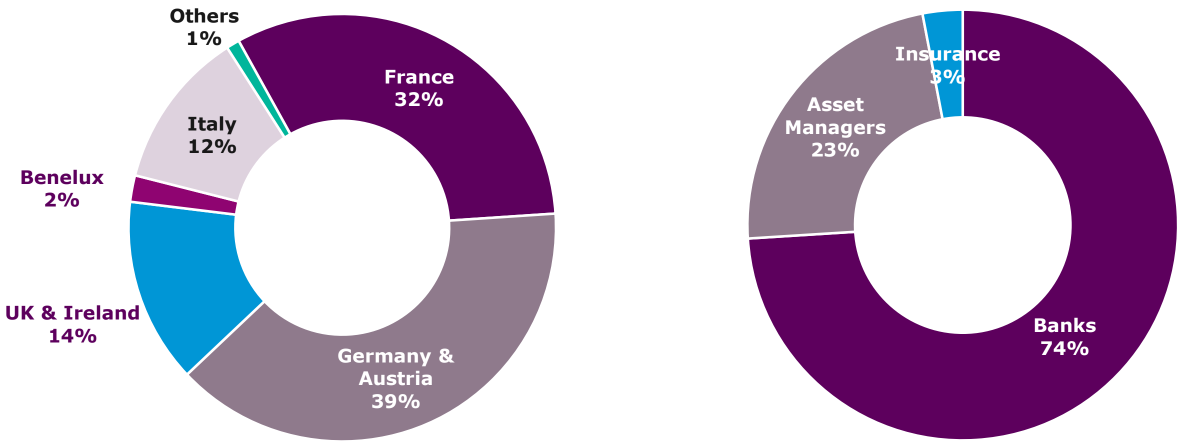
- Focus on **benchmark issuance in EUR and USD** to build a reference curve in both markets
- Diversified investor base with **163 investors**




- **Five benchmark transactions** launched since 2016 leading to a total outstanding of **EUR 4.9 billion equivalent**
- Reference curve in Euro made of **three benchmark transactions**
- Highly successful **inaugural USD benchmark transaction** in June 2017 **with a volume of USD 1 billion** and a maturity of 3 years
- **Two to three benchmark transactions planned for 2018** with focus on maturities between 3 and 10 years

*Successful start into the new year – strong support from bank investors in France and Germany*

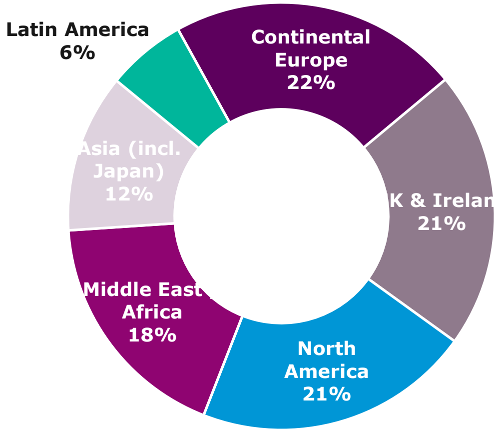
## Successful first benchmark transaction in 2018

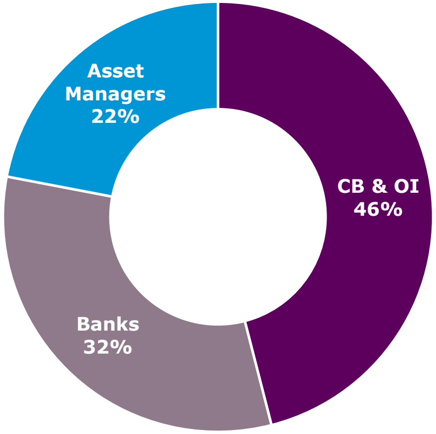



- First transaction of the year for SFIL launched in January with a volume of **EUR 1 billion and a 8 year maturity**
- Well diversified order book with **55 investors with order book size reaching up to EUR 1.8 billion**
- Strong demand from **France and Germany, mainly from bank investors**
- OAT +20bps / MS -5bps

*This second benchmark of the year is part of the regular USD issuance program of SFIL*

## Full success of the second USD issue in June 2018




- Second USD transaction with a 3 years maturity and a volume of USD 1 billion
- Well diversified orderbook reaching USD 1.25 billion
- Strong demand from North American investors and processing start from Latin American investors
- USD MS+19bps / UST+42bps

- Status as **public development bank** – debt classified as HQLA Level 1 and PSPP eligible - with two public policy missions
- **Leadership in both business activities**:
  - Market share in French **local public sector lending between 20% and 25%**
  - Market share in 2017 for the **re-financing of export loans** guaranteed by the French Republic **above 50%**
- **2017 key achievements:**
  - Recognition of the **specific role as public development bank** by European Commission, Council and Parliament, especially with respect to the leverage ratio
  - Reinforcement of SFIL issuance with a **first USD benchmark**
  - Expansion of the export credit line with **2.6 billion new loans** in 2017
- SFIL is a **leading French public agency** with **strong credit ratings, strong asset quality** and a very **diversified investor base** (472 investors)

STANDARD & POOR'S RATINGS SERVICES

*"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."*

*S&P Rating Report May 23th 2017*

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