Creditreform Covered Bond Rating

Caisse Francaise de Financement Local S.A. Public Sector Covered Bond Program

Creditreform Rating
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Rating Object	Rating Information	
Caisse Francaise de Financement Local S.A., Public Sector Covered Bond Program	Rating / Outlook : **AAA / Stable**	Type: Initial Rating (unsolicited)
Type of Issuance: Public Sector Covered Bond under French law Issuer: Caisse Française de Financement Local S.A.	Rating Date: 23.01.2019 Monitoring until: Withdrawal of the rating	
LT Issuer Rating: AA (SFIL SA) ST Issuer Rating: L1 Outlook Issuer: Stable	Rating Methodology: CRA „Covered Bond Ratings"	

Program Overview

Nominal value	EUR 50.038 m.	WAL maturity covered bonds	7,15 (Years)
Cover pool value	EUR 56.448 m.	WAL maturity cover pool	7,79 (Years)
Cover pool asset class	Public Sector	Overcollateralization (nominal/committed)	12,81%/ 5,00%
Repayment method	Hard Bullet	Min. overcollateralization	2%
Legal framework	Under the SCF legislation	Covered bonds coupon type	Fix (86,14%), Floating (2,87%)

Cut-off date Cover Pool information: 30.09.2018.

Content

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Summary

This rating report covers our analysis of the public sector covered bonds (*Obligations Foncières* or OF) program issued under French law by Caisse Française de Financement Local („CAFFIL"). The total covered bond issuance at the cut-off date (30.09.2018) had a nominal value of EUR 50.037,82 m, backed by a cover pool with a current value of EUR 56.448,50 m. This corresponds to a nominal overcollateralization of 12,81%. The cover assets mainly include French public sector assets as well as obligations of regional and local authorities obligations in France.

Taking in consideration the rating of the parent company & sponsor SFIL SA, our analysis of the regulatory framework, liquidity- and refinancing risks, as well as our cover pool assessment and results of the cash flow analysis, Creditreform Rating AG ("Creditreform Rating" or "CRA") has granted the covered bond program an AAA rating. The AAA rating represents the highest level of credit quality and the lowest investment risk.

Key Rating Findings

\+ Covered Bonds are subject to strict legal requirements (SCF Law)

\+ Covered bond holders have recourse to the issuer

\+ The sponsor bank (SFIL SA) benefits from explicit guarantee from the French government to maintain its financial viability

\- Geographical and obligor concentrations of the cover assets

Table1: Overview results

Risk Factor	Result
Issuer rating (SFIL SA)	AA (rating as of 31.08.2018)
+ Legal and regulatory framework	+4 notches
+ Liquidity and refinancing risk	+1 notch
= Rating after 1st uplift	AAA
Cover pool & cash flow analysis	A
+ 2nd rating uplift	+/-0
= Rating covered bond program	**AAA**

Issuer Risk

Issuer

Our rating of CAFFIL is reflected by our issuer rating opinion of its parent company Société de financement local SA due to its group structure. The Société de financement local SA (hereinafter: SFIL SA or SFIL) was founded in 2013 as a government owned development bank in order to guarantee stability in local public sector financing in France. The bank refinances medium and long term loans to local governments and public hospitals and engages in refinancing of export loans guaranteed by the French state. It provides additional services in the areas of loan management, middle and back office management solutions, asset and liability management reporting, accounting and third party management. The customers benefit from low refinancing costs due to explicit state guarantees and risk control.

The ownership of SFIL is shared by the French State, Caisse de Dépôts et Consignations (CDC) and La Banque Postale (LBP). SFIL SA owns the 100% subsidiary CAFFIL, a leading European public sector covered bond issuer. The SFIL acts as a service provider to both LBP and CAFFIL, an SFIL subsidiary. Loans to the French public sector are originated at LBP after previous approval by CAFFIL. In a true sale of loans, CAFFIL holds these loans on the balance sheet and refinances the transactions by issuing obligations foncières (French covered bonds) on international financial markets. SFIL, together with CAFFIL, is the second biggest public bond issuer after the French State itself.

The bank benefits from explicit state guarantee. The French government has the legal obligation to protect the economic basis of SFIL and maintain its financial viability. Banque de France may ask shareholders (the French Republic as direct and indirect owner of SFIL SA) to provide necessary support under Art. 511-542, French Monetary and Financial Code. In addition, we assume therefore a public interest of the French authorities in the business operations of the bank.

Operating income has hit a record high, as did the operating profit through a lagging increase in operating expense in 2017. A net write-up of assets lead to the highest net profit for SFIL SA since its founding. As a direct result, key earnings figures increased at the same pace, while obviously lagging behind more profit-oriented commercial peers. The asset quality is, due to engaging mainly public sector entities, very good. SFIL refinances itself predominantly through CAFFIL, via the issuing of French covered bonds. Debt issued through either entity is classified as LCR Level 1, and as such SFIL benefits from very low refinancing costs, which in turn also benefits its customers. Through the dense network of LBP, SFIL enjoys thorough geographic penetration of business, and services clients from very small to very large. Due to the very low RWA ratio stemming from its low risk investments, SFIL enjoys very high regulatory capital ratios, which are far in excess of regulatory requirements. The liquidity situation in 2017 was very much satisfactory.

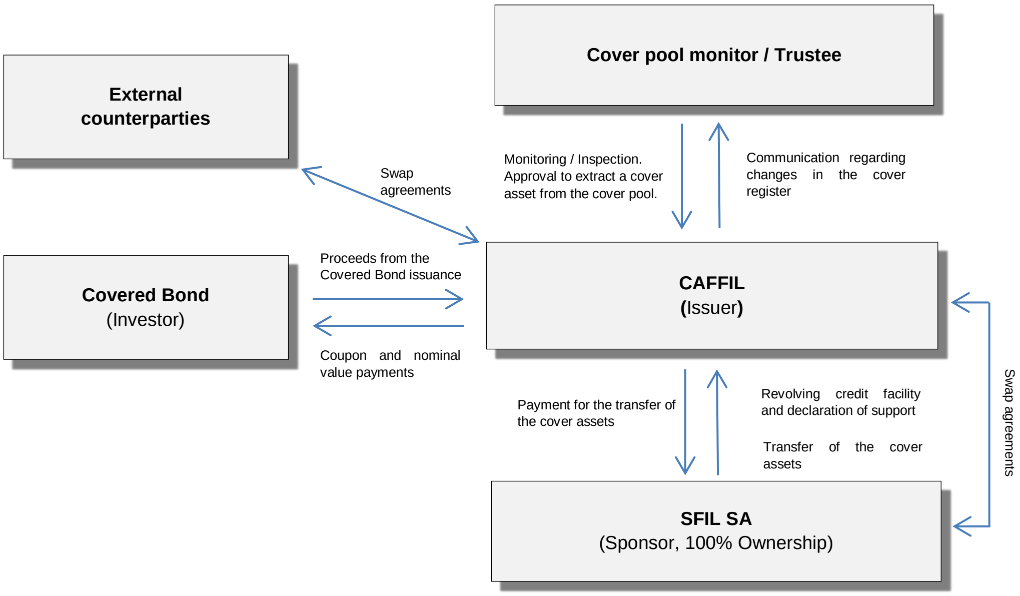
Structural Risk

Transaction structure

Table 2: Overview of all transaction's parties | Source: CRA

Role	Name
Issuer	Caisse Française de Financement Local S.A., Moulineaux
Cover pool monitor / Trustee	Specific Controller is appointed by the SCF with the agreement of the ACPR
Cover pool administrator	Appointed by the national authority in case of issuer default

Figure1: Overview of Covered Bond emission | Source: CRA



Legal and Regulatory Framework

In France, there exist three different types of covered bonds – 'Obligations Foncières' (OF), 'Caisse de Refinancement de l'habitat' (CRH) and 'Obligations de Financement de l'habitat' (OH) – governed by different legal frameworks. The legal framework for OFs is codified by Articles L.513-2 et seq. and R.515-2 et seq. of the French Monetary and Financial Code and mainly serves as corpus of legislation to protect covered bond holders. Furthermore, the French general banking regulations apply to the 'Sociétés de Crédit Foncier' (SCF) – the specialized credit institutions that issue OFs. The main function of the SCF is to grant or acquire eligible cover assets and to refinance them by issuing OFs that benefit from a special legal privilege.

During the past, the legal framework has been adopted several times. For instance on May 2014, the obligatory minimum collateralization was raised from 102% to 105%. Furthermore, the SCF was assigned to disclose additional information on exposure to the sponsor bank, maximum asset liability mismatch and liquidity buffer regulations. Recently in December 2016, the legal framework has been amended by the 'Sapin II Law' in order to improve transparency and to mitigate corruption. Amongst others, the legal eligibility criteria have been modified and allow the SCF to concede secured loans with a financial guarantee composed of real estate's loans receivables, irrespective of the features of these receivables. Besides, the implementation of EU 'Collateral Directive' 2002/47/EC and so Articles L. 211-35 to L.211-40 of the Code guarantee that the liabilities of the debtor are completely backed by remittance, a pledge or the transfer of the full title. These regulations admit a segregation of claims of relevant real estate loans and, thus, prevent an actual transfer (true sale) of these claims to the issuer while offering comparable legal security. The pledge or the transfer can be realized even in the case of bankruptcy of the corresponding collateral provider.

The SCF is mainly monitored by the French Banking Authority ('Autorité de Contrôle Prudentiel et de Résolution' – ACPR) and has to obey strict management standards in order to guarantee the company's financial security. The powers and duties of the ACPR are stringently regulated. Among others the ACPR has to monitor the maintenance of coverage tests in addition to rating agencies and the cover pool monitor. Furthermore, the ACPR verifies eligibility criteria, checks the quality of cover assets, controls exposure to market and liquidity risk, appraises operational risks and investigates the obligatory minimum overcollateralization requirements.

The French legal framework under SCF accords with the stipulations of the UCITS Directive 52(4) and most covered bonds are compliant with Article 129 CRR, which administers the risk-weighting of covered bonds. Moreover, OFs can be eligible to liquidity buffer under LCR regulation as far as they fulfil particular requirements.

Regarding the implementation of the BRRD, which features resolution authorities with several particular resolution tools and deals with the failure of financial institutions, France has translated the directive - including the bail-in tool - into national law with the banking law on 7/26/2013 and an Ordonnance on 8/20/2015. The BRRD allows authorities to interfere as fast as possible in an affected or bankrupt institution in order to guarantee the continuance of the institution's financial and economic tasks and to mitigate the aftermath of an institution's bankruptcy on the economy and the financial system. This law should ensure that the corresponding resolution authority exempts covered bonds from bailing-in and write-downs.

Insolvency Remoteness and Asset Segregation

Considering OFs, either the issuer can be the originator of the assets or the credit institution. If the former is the case, cover assets remain on the issuer's consolidated balance sheet and are not delivered to an independent legal representative. In the event of bankruptcy, the cover assets will be isolated by law from the general bankruptcy estate and dedicated for the preferential creditor status of the covered bond holders and other privileged debts to compound any claims of covered bond holders concerning the covered bond's interest and principal payments prior to all remaining creditors without any rights against the SCF's assets. However, if the issuer is not the originator, cover assets are owned by the credit institution with a pledge to the issuer. In case of the credit institution's default the cover assets will be transferred to the SCF.

Covered bond holders benefit from the legal privilege over the eligible assets of the SCF. They have no direct recourse to the parent institution but to the specialist issuer. They will be paid on time in case of issuer bankruptcy, while they rank *pari passu* to all other privileged debt.

In case of an issuer default, no automatic acceleration of the covered bond takes place. Covered bonds will continue to exist and they will be reimbursed at the time of their contractual maturity. The legal privilege stipulates that all claims have to be paid at their due dates and in precedence to all other payments. No other creditors may interfere and demand own outstanding debits until all preferred claims are met. All privileged debts rank *pari passu* and covered bond holders have recourse to the credit institution's bankruptcy estate upon cover pool default, which ranks senior to unsecured creditors.

Trustee

Like all French credit institutions, the SCF has to assign two external statutory auditors as well as an independent specific controller in agreement with the ACPR, who in addition to single monitoring is responsible for the compliance of the SCF with effective regulations, respective limits and with the coverage standards. If the issuance exceeds EUR 500m the accuracy of the cover ratio has to be confirmed on a quarterly basis. Besides, the specific controller has to examine the eligibility, composition and valuation of cover assets. He or she has to affirm the amount of cover assets for the covered bond programs, proper valuation and revaluation techniques and corresponding outcomes on an annual basis and to release them in the annual reports. Another important duty of the special controller is to ensure the matching of assets and liabilities regarding interest rates and maturities and to hedge market risks. Both interest rate and currency risks must be quarterly reviewed by the specific controller and the ACPR. Furthermore, the specific controller has to report to the ACPR on a quarterly basis, participate in shareholders' and board meetings and is responsible to the SCF and third parties.

Reporting

The SCF has to release financial information at regular intervals and has to submit a thorough annual statement on risk management to the ACPR. Both the specific controller and the statutory auditors have to file their annual reports with the ACPR. Furthermore, the SCF has to publish a quarterly report on assets' composition, overcollateralization and quality and a detailed annual report in the Bulletin des Annonces Légales Obligatoires on the characteristics of their assets and on the degree and sensitivity of interest-rate risks and exposure. In addition, the coverage ratio, together with corresponding calculations, maturity gaps, the maturity mismatch forecast cover plan, and the adherence to the 35% limit of guaranteed loans and the 10% limit of mortgage promissory notes have to be disclosed each quarter. The SCF also publishes the French Covered Bond Label Reports and the European Covered Bond Label Report on a quarterly basis. Finally, each covered bond issuer has to submit a quarterly report to the asset monitor and the ACPR including the calculations of the minimum overcollateralization ratio, the minimum 6-month liquidity buffer, the maximum 18-month average life maturity mismatch and the coverage level in order to improve transparency.

Special Administrator

France fully complies with EBA's best practice regarding the administration of the covered bond program post the issuer's insolvency or resolution. This task is executed by the general insolvency court that is authorized with the insolvency of the issuer. The insolvency court has to obey particular provisions and comply with the regulations with regard to the treatment of covered bondholders, while the duties and powers assigned to the insolvency court are to act in the interest of the covered bond holders.

Eligibility Criteria

Just assets that are eligible by law are qualified for the SCF's balance sheet, while all assets of the balance sheet are part of the cover pool. Eligible cover assets are secured first-rank residential loans, first-rank commercial mortgage loans, state-guaranteed real estate loans, third party guaranteed real estate loans with a maximum of 35% of total assets, mortgage promissory notes, and public sector loans, bonds and leasing, while securitization of these cover assets is allowed under particular rules and criteria. Substitution assets up to 15% of the outstanding OFs are authorized.

Eligible loans in the cover pool can be refinanced by OFs and other privileged debt either up to the loan's residual principal balance or by the LTV limit of the mortgage lending value of the financed real estate or of the assets provided as collateral, whereupon the lower one is employed. There exist three different LTV limits with respect to OFs. For first-rank commercial mortgage loans a LTV limit of 60% is in place. An 80% LTV limit prevails for both first-rank residential mortgage loans and guaranteed home loans, while state-guaranteed real-estate loans dispose a limit of 100%. There exists no LTV cap, which makes the whole loan ineligible. The real estate evaluations have to be conducted in accordance with the law on an annual basis and the property values are indexed to the French INSEE or PERVAL. They are predicated on long-term characteristics and are executed by independent analysts.

The geographical scope of legitimate public sector assets is confined to EU/EEA countries, the US, Switzerland, Japan, Canada, Australia and New Zealand or again to other countries if the public assets conform to particular thresholds and credit ratings of approved external rating agencies.

Both SCF and SFH use derivative instruments to hedge market risks. The treatment of derivatives fully conforms to EBA's best practice, as the legal framework requires that derivative instruments are permitted in the covered bond program solely for risk hedging purposes, while contracts in the cover pool cannot be cancelled upon the issuer's bankruptcy and no automatic acceleration takes place. Derivatives entered into by SFHs rank pari passu to covered bonds. With respect to SCFs only those derivatives rank pari passu to covered bond holders that are used to cover privileged assets, while those used to cover non-privileged debts rank subordinated to covered bond holders.

Systemic Relevance and External Support

According to the ECBC[1], covered bonds outstanding increased significantly in France over the past years. While the overall amount was EUR 264bn in 2008, it was almost EUR 312bn in 2017. This increase is mainly reflected in mortgage covered bonds outstanding, which increased from EUR 119bn in 2008 to EUR 185bn in 2017. In contrast, public sector outstanding remained the same at around 64bn during this period, while mixed asset covered bonds declined from EUR 80bn to EUR 62bn. The high outstanding amount is mainly due to the boosted issuance of mortgage covered bonds during the financial crisis, which increased from around EUR 29bn in 2009 to EUR 84bn in 2011 and dropped again to EUR 28bn in 2017. The issuance of both public sector covered bonds and mixed asset covered bonds significantly decreased during the past ten years.

With a market share of approx. 76% in relation to the public covered bonds segment as of 2017, CAFFIL is the largest issuer on the French market, with a portfolio consisting primarily of public-sector covered bonds. We also classify the systemic relevance of the CAFFIL covered bonds program as important in our qualitative analysis, taking into account the possibility of obtaining external support from stakeholders / French government and / or as part of supporting financial stability measures in a crisis situation.

Summary Structural Risk

In general, the legislation under SCF accords defines the legal basis for covered bond programs in France, it defines clear rules to mitigate risks in particular regarding: insolvency remoteness, asset segregation, investor's special claim vis-à-vis other creditors, the roll and appointment of a special administrator, among other provisions.

We consider the structural framework in France as positive, accomplishing an adequate set of rules for French covered bonds. Furthermore, we contemplate the importance of CAFFIL in the French covered bonds market in our analysis. Due to those reasons, a maximum rating uplift of (+4) notches is possible for this program, however, we have set a rating uplift of two (+2) notches as the maximum possible rating has been achieved.

Liquidity- and Refinancing Risk

Minimum Overcollateralization

The legal framework stipulates that the total amount of cover assets of the SCF must be leastwise as high as 105% of the liabilities benefiting from the legal privilege, i.e. after weighting principles a collateralisation of 105% of the nominal value is obligatory and has to be publicly announced on a regular basis. Besides, the coverage calculations have to be done on a daily basis. Overall, maturity mismatches should not surpass a period of 18 months, while only those cover assets are relevant that are inevitable to conform to the minimum legal overcollateralization of 105%. The SCF is allowed to subscribe to its own OFs up to 10% of the entire privileged liabilities as far as they are merely applied as collateral assets with the central bank or the SCF calls them after 8 days.

Short-term Liquidity Coverage

The Issuer is required to maintain a liquidity buffer for the next 180 days to cover all outflows of debt (interest and principal) and derivative transactions. The calculation of the buffer size takes into account the cash inflows from maturing receivables of the cover pool. The buffer amount must be kept in liquid assets and is checked daily.

[1] Source: EMF-ECBC (2018), ECBC: European Covered Bond Fact Book 2018, EMF-ECBC

Stress Tests and Matching

The issuer must ensure that the present value coverage and OC is also maintained in the case of changes in interest rates and exchange rates. For this purpose, the underlying cover pool must be subjected to a stress test at least on a quarterly and monthly basis. If a deficit is detected on the basis of the present values determined by applying the respective stress scenario, the resulting shortfall must be added immediately to the cover pool. A decrease in the cover pool assets and corresponding OC may only be made if the result of a stress test does not show a shortfall.

Asset-Liability Mismatch

Asset-liability mismatches ("ALM") arise with different maturities of cover assets and covered bonds. The SCF has to fulfil asset and liability rules according to the banking regulations. Moreover, the SCF has to make sure that the matching of assets and liabilities with respect to interest rates and maturities is met and that market risks on assets, liabilities and off-balance sheet items are hedged. In addition, the statutory liquidity coverage requirement for 180 days is a safeguard mechanism to ensure the servicing of pending principal and interest payments.

Repayment Method

This covered bond program issues covered bonds with hard bullet maturity, i.e. a final repayment without extension optionality at the end of the term. Maturity mismatches between cover assets and liabilities thus cannot be mitigated by extension of the legal final maturity. This feature of OF covered bond programs is considered both qualitatively and within our cash flow analysis.

Refinancing Costs

In the event of the issuer's insolvency, the special administrator (i.e. insolvency court) can sell assets of the cover pool or use them as a guarantee for liquidity operations if liquidity shortfalls are foreseeable. CRA's analysis assumes that refinancing gaps due to ALM will be closed by a sale of assets from the cover pool. In doing so, we take into account related costs in the form of a discount to the nominal value. The quantification of this discount is adjusted following an analysis of relevant market data and will be used in our cash flow analysis.

Summary Liquidity and Refinancing Risk

Compared to other international jurisdictions, the legislation under French SCF accords and the stipulated risk management processes for liquidity risks constitute a comparatively strict framework by which they can be effectively reduced.

Refinancing risks, however, cannot be structurally reduced due to Hard Bullet repayment structure, which can only be cushioned by sufficiently high overcollateralization or short-term cash availability or other liquid funds to bridge the asset-liability mismatches in the portfolio. Nevertheless, we assess the overall legal provisions on liquidity management for French Covered Bond programs as positive which ensured a rating uplift of one (+1) notch for this program. However, we have set a rating uplift of zero (+/-0) notch as the maximum possible rating for this program has already been achieved.

Credit and Portfolio Risk

Cover pool analysis

The analysis of the cover pool is based on public information which have been made available by the Issuer, in particular the Harmonised Transparency Template („HTT “) as per regulatory requirements. This information was sufficient according to CRA´s rating methodology “Covered Bond Ratings”.

Until 31.01.2013, the cover pool assets were originated by the Dexia Credit Local, which was sold to SFIL SA. Until then all assets are originated by La Banque Postale, one of the shareholders of

SFIL SA. CAFFIL also grant loans to SFIL to refinance the acquired export credit since 2015. These loans are benefitted from a 100% guarantee by the French state, referred to as an "enhanced guarantee."

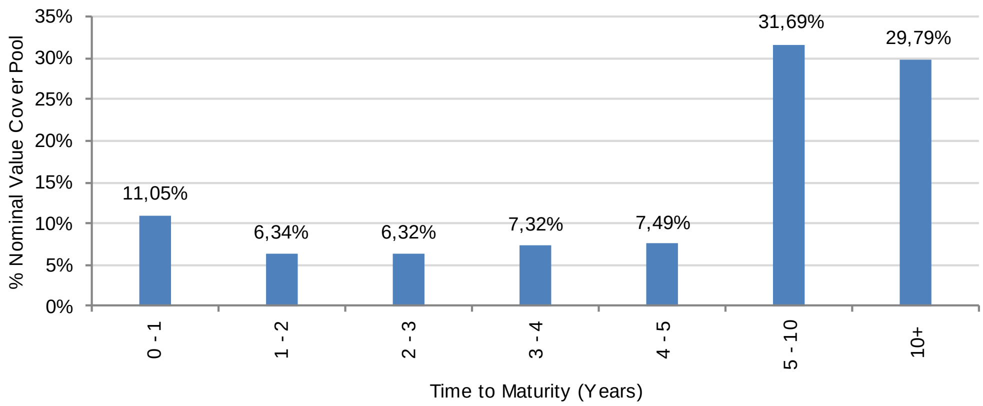
At the cut-off-date 30.09.2018, the pool of cover assets consisted of 44.972,00 debt receivables from 15.060,00 debtors, of which 87,08% are domiciled in France. The total cover pool volume amounted to EUR 56.448,50 m of bonds (12,72%), loans (87,28%) and others (0,00%) which have been lent to the central government, regional authorities and entities and other debtors. The ten largest debtors of the portfolio sum to 10,42%. Table 3 displays additional characteristics of the cover pool:

Table 3: Cover pool characteristics | Source: CAFFIL

Characteristics	Value
Cover assets	EUR 56.448 m.
Covered bonds outstanding	EUR 50.038 m.
Substitute assets	EUR 2056,21 m.
Cover pool composition	
Public Sector	96,36%
Substitute assets	3,64%
Other / Derivative	0,00%
Number of debtors	0
Bonds	12,72%
Loans	87,28%
Other	0,00%
Average asset value	EUR 1.185.950,64 k.
Non-performing loans	0,0%
10 biggest debtors	10,42%
WA seasoning	NA
WA maturity cover pool	7,79 Years
WA maturity covered bonds	7,15 Years

We have listed an extended view on the composition of the cover pool in the appendix section "Cover pool details", with for example a detailed regional distribution. The following chart displays the maturity profile of the cover assets at the cut-off date 30.09.2018 (see Figure 2):

Figure 2: Distribution by remaining time to maturity I Source: CAFFIL



Maturity profile

The following charts present the cash flow profile of the Issuer (see Figure 3 and Figure 4):

Figure 3: Cover asset congruence | Source: CAFFIL

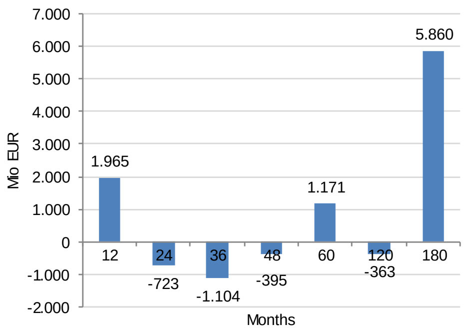
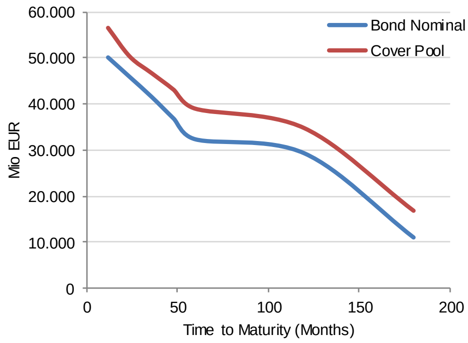


Figure 4: Amortization profile | Source: CAFFIL



CRA has taken into consideration during its cash flow modelling the maturity structure of cover assets and liabilities. This structure was an integral part of the cash flow analysis.

Interest rate and currency risk

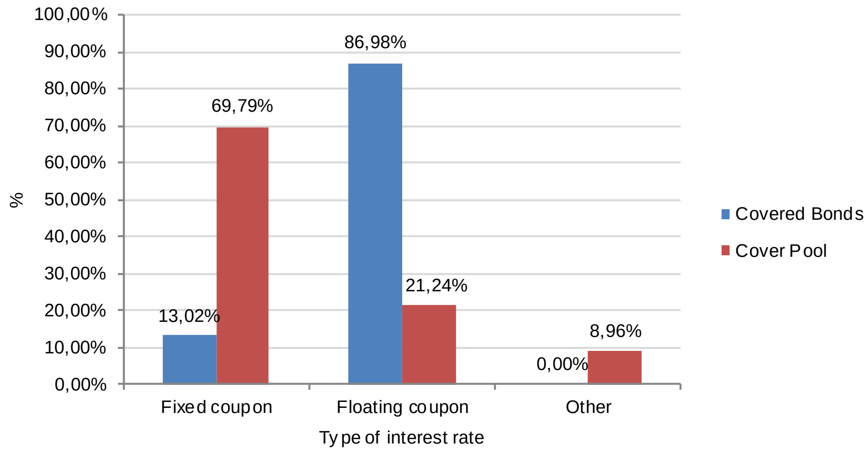
This covered bond program uses derivatives to hedge interest rate- and currency risks. The legal framework also provides for quarterly or monthly stress tests to be conducted on interest rate- and currency risks to maintain the mandatory OC. Currency risk, on the other hand, is also limited for this program as 97,53% of the cover pool assets and 97,40% of the cover bonds are denominated in Euro. In our Cash flow analysis we assume that the interest rate mismatches and open currency positions of this program are fully hedged in the form of swap agreements; therefore, CRA did not apply any interest rate and foreign exchange stresses for the cash flows.

Table 4: Program distribution by currency | Source: CAFFIL

Currency	Volume	Share (%)
Cover Pool		
EUR	55.053 m	97,53%
CAD	138 m	0,24%
CHF	712 m	1,26%
GBP	162 m	0,29%
JPY	0 m	0,00%
SEK	19 m	0,03%
USD	365 m	0,65%
Covered Bond		
EUR	48.736 m	97,40%
AUD	11 m	0,02%
CAD	323 m	0,65%
CHF	393 m	0,79%
GBP	205 m	0,41%
JPY	115 m	0,23%
NOK	128 m	0,26%
PLN	11 m	0,02%
USD	115 m	0,23%

Figure 5 shows the types of interest rate used in this program

Figure 5: Type of interest rate | Source: CAFFIL



Credit Risk

CRA assesses in Covered Bond Public Sector programs the credit risk of the cover assets primarily through an assessment of the creditworthiness of the obligors and their future ability to meet all payment obligations. In order to derive a base case assumption for credit risk, CRA uses the CRA Sovereign Ratings of all obligors in the portfolio, which will be taken into account pro-rata. The rating reports of relevant sovereigns can be accessed at www.creditreform-rating.de. Using all portfolio information available (number of debtors, Sovereign – Sub-Sovereign, maturity profile, regional diversification etc.) CRA has modelled the cover asset portfolio and, using Monte Carlo simulations derived a distribution of defaults which can be used to elicit rating-level dependent default assumptions.

Recovery and loss-severity assumptions have been determined in accordance with CRA rating methodology. This includes a differentiation of sovereign- and sub-sovereign credits in terms of loss severities, which is included using the current portfolio composition to determine a weighted average recovery rate.

Using both rating-level dependent default and recovery assumptions, the following loss assumptions have been derived for the current cover pool (see Table 5):

Table 5: Cover Pool Base case assumptions | Source: CRA

Rating	Default Rate (%)	Recoveries (%)	Expected Loss (%)
AAA	28,66%	38,92%	17,50%
AA+	25,04%	41,42%	14,67%
AA	23,35%	43,92%	13,09%
AA-	20,47%	45,59%	11,14%
A+	19,25%	47,25%	10,15%
A	**18,36%**	**48,92%**	**9,38%**
A-	16,76%	50,59%	8,28%

Cash-Flow Analysis

Model Assumptions

Based on public information and using the base case loss assumptions, we implement a scenario-based cash flow model. This model aims to test the ability of the structure to service all covered bonds according to their payment profile in diverse stress-scenarios. The CRA cash flow analysis assumes that the Issuer has defaulted, i.e. all obligations will be met using cash flows from the cover pool assets only. We also assume that no additional assets will be added to the cover pool during the wind-down phase.

Asset-Sale Discount

In our model, short-term liquidity needs and liquidity needs due to asset-liability mismatches will be met with a sale of cover assets available for monetization. Based on secondary market data, CRA assumes a rating-level haircut on the asset value („Asset-Sale Discount") which represents additional costs of disposal and market risks during the sale of cover assets (see Table 6).

Yield Spread

Since cover assets often have a positive yield spread against the covered bonds issued, CRA uses available public information (i.e. SFIL's annual accounts) to size this assumed spread („Yield Spread"). However, SFIL SA showed negative yield spreads when stressed the historical net interest spreads at each rating level. Therefore, the negative yield spreads have been floored to zero in our cash flow analysis (see Table 6):

Table 6: Cash-Flow Model assumptions | Source: CRA

Rating level	Asset-Sale Discount	Yield Spread
AAA	13,51%	0,00%
AA+	12,23%	0,00%
AA	11,40%	0,00%
AA-	10,61%	0,00%
A+	10,00%	0,00%
A	**9,50%**	**0,00%**
A-	8,85%	0,00%

Rating Scenarios

Scenarios that have been tested in our cash flow model rely on the variation of several central input parameters, such as:

- Portfolio composition (diversification, concentration, granularity)
- Probability of default of cover assets
- Correlations of cover assets and systematic risk factors
- Recoveries
- Maturity profile of covered bonds and cover assets (ALM)

Within an **A** rating scenario, the cash flow model showed that obligations can be paid fully and in a timely manner. In total, the cash flow analysis revealed that the portfolio, given all information available on 30.09.2018, could be sufficient to repay the bond nominal capital notwithstanding the occurrence of any extraordinary events. On this basis, the rating of the cover pool within our covered bond program rating has been set at A.

Overcollateralization Breakeven Analysis

CRA performed as well a breakeven OC analysis. Such OC levels should bear the corresponding losses for a given rating scenario. Main drivers of the analysis are:

- ALM
- Loss level
- Interest rate spreads
- Foreign currency mismatches
- Recoveries.

Performing the breakeven OC analysis, we took rating level specific stressed outcomes into account. Based on these analyses, the maximum OC required for each relevant rating levels during the whole period have been presented in Table 7.

Table 7: Breakeven Analysis | Source: CRA

Rating Level	Breakeven OC
AAA	22,67%
AA+	18,93%
AA	16,99%
A+	13,53%
A	**12,64%**
BBB+	10,32%
BB+	7,60%

Sensitivity Analysis

CRA also evaluates the sensitivity of the structure and program with respect to important input parameters. In particular, the following factors have been varied:

- Credit quality of cover assets
- Recoveries

The following table presents the rating impact of a decline in recoveries and an increase in the credit risk of single debtors (sovereigns). Starting from the best-case, which is represented by our base case assumptions, the analysis reveals the sensitivity of the rating with respect to recovery rates and credit risk. The worst-case scenario, in which we reduce recoveries by 50% and increase credit risk by 50%, the impact can be seen by a change in the implied rating. Based on the base case, there is a high sensitivity of rating in terms of decreased recovery rates and increased defaults (rating reduced by upto 7 notches). In the worst-case scenario, i.e. a 50% decrease in the base case assumptions leads to a reduction in the base-case rating by 7 notches (see Table 8):

Table 8: Covered Bond Program Sensitivity: Credit Quality und Recovery Rates | Source: CRA

Recovery / Defaults	Base Case	-25%	-50%
Base Case	**A**	BBB+	BBB-
+25%	BBB+	BBB-	BB
+50%	BBB	BB+	BB-

Summary Cash-Flow Analysis

Based on public information and using the base case loss assumptions, the analysis showed that obligations can be paid in a full and timely manner. Overall, the cash flow analysis revealed that the portfolio, given the used information, may ensure the repayment of bonds nominal capital notwithstanding the occurrence of the presented stressed scenarios. Therefore, the rating of the cover pool within our covered bond program rating has been set at A. This, however, did not ensure any secondary rating uplift which has been set at zero (+/- 0) notch.

Counterparty Risk

Transaction parties

Table 9: Participant counterparties | Source: CAFFIL

Role	Name	Legal Entity Identifier
Issuer	CAFFIL	549300E6W08778I4OW85
Servicer	SFIL SA	549300HFEHJOXGE4ZE63
Account Bank	Trésor Public (French Sovereign), BELFIUS, CITI, La Banque Postale, NATIXIS, Skandinaviska Enskilda Banken Stockholm, Société Générale Securities Services	Not available at the present time
Sponsor	SFIL SA	549300HFEHJOXGE4ZE63

Table 10: Interest rate and Swap counterparties | Source: CAFFIL

Name	Legal Entity Identifier	Type of Swap
BANCO SANTANDER SA	5493006QMFDDMYWIAM13	Interest
BANK OF AMERICA NA	B4TYDEB6GKMZO031MB27	Interest
BARCLAYS BANK PLC	G5GSEF7VJP5I7OUK5573	Interest & FX
BELFIUS BANQUE	A5GWLFH3KM7YV2SFQL84	Interest & FX
BNP PARIBAS SA	R0MUWSFPU8MPRO8K5P83	Interest & FX
CITIBANK NA	E57ODZWZ7FF32TWEFA76	Interest & FX
CREDIT AGRICOLE CIB	1VUV7VQFKUOQSJ21A208	Interest & FX
CREDIT SUISSE INTERNATIONAL	E58DKGMJYYYJLN8C3868	Interest & FX
DEUTSCHE BANK AG	7LTWFZYICNSX8D621K86	Interest
DZ BANK AG	529900HNOAA1KXQJUQ27	Interest
GOLDMAN SACHS MITSUI MARINE DERIVATIVE PRODUCTS LP	X1H61UOUXUPKXR51OV18	Interest & FX
HSBC FRANCE	F0HUI1NY1AZMJMD8LP67	Interest
ING BANK NV	3TK20IVIUJ8J3ZU0QE75	Interest & FX
JP MORGAN CHASE BANK NA	7H6GLXDRUGQFU57RNE97	Interest & FX
JP MORGAN DUBLIN PLC	549300Q5VVMOFZGJNF15	Interest
LANDESBANK BADEN WUERTTEMBERG	B81CK4ESI35472RHJ606	Interest
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL D.A.C.	EQYXK86SF381Q21S3020	Interest
MORGAN STANLEY CAPITAL SERVICES LLC	I7331LVCZKQKX5T7XV54	Interest
NATIXIS	KX1WK48MPD4Y2NCUIZ63	Interest & FX
PORTIGON AG	549300W1QYDI0OYR2P73	Interest
ROYAL BANK OF CANADA	ES7IP3U3RHIGC71XBU11	Interest & FX
NATWEST MARKETS PLC	RR3QWICWWIPCS8A4S074	Interest & FX
SOCIETE GENERALE	O2RNE8IBXP4R0TD8PU41	Interest & FX
SFIL	549300HFEHJOXGE4ZE63	Interest & FX
UBS LTD	REYPIEJN7XZHSUI0N355	Interest & FX
UNICREDIT BANK AG	2ZCNRR8UK83OBTEK2170	Interest

Hedging Strategy

To minimize the risks associated with open foreign currency positions and interest rate mismatches, SFIL, on behalf of CAFFIL, enters into micro (primarily interest rate swaps) and macro hedge derivatives. These interest rate swaps are in the forms of intra-group swaps with SFIL or swap agreements with external counterparties or both. In order to incur no foreign exchange risk, CAFFIL also enters into cross-currency swaps against the euro for its bonds and assets denominated in currencies other than euro. Type of currency rate swaps are again in the forms of intra-group swaps with SFIL or external counterparty swaps or both.

These swap arrangements contain collateral posting of the counterparties to the CAFFIL triggered by the credit rating; those who enjoy the highest credit rating are not required to post collateral. A full list of counterparties entered into the derivatives transactions has been presented in Table 11.

Commingling

Incoming cash flows generated from the cover pool will normally be transferred to the Issuer and will be forwarded to the covered bond holders according to the payment terms and conditions. Should the issuer become bankrupt, there is a risk (“commingling risk”) that funds may not be returned and commingled with the insolvency estate of the issuer. In order to avoid such risk, the SCF law stipulates that the cover assets should be isolated from the general bankruptcy estate (insolvency-free assets) and a special cover pool administrator will be appointed to manage the cover pool. Under that mandate the cover pool administrator will have first priority on the up-coming cash flows from the cover pool assets. These cash flows in turn should be used to cover interest and principal payments of the covered bond holders in case of issuer’s insolvency.

Appendix

Rating History

Event	Initial Rating
Result	AAA
Rating Date	23.01.2019
Publication Date	30.01.2019

Details Cover Pool

Table 12: Characteristics of Cover Pool | Source: CAFFIL

Characteristics	Value
Cover Pool Volume	EUR 56.448 m
Covered Bond Outstanding	EUR 50.038 m
Substitute Assets	EUR 2.056 m
Share Derivatives	0,00%
Share Other	100,00%
Substitute Assets breakdown by asset type	
Cash	0,26%
Guaranteed by Supranational/Sovereign agency	0,00%
Central bank	0,00%
Credit institutions	99,74%
Other	0,00%
Substitute Assets breakdown by country	
Issuers country	62,65%
Eurozone	8,62%
Rest European Union	15,95%
European Economic Area	10,77%
Switzerland	0,00%
Australia	0,00%
Brazil	0,00%
Canada	2,01%
Japan	0,00%
Korea	0,00%
New Zealand	0,00%
Singapore	0,00%
US	0,00%
Other	0,00%
Cover Pools' Composition	
Public Sector	96,36%
Total Substitution Assets	3,64%
Other / Derivatives	0,00%
Number of Debtors	15060
Distribution by debtor type	
Central Goverment	3,14%

Regional authorities	25,12%
Municipal authorities	55,68%
Other	16,05%
Distribution by asset type	
Loans	87,28%
Bonds	12,72%
Other	0,00%
Average asset value	EUR 1.185.951 k
Share Non-Performing Loans	0,78%
Share of 10 biggest debtor	10,42%
WA Maturity (months)	NA
WAL (months)	93,44
Distribution by Country (%)	
Austria	0,34
Belgium	0,14
France	87,08
Germany	0,52
Italy	8,90
Portugal	0,05
Spain	0,55
Sweden	0,03
United Kingdom	0,30
Switzerland	1,31
Canada	0,25
Japan	0,05
US	0,47
Distribution by Region (%)	
Alsace-Champagne-Ardenne-Lorraine	5,44
Aquitaine-Limousin-Poitou-Charentes	6,42
Auvergne-Rhône-Alpes	11,96
Bourgogne-Franche-Comté	3,34
Bretagne	3,66
Centre-Val de Loire	2,07
Corse	1,07
Île-de-France	17,88
Languedoc-Roussillon-Midi-Pyrénées	7,69
Nord-Pas-de-Calais-Picardie	9,00
Normandie	3,64
Pays de la Loire	4,12
Provence-Alpes-Côte d'Azur	9,19
Dom-Tom	1,59

Figure 6: Arrears Distribution | Source:: CAFFIL

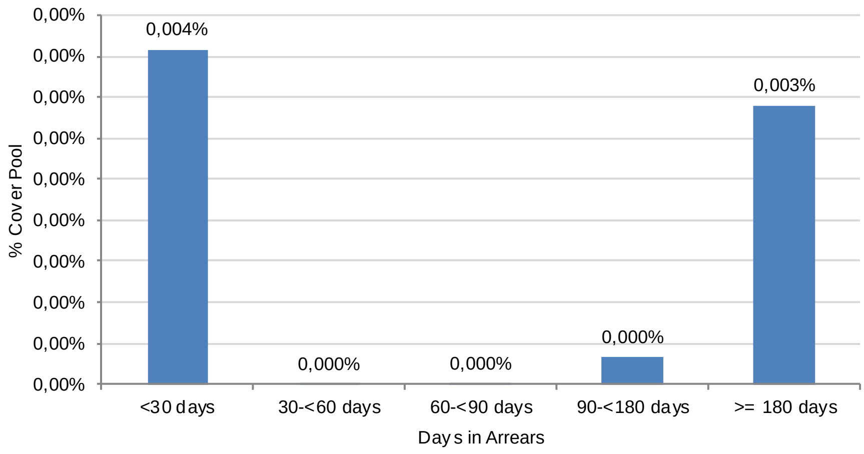
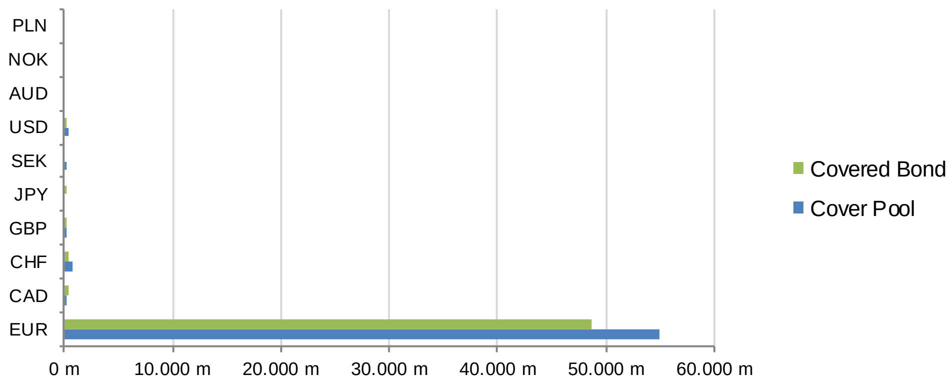


Figure 7: Program currency mismatches | Source: CAFFIL



Key Source of Information

Documents (Date: 30.09.2018)
Issuer ▪ Audited consolidated annual reports of SFIL SA (Group) 2014-2017 ▪ Rating file 2018 ▪ Final Rating report as of 31.08.2018 ▪ Miscellaneous Investor Relations Information and Press releases ▪ Peergroup-Data and other data from the S&P Global Market Intelligence Database
Covered Bond and Cover Pool ▪ HTT Reporting from CAFFIL (30.09.2018) ▪ Market data Public Sector Cover Bond Program.

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The rating is based on publicly available information and internal evaluation methods for the rated bank and program. The issuer's quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by S&P Global Market Intelligence subject to a peer group analysis were 60 competing institutes. The cover pool's quantitative analysis for the rated Covered Bond Program was based on the "Harmonised Transparency Template" (HTT) published by the CAFFIL.

A complete description of Creditreform Rating´s rating methodologies and Creditreform`s basic document "Rating Criteria and Definitions" is published on the following internet page:

www.creditreform-rating.de/en/regulatory-requirements/

This rating was carried out by analysts Edsson Rodriguez und AFM Kamruzzaman all located in Neuss/Germany. On the 23.01.2019, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to CAFFIL and the preliminary rating report was made available to it. The issuer or all relevant parties have examined the rating report prior to publication and were provided with at least one full working day to appeal the rating committee decision and provide additional information. The rating decision was not amended following this examination.

The rating is subject to one-year monitoring from the creation date (see cover sheet). Within this period, the rating can be updated. At the latest after one year, a follow-up is required to maintain the validity of the rating.

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1. Transaction structure and participants

2. Transaction documents

3. Issuing documents

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The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained.

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