

DBRS Morningstar Places SFIL's LT Ratings of AA (high) Under Review Negative

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) placed the Long-Term ratings of SFIL SA (SFIL or the Bank), including the Long-Term Issuer Rating of AA (high), Under Review with Negative Implications. The rating action follows DBRS Morningstar's downgrade of the Republic of France's Long-Term Foreign and Local Currency rating to AA (high) with a Stable Trend on October 16, 2020 as well as the recent transfer of SFIL's ownership to Groupe Caisse des Dépôts et Consignations (CDC). At the same time, DBRS Morningstar confirmed SFIL's Short-Term ratings at R-1 (high) and maintained the trend at Stable. The Support Assessment remains SA1. A full list of rating actions is included at the end of this press release.

KEY RATING CONSIDERATIONS

SFIL's Long-Term Issuer Rating was to date positioned one notch below the Republic of France's Issuer Rating, reflecting both the high likelihood of support from the French State in case of need, as well as the absence of a full guarantee. Consequently, the recent downgrade of the Republic of France would have led to a downgrade of SFIL. However, DBRS Morningstar considers the recent change of SFIL's ownership could potentially positively affect the notching approach between SFIL and the Republic of France and this will be examined during the review period.

On 16 October 2020, DBRS Morningstar downgraded the Republic of France's Long-Term ratings to AA (high) from AAA and changed the trend on the ratings to Stable. The rating action reflected the deterioration to France's medium-term outlook and to its public finances, as a result of the global health and economic crisis, as well as France's existing credit challenges prior to the pandemic.

Separately, SFIL's legal ownership has also recently undergone a change. On 1 October 2020, CDC became SFIL's sole reference shareholder, with the French State retaining only one share. Previously, SFIL was jointly owned by the French State (75%), CDC (20%) and La Banque Postale (LBP – 5%), the latter two being ultimately entirely state owned. DBRS Morningstar considers that this recent change in ownership could potentially reinforce the efficiency and timeliness of support mechanisms between SFIL, its new reference shareholder CDC and ultimately the French State.

We understand the new shareholder has provided a letter of comfort to support SFIL's creditworthiness in addition to the letter of comfort provided by the Republic of France. As such, DBRS Morningstar considers that both CDC and the French State are committed to ensuring that SFIL is able to pursue its activities on an ongoing manner and to honour their financial commitments. The continuous presence of the French State in the Board of Directors of SFIL with a direct representative also confirms the remaining oversight from the national government over the Bank's operations.

The Under Review with Negative Implications reflects DBRS Morningstar's view that the change of ownership could lead to a revision of the notching approach between SFIL and the Republic of France. To conclude its review, DBRS Morningstar expects to gain clarity on the efficiency and timeliness of the support mechanisms between CDC, SFIL and the French State. During this review period, DBRS Morningstar will also review the reputational risk the new shareholding structure has for CDC, as France's primary public bank with a clear public policy mandate and subsequently for its unique shareholder, the Republic of France.

RATING DRIVERS

At the end of the review period, the ratings could be confirmed at AA (high) if the change in ownership provides DBRS Morningstar with additional comfort in relation to the timeliness of potential support from SFIL's owners.

If DBRS Morningstar considers that the change in ownership does not positively affect the likelihood and potential timeliness of support from SFIL's shareholders, the ratings would be downgraded by one notch, reflecting France's recent downgrade.

ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: <https://www.dbrsmorningstar.com/research/357792>.

Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (8 June 2020) <https://www.dbrsmorningstar.com/research/362170/global-methodology-for-rating-banks-and-banking-organisations>.

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>.

The sources of information used for this rating include SFIL 2019 Annual Report, SFIL 2019 Pillar III Report, Company Documents and S&P Global Market Intelligence. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

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

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

This rating is under review. Generally, the conditions that lead to the assignment of reviews are resolved within a 90-day period. DBRS Morningstar reviews and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/368906>

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Initial Rating Date: September 11, 2018





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Ratings

SFIL SA

Date Issued	Debt Rated	Action	Rating	Trend	Issued
27-Oct-20	Long-Term Issuer Rating	UR-Neg.	AA (high)	--	
27-Oct-20	Short-Term Issuer Rating	Confirmed	R-1 (high)	Stb	
27-Oct-20	Short-Term Debt	Confirmed	R-1 (high)	Stb	
27-Oct-20	Long-Term Senior Debt	UR-Neg.	AA (high)	--	

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