

31 August 2018 – Neuss, Germany

## Rating Action:

### Creditreform Rating upgrades the long-term issuer rating of SFIL SA (Group) by one notch to AA (Outlook: stable).

Creditreform Rating (CRA) has upgraded the long-term issuer rating of SFIL SA (in the following: SFIL) to 'AA' from 'AA-' and confirms the short-term rating at 'L1'. The rating outlook is stable. At the same time, we upgrade SFIL's 'senior unsecured' debt instruments to 'AA' from 'AA-'.

Please find a complete list of rating actions regarding SFIL SA at the end of this rating action paper.

### Key Rating Drivers

CRA has revised the rating of SFIL and its bank capital and debt instruments as a result of its periodic monitoring process for the following reasons:

- Upgrade of CRA's long-term sovereign rating of the French Republic to 'AA' from 'AA-', as we see an extraordinary probability of support by the government of France

### Rating Rationale

The credit rating upgrade of SFIL SA (Group) was predominantly affected by our opinion that there is almost certain likelihood of support by the French Republic in the event of financial distress. This owes to the fact that the bank benefits from explicit state guarantees. The French government has the legal obligation to protect the economic basis of SFIL and to 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. The upgrade follows the upgrade of the long-term sovereign rating of the French Republic by one notch to 'AA' from 'AA-' (CRA: 1 June 2018).

### Outlook

We consider the outlook of SFIL's long-term issuer rating and its bank capital and debt instruments as 'stable'. This reflects our view of SFIL's role in local public sector and export financing in France.

In addition, we assume a stable political and economic environment in SFIL's markets of operations.

### Scenario Analysis

In a scenario analysis, the rating remained unchanged in the "best case" scenario, and slightly worse in the "worst case" scenario. The rating is specifically sensitive to changes in the rating of the French Republic. A downgrade in the rating of the French Republic will most likely coincide with a downgrade in the rating of SFIL SA (Group), while an upgrade may not necessarily coincide with an upgrade. The ratings of bank capital and senior unsecured debt would behave similarly due to our rating mechanics. These ratings are especially sensitive to changes in total equity, to the bank capital, and debt structure in general.

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### CRA's rating actions at a glance

SFIL SA (Group):

- Long-term Issuer Rating upgraded to 'AA' from 'AA-', stable outlook
- Short-term rating confirmed at 'L1'
- Senior unsecured debt instruments upgraded to 'AA' from 'AA-'

## Ratings Detail

### Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **AA / stable / L1**

### Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the SFIL.

Senior unsecured debt: **AA**

Tier 2 (T2): -

Additional Tier 1 (AT1): -

### Ratings Detail and History

Ratings				
<b>Bank Issuer Ratings</b>				
	Instruments	Rating Date	Publication Date	Ratings
	LT Issuer / Outlook / Short-Term (Initial Rating)	23.05.2018	24.05.2018	AA- / stable / L1
	LT Issuer / Outlook / Short-Term	31.08.2018	31.08.2018	AA / stable / L1
<b>Bank Capital and Debt Instruments</b>				
	Type	Rating Date	Publication Date	Ratings
	Senior Unsecured / T2 / AT1 (Initial Rating)	23.05.2018	24.05.2018	AA- / - / -
	Senior Unsecured / T2 / AT1	31.08.2018	31.08.2018	AA / - / -

Figure 1: Ratings Detail and History

## Appendix

Income Statement	2014	%	2015	%	2016	%	2017	%
<b>Income (€000)</b>								
Net Interest Income	77.000	102,7%	89.000	103,5%	142.000	102,2%	174.000	94,6%
Net Fee & Commission Income	-4.000	-5,3%	-4.000	-4,7%	0	0,0%	3.000	1,6%
Net Insurance Income	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Net Trading Income	-3.000	-4,0%	1.000	1,2%	-3.000	-2,2%	7.000	3,8%
Equity Accounted Results	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Dividends from Equity Instruments	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Rental Revenue	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Lease and Rental Revenue	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Other Income	5.000	6,7%	NA	0,0%	NA	0,0%	NA	0,0%
<b>Operating Income</b>	<b>75.000</b>	<b>100%</b>	<b>86.000</b>	<b>100%</b>	<b>139.000</b>	<b>100%</b>	<b>184.000</b>	<b>100%</b>
<b>Expenses (€000)</b>								
Depreciation and Amortisation	1.000	0,9%	3.000	2,5%	5.000	4,7%	6.000	5,3%
Personnel Expense	44.000	37,6%	47.000	38,5%	49.000	45,8%	51.000	45,1%
Occupancy & Equipment	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Tech & Communications Expense	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Marketing and Promotion Expense	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Other Provisions	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Other Expense	72.000	61,5%	72.000	59,0%	53.000	49,5%	56.000	49,6%
<b>Operating Expense</b>	<b>117.000</b>	<b>100%</b>	<b>122.000</b>	<b>100%</b>	<b>107.000</b>	<b>100%</b>	<b>113.000</b>	<b>100%</b>
<b>Operating Profit &amp; Impairment (€000)</b>								
Pre-impairment Operating Profit	-42.000		-36.000		31.000		71.000	
Asset Writedowns	0		-6.000		-18.000		-22.000	
<b>Net Income (€000)</b>								
Non-Recurring Revenue	NA		NA		NA		NA	
Non-Recurring Expense	NA		NA		NA		NA	
<b>Pre-tax Profit</b>	<b>-42.000</b>		<b>-30.000</b>		<b>49.000</b>		<b>93.000</b>	
Income Tax Expense	-8.000	19,0%	29.000	-96,7%	31.000	63,3%	39.000	41,9%
Discontinued Operations	0		0		0		0	
<b>Net Profit</b>	<b>-34.000</b>		<b>-59.000</b>		<b>18.000</b>		<b>54.000</b>	

Figure 2: Group income statement  
(Source: S&P Global Market Intelligence)

Income Ratios (%)	2014	%	2015	%	2016	%	2017	%
Return on Average Assets (ROAA)	-0,04	0,04	-0,07	-0,03	0,02	0,09	0,07	0,05
Return on Average Equity (ROAE)	-2,41	2,70	-4,22	-1,82	1,30	5,52	3,78	2,48
Return on Risk-Weighted Assets (RORWA)	-0,60	NA	-0,99	-0,40	0,32	1,32	0,96	0,64
Net Interest Margin (NIM)	0,09	-0,05	0,11	0,01	0,18	0,07	0,24	0,06
Cost Income Ratio ex. Trading (CIRex)	150,00	-42,68	143,53	-6,47	75,35	-68,18	63,84	-11,51
Cost Income Ratio (CIR)	156,00	3,10	141,86	-14,14	76,98	-64,88	61,41	-15,57
Change in %Points								

Figure 3: Group key earnings figures  
(Source: S&P Global Market Intelligence)

Assets (€000)	2014	%	2015	%	2016	%	2017	%
Cash and Balances with Central Banks	877.000	1,0%	3.361.000	4,0%	4.878.000	6,2%	2.560.000	3,5%
Net Loans to Banks	2.847.000	3,2%	2.530.000	3,0%	390.000	0,5%	295.000	0,4%
Net Loans to Customers	66.175.000	75,2%	63.209.000	75,5%	59.682.000	75,6%	57.014.000	78,7%
Total Securities	14.365.000	16,3%	11.127.000	13,3%	11.531.000	14,6%	10.023.000	13,8%
<b>Financial Assets</b>	<b>84.264.000</b>	<b>96%</b>	<b>80.227.000</b>	<b>96%</b>	<b>76.481.000</b>	<b>97%</b>	<b>69.892.000</b>	<b>96%</b>
Equity Accounted Investments	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Other Investments	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Insurance Assets	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Non-current Assets HFS & Discontinued Ops	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Tangible and Intangible Assets	12.000	0,0%	21.000	0,0%	27.000	0,0%	35.000	0,0%
Tax Assets	116.000	0,1%	116.000	0,1%	113.000	0,1%	64.000	0,1%
Total Other Assets	3.610.000	4,1%	3.319.000	4,0%	2.316.000	2,9%	2.441.000	3,4%
<b>Total Assets</b>	<b>88.002.000</b>	<b>100%</b>	<b>83.683.000</b>	<b>100%</b>	<b>78.937.000</b>	<b>100%</b>	<b>72.432.000</b>	<b>100%</b>
Net Loans to Customers Growth*	-0,21	NA	-4,48	NA	-5,58	NA	-4,47	NA
*Change in %								

Figure 4: Development of assets  
(Source: S&P Global Market Intelligence)

Asset-Quality (%)	2014	%	2015	%	2016	%	2017	%
Non-Performing Loans (NPL) / Loans	NA	NA	NA	NA	0,93	NA	0,98	0,05
Risk-Weighted Assets (RWA) / Total Assets	7,04	0,80	6,79	-0,25	6,87	0,09	7,97	1,10
NPL / RWA	NA	NA	NA	NA	10,27	NA	9,66	-0,60
Potential Problem Loans / NPL	NA	NA	NA	NA	NA	NA	NA	NA
Reserves / Impaired Loans	23,76	-9,31	19,17	-4,59	19,03	-0,14	9,50	-9,53
Net Write-Offs / RWA	NA	NA	NA	NA	NA	NA	NA	NA
Change in %Points								

Figure 5: Development of asset quality  
(Source: S&P Global Market Intelligence)

Liabilities (€000)	2014	%	2015	%	2016	%	2017	%
Total Deposits from Banks	9.788.000	11,3%	8.837.000	10,7%	6.720.000	8,7%	4.215.000	5,9%
Total Deposits from Customers	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Total Debt	58.501.000	67,6%	57.740.000	70,2%	57.681.000	74,4%	56.315.000	79,4%
Derivative Liabilities	15.399.000	17,8%	13.537.000	16,4%	11.063.000	14,3%	8.950.000	12,6%
Securities Sold, not yet Purchased	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Other Financial Liabilities	0	0,0%	0	0,0%	0	0,0%	0	0,0%
<b>Total Financial Liabilities</b>	<b>83.688.000</b>	<b>97%</b>	<b>80.114.000</b>	<b>97%</b>	<b>75.464.000</b>	<b>97%</b>	<b>69.480.000</b>	<b>98%</b>
Insurance Liabilities	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Non-current Liab. HFS & Discontinued Ops	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Unit-Linked Insurance and Investment Contr.	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Tax Liabilities	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Non-current Asset Retirement Obligations	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Other Provisions	NA	0,0%	NA	0,0%	NA	0,0%	NA	0,0%
Total Other Liabilities	2.905.000	3,4%	2.184.000	2,7%	2.085.000	2,7%	1.483.000	2,1%
<b>Total Liabilities</b>	<b>86.593.000</b>	<b>98,4%</b>	<b>82.298.000</b>	<b>98,3%</b>	<b>77.549.000</b>	<b>98,2%</b>	<b>70.963.000</b>	<b>98,0%</b>
<b>Total Equity</b>	<b>1.409.000</b>	<b>1,6%</b>	<b>1.385.000</b>	<b>1,7%</b>	<b>1.388.000</b>	<b>1,8%</b>	<b>1.469.000</b>	<b>2,0%</b>
<b>Total Liabilities and Equity</b>	<b>88.002.000</b>	<b>100%</b>	<b>83.683.000</b>	<b>100%</b>	<b>78.937.000</b>	<b>100%</b>	<b>72.432.000</b>	<b>100%</b>
Deposits from Customers Growth*	NA	NA	NA	NA	NA	NA	NA	NA
*Change in %								

Figure 6: Development of refinancing and capital adequacy  
(Source: S&P Global Market Intelligence)

Capital (€000)	2014	%	2015	%	2016	%	2017	%
Total Capital	1.521.000	-2,44	1.448.000	-4,80	1.278.000	-11,74	1.350.000	5,63
Total risk-weighted Assets	6.192.591	18,90	5.678.039	-8,31	5.425.644	-4,45	5.775.655	6,45
Capital Ratios (%)								
Core Tier 1 Ratio	23,87	NA	24,74	0,87	24,22	-0,52	23,06	-1,16
Tier 1 Ratio	23,87	-5,89	24,74	0,87	24,70	-0,04	23,51	-1,19
Total Capital Ratio	24,56	-5,37	25,50	0,94	25,01	-0,49	23,82	-1,19
Leverage Ratio	1,92	NA	1,88	-0,04	1,82	-0,06	2,00	0,18
Fully Loaded: Common Equity Tier 1 Ratio	21,20	NA	22,50	1,30	22,75	0,25	22,61	-0,14
Fully Loaded: Tier 1 Ratio	21,20	-8,56	22,50	1,30	23,23	0,73	23,06	-0,17
Fully Loaded: Risk-weighted Capital Ratio	21,80	-8,13	23,30	1,50	23,55	0,25	23,37	-0,18
Total Equity/ Total Assets	1,60	-0,10	1,66	0,05	1,76	0,10	2,03	0,27
Change in %Points								

Figure 7: Development of capital ratios  
(Source: S&P Global Market Intelligence)

Liquidity (%)	2014	%	2015	%	2016	%	2017	%
Liquidity Coverage Ratio (LCR)	113,00	-1,00	113,00	0,00	182,00	69,00	725,00	543,00
Interbank Ratio	29,09	0,94	28,63	-0,46	5,80	-22,83	7,00	1,20
Loan to Deposit (LTD)	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Change in %Points								

Figure 8: Development of liquidity  
(Source: S&P Global Market Intelligence)

### Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating.

The rating is based on publicly available information and internal evaluation methods for the rated bank. The 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 information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website [www.creditreform-rating.de](http://www.creditreform-rating.de). The rating was carried out on the basis of the rating methodology for unsolicited bank ratings as well as the methodology for the rating of bank capital and unsecured debt instruments in conjunction with Creditreform's basic document "Rating Criteria and Definitions".

On 31 August 2018, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to SFIL SA, and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is subject to one-year monitoring from the rating date and is valid until withdrawal of the rating. Within this period, the rating can be updated. At the latest after one year, a monitoring is required to maintain the validity of the rating.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG (CRA) is permitted to issue credit ratings within the EU, and is obligated to comply with the provisions of the CRA-Regulation.

### Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved nor any other natural persons whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

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The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our 'Rating Committee' policy, all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used the following substantially material sources:

1. Transaction structure and participants
2. Transaction documents
3. Issuance documents

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore, CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded the available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The 'Basic Data' information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

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 and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated including any rating outlooks is indicated clearly and prominently in the 'Basic Data' card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within 'Basic Data' information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website.

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