

Rating Action: Moody's affirms the Aa3 long-term debt rating of SFIL; outlook stable

07 Dec 2020

Paris, December 07, 2020 -- Moody's Investors Service (Moody's) today affirmed SFIL's long-term senior unsecured debt and deposit ratings of Aa3. The outlook remains stable. SFIL's Baseline Credit Assessment (BCA) and Adjusted BCA of a3 were also affirmed, together with the other ratings and assessments, including SFIL's short-term deposit and issuer ratings of Prime-1, its long-term and short-term Counterparty Risk Assessments (CR Assessments) of Aa2(cr) and Prime-1(cr), respectively, and its long-term and short-term Counterparty Risk Ratings (CRRs) of Aa2 and Prime-1, respectively.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

SFIL's Aa3 long-term senior unsecured debt and deposit ratings are underpinned by (1) the entity's BCA of a3; (2) the application of Moody's Advanced Loss Given Failure (LGF) analysis, which, given the volume of the bank's senior debt, results in one notch of uplift from the Adjusted BCA of a3; and (3) government-support uplift of two notches, reflecting a very high support probability from its ultimate owner, the Government of France (Aa2 stable).

The affirmation of the a3 BCA reflects the bank's leading position in the French public-sector financing and its low-risk profile because of solid asset quality and adequate funding and liquidity. SFIL's very high nominal leverage and moderate profitability are consistent with such low-risk profile and assigned public-service mission. SFIL has successfully originated new business through the distribution network of La Banque Postale (LBP), which is its commercial partner for public-sector lending, including in the first half of 2020, despite the lockdown period.

On 30 September 2020, the equity stakes of the French government and La Banque Postale in SFIL (75% and 5%, respectively) were transferred to Caisse des Depots et Consignations (CDC, Aa2 stable), which now holds all of SFIL's shares but one still owned by the French government. Following this transaction, SFIL's ownership continues to remain entirely public. Moody's believes that the probability of government support remains very high for SFIL's deposits and senior unsecured debt, which results in uplift of two notches. This assumption is based on (1) CDC's commitment, as the reference shareholder, to support SFIL's solvency and liquidity through a letter of comfort, which has been communicated to the French supervisor (Autorite de Controle Prudentiel et de Regulation, ACPR); (2) the State's commitment, as the ultimate shareholder, to support SFIL's solvency and liquidity in case of a default of CDC through a separate letter of comfort, also communicated to the ACPR; and (3) the key role SFIL will continue to have in the financing of the French local authorities and hospitals. Moody's also believes that the 2018 decision to expand its policy mandate to export and strategic project financing also enhances SFIL's status and importance in the domestic market.

OUTLOOK

The outlook on SFIL's long-term issuer and senior unsecured ratings is stable, in line with the outlook on the Government of France's debt rating. This results from the very high likelihood of government support for SFIL. Similar to other European countries, France is heavily affected by the coronavirus outbreak. Moody's assumes that the pandemic will have a significant, but eventually transitory impact on France's economy and fiscal metrics.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

SFIL's long-term ratings could be upgraded as a result of an upgrade of the Government of France's debt rating.

SFIL's BCA could be downgraded as a result of worse-than-expected asset performance or weakening capitalization. A lower BCA could result in a downgrade of the long-term ratings.

SFIL's long-term ratings could also be downgraded in the event of a significant change in the bank's liability structure, implying a material reduction in the volume of long-term senior unsecured debt, and, hence, an increase in loss-given-failure; a decrease in the probability of government support; or a downgrade of France's sovereign rating.

LIST OF AFFECTED RATINGS

Issuer: SFIL

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Aa2

...Short-term Counterparty Risk Ratings, affirmed P-1

...Long-term Bank Deposits, affirmed Aa3, outlook remains Stable

...Short-term Bank Deposits, affirmed P-1

...Short-term Deposit Note/CD Program, affirmed P-1

...Long-term Counterparty Risk Assessment, affirmed Aa2(cr)

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Long-term Issuer Ratings, affirmed Aa3, outlook remains Stable

...Short-term Issuer Ratings, affirmed P-1

...Baseline Credit Assessment, affirmed a3

...Adjusted Baseline Credit Assessment, affirmed a3

...Senior Unsecured Regular Bond/Debenture, affirmed Aa3, outlook remains Stable

...Senior Unsecured Medium-Term Note Program, affirmed (P)Aa3

...Commercial Paper, affirmed P-1

..Outlook Action:

...Outlook remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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