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Press Release

ECB asset quality review (AQR) and stress test: very positive conclusions for Société de Financement Local

The results of the AQR published by the European Central Bank on October 26, 2014 are highly satisfactory for Société de financement local (Sfil). They confirm the relevance and the great prudence of the risk management policy implemented by the bank. The stress test, equally satisfying, demonstrates the strong capitalization and the very good risk profile of Sfil which results from the high quality of its public sector assets.

This exercise saw the involvement of a large number of Sfil employees for a period of 12 months. It allowed the regulator to perform an in-depth scrutiny of the main credit portfolios held by Sfil (representing 70% of the bank's global exposures) and, subsequently, to conduct stress tests in accordance with the applied methodology.

AQR: minimal impact of EUR 48 million on prudential capital and of 0.97% on CET1 ratio

The very good results obtained by Société de financement local following its asset quality review demonstrate the markedly cautious way with which the bank operates in the matter of risk management.

Prudential adjustments determined by the ECB, applied with regards to regulatory capital requirements (Pillar 2) are minimal. Additional provisions, amounting to EUR 48 millions after tax, bear on the two main portfolios examined: that of the French local authorities (representing about 2/3 of the reviewed amount) and that of the Italian local authorities.

These prudential adjustments have an impact of approximately -3% on regulatory capital and 0.97% on the CET1 ratio (common equity tier 1).

Stress test: a CET1 solvency ratio which remains very robust at 13.17%, even in the adverse scenario

The stress test confirms the very good risk profile of Sfil, owing to the quality of its business model based on low risk public sector assets.

The common equity tier one ratio (CET1) – i.e. 24.28% at end 2013- is very high and allows the bank to face very unfavorable stress tests. Thus, even in the case of the adverse scenario defined by the ECB, the CET1 ratio remains very robust at 13.17%.

The high CET1 results from a good level of capitalization combined with a very low risk weighting assigned to the assets held by Sfil. It mirrors the credit quality of local authorities: for a period of more than 15 years the default rate stands below one per thousand and the loss given default rate is below one percent for most asset classes booked in Sfil's portfolio.

Detailed results on: ***http://www.ecb.europa.eu/ssm/assessment/html/index.en.html***

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