

CREDIT OPINION

15 November 2019

Update

 Rate this Research

RATINGS

Domicile	Paris, France
Long Term CRR	Not Assigned
Long Term Debt	Aa2
Type	Senior Unsecured - Fgn Curr
Outlook	Positive
Long Term Deposit	Aa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Caisse Des Depots et Consignations

Update to credit analysis

Summary

We assign long-term deposit and senior unsecured debt ratings of Aa2, with a positive outlook, to [Caisse Des Depots et Consignations](#) (CDC). We consider CDC a government-related issuer. From a credit-risk profile perspective, CDC is intrinsically linked with the [Government of France](#) (Aa2 positive), given the governance structure as well as its operational and financial ties. Therefore, CDC's deposit rating results from the application of a credit substitution approach, as described in our [Government-Related Issuers](#) rating methodology published in June 2018.

While from a legal standpoint CDC is a separate entity from the state, it essentially provides its support to government policies. CDC's savings funds (so called Fonds d'Epargne) conduct activities on behalf of the French State, such as the investment of regulated savings deposits¹ in long-term projects (e.g. social housing). CDC's central section (Section Générale) is in charge of the collection of legal deposits (for example, from notaries); provides custody services, notably for ACOSS²; and invests in local development projects. The investment strategy of the central section remains independent from the French government. CDC also holds a large portfolio of strategic investments such as Bpifrance S.A. (jointly owned by CDC and the state), which are made essentially in France, including in major listed companies.

CDC is a public-sector financial institution (Etablissement Public) with a specific status derived from a law dating back to 28 April 1816. Although there is no explicit guarantee on its debt, CDC is not subject to liquidation laws (articles L. 631-2 and L. 640-2 of French Commercial Code), while its creditors have ultimate recourse to the French State (Law 80-539 enacted on 16 July 1980).

The parliament has to approve the nomination, by the French president, of CDC's chairman and chief executive officer for a period of five years. The institution is subject to parliamentary oversight. The supervision of CDC is carried out by the Commission de Surveillance, which is comprised of members of the parliament and high-ranking state officials who are in charge of vetting strategic decisions and monitoring CDC's activities. A French law (loi PACTE), which was passed on 22 May 2019, strengthens the Commission de Surveillance's role by increasing its responsibilities in the approval of CDC's strategic plan, the definition of its investment strategy and the endorsement of its budget. This law also submits CDC to the direct supervision of the French banking supervisory authority (Autorité de Contrôle Prudentiel et de Résolution - ACPR), although it is not a credit institution per se, and hence, not required to comply with banking regulations.

Credit strengths

- » CDC has an ad hoc public status enshrined in law.
- » It is not subject to liquidation laws.
- » Its creditors have an ultimate recourse to the French State.
- » CDC has very close ties with the French state through both executive and legislative branches.

Credit challenges

- » The institution's large portfolio of fixed-income assets is affected by the low-interest-rate environment, which weighs on its net interest margin.
- » The French government's solicitations of CDC's financial resources can be significant.

Outlook

The outlook is positive, in line with the outlook on the rating of the French government, reflecting the government's ambitious economic reform programme as well as its commitment to reducing its elevated debt levels and high budget deficits on a sustained basis.

Factors that could lead to an upgrade

The long-term senior unsecured debt and deposit ratings would likely be upgraded in the event of an upgrade of the rating of the French government.

Factors that could lead to a downgrade

A downgrade is unlikely, given the positive outlook currently assigned to CDC's long-term ratings. However, its senior unsecured debt and deposit ratings could nevertheless be downgraded in the event of a downgrade of the rating of the French government.

Similarly, should we perceive a weakening in CDC's operational or financial integration with the French State, a downgrade of the institution's long-term ratings could be triggered.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 1

Caisse Des Depots et Consignations (Consolidated Financials) [1]

	12-18 ²	12-17 ²	12-16 ²	12-15 ²	12-14 ²	CAGR/Avg ³
Total Assets (EUR Million)	163,002.0	173,543.0	166,510.0	155,844.0	149,349.0	2.2 ⁴
Total Assets (USD Million)	186,334.8	208,390.0	175,626.8	169,292.6	180,720.2	0.8 ⁴
Tangible Common Equity (EUR Million)	29,609.0	23,577.0	22,604.0	22,167.0	21,559.0	8.3 ⁴
Tangible Common Equity (USD Million)	33,847.4	28,311.2	23,841.6	24,079.9	26,087.5	6.7 ⁴
Problem Loans / Gross Loans (%)	6.5	22.2	15.2	8.1	5.6	11.5 ⁵
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	0.9	5.0	3.8	3.8	3.3	3.4 ⁵
Net Interest Margin (%)	0.4	0.2	0.3	0.4	0.4	0.3 ⁵
Net Income / Tangible Assets (%)	1.2	1.2	1.1	0.8	1.3	1.1 ⁵
Cost / Income Ratio (%)	91.1	82.9	60.8	69.2	59.8	72.8 ⁵
Market Funds / Tangible Banking Assets (%)	29.9	32.1	34.8	36.6	40.1	34.7 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	28.9	64.5	64.1	60.5	57.1	55.0 ⁵
Gross Loans / Due to Customers (%)	6.5	8.4	9.9	19.1	27.6	14.3 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel II; IFRS. [3] May include rounding differences due to scale of reported amounts. [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5] Simple average of periods presented for the latest accounting regime.

Sources: Moody's Investors Service and company filings

Profile

Created in 1816, Caisse Des Depots et Consignations (CDC) is a public-sector financial institution that is 100% owned by the French State.

Under its unique legal status, CDC's mission is to serve the general interest and promote the economic development of France. CDC's savings funds (Fonds d'Epargne) conduct activities on behalf of the French State, such as the investment of regulated savings deposits (for example, Livret A) in long-term projects like social housing. CDC's central section (Section Générale) collects legal deposits and raises market funding to invest in local development projects (that is, infrastructure, renewable energy and others). The investment strategy of the central section remains independent with regard to the French government. In May 2018, CDC merged some of its departments and subsidiaries that were in charge of financing local development in a single department named 'Banque des Territoires' (bank for local areas) to create a one-stop shop for all customers. This bank for local areas will rely on 16 regional directorates and 35 local representative offices.

The institution also holds a large portfolio of investments that are made essentially in France, including in major listed companies, and real estate and infrastructure (notably in transportation, energy, telecommunications and environmental projects).

The law of 22 May 2019 (Loi PACTE) strengthens the governance of CDC by expanding the Commission de Surveillance's membership and reinforcing its powers. It also strengthens controls over CDC by transferring the prudential oversight to the ACPR from the Commission de Surveillance. Finally, the law allows the transfer of the French State and CDC's shares in the insurance company [CNP Assurances](#) (A1 IFSR, stable) to the French postal services' (La Poste) banking subsidiary (La Banque Postale, LBP) and the subsequent transfer of part of the State's shares in La Poste to CDC. As a result, CDC will become the main shareholder of La Poste and its banking subsidiary LBP and insurance subsidiary CNP Assurances (which is the main French life insurer, with €415.5 billion of total assets as of December 2018). The transaction is expected to be completed at the beginning of 2020.

Detailed credit considerations

CDC breaks down its consolidated financial reporting into (1) the central section (Section Générale), which notably takes legal deposits from notaries and manages a large portfolio of equities; and (2) subsidiaries and strategic shareholdings. CDC also reports the activities made on behalf of the French State, including managing the savings fund (Fonds d'Epargne) and social housing financing, as well as the administration of retirement schemes.

In 2018, CDC reported a consolidated net income (central section and savings funds) of €3.3 billion, which is stable compared with the 2017 results. However, the results compare favorably because the 2017 results were boosted by exceptional items. CDC's shareholders'

equity (group share, the consolidated central section) was down 3.4% to €35.9 billion as of 31 December 2018 from €37.3 billion a year earlier.

CDC will reconsider its investment strategy by reducing the stakes in companies that are not critical to fulfilling its public missions (for example, financing social housing, supporting the economy and helping the transition to renewable energies).

On 31 August 2018, CDC, the French postal services (La Poste) and La Banque Postale (LBP) announced the French government's plan which aims to closely anchor CDC with La Poste. The new public financial institution, which will comprise CDC, LBP and its affiliate insurer CNP will be in charge of financing local areas and providing financial services to public-sector entities, enterprises and households. Through this operation, CDC will become the major shareholder of La Poste. In the meantime, La Poste, and more specifically its bank subsidiary LBP, will become the major shareholder of CNP Assurances via a transfer of the French government's and CDC's respective equity stakes in CNP Assurances to La Poste. With this, La Poste will strengthen its financial arm by becoming a large bank-insurance group, which is a critical step for competing with local peers in the French market. That being the integration of this operation is particularly important for La Poste, which has to cope with a continuous decline in its postal activities. CDC will also acquire the French State's and LBP's respective participations in [SFIL](#) (Aa3/Aa3 positive, a3)³, the leading institution for the financing of French local authorities, and become its sole owner.

Significant steps have been taken toward the creation of this public financial institution. On 25 June 2019, the French financial markets regulator, the Autorité des Marchés Financiers (AMF), gave a waiver to LBP to make a public offer bid on all CNP Assurances shares, which would have considerably increased the operation cost. On 31 July 2019, the French State, CDC, La Poste and LBP signed a binding agreement for the creation of this major public financial institution, and on 9 October 2019, the French State, CDC and LBP signed a nonbinding agreement for the acquisition of SFIL (the leading lender to French local authorities; Aa3 positive, a3) by CDC. This operation is still subject to regulatory approvals. We do not expect it to entail major changes in the governance, or in the relationship of CDC with the French State.

Environmental, social and governance considerations

In line with our general view on the banking sector, CDC has a low exposure to environmental risks (see our [Environmental risks heat map](#) for further information).

For social risks, we also place CDC in line with our general view for the banking sector, which indicates a moderate exposure (see our [Social risks heat map](#)). Given its public mandate and core activities, CDC is particularly involved in financing public infrastructures, hospitals, social housing and local development projects, which all have a positive social impact.

While governance is highly relevant for CDC, as it is to all competitors in the banking industry, we neither have any particular governance concern nor we apply any corporate behavior adjustment. CDC has not shown any governance shortfall in recent years, and its risk-management framework is commensurate with its risk appetite. Nonetheless, corporate governance remains a key credit consideration and requires close ongoing monitoring.

Ratings

Exhibit 2

Category	Moody's Rating
CAISSE DES DEPOTS ET CONSIGNATIONS	
Outlook	Positive
Bank Deposits	Aa2/P-1
Issuer Rating	Aa2
Senior Unsecured	Aa2
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1
CNP ASSURANCES	
Outlook	Stable
Insurance Financial Strength	A1
Subordinate	A3 (hyb)
Pref. Stock Non-cumulative -Dom Curr	Baa3 (hyb)

Source: Moody's Investors Service

Endnotes

- 1 Notably the Livret A, Livret de Développement Durable and Livret d'Epargne Populaire.
- 2 ACOSS (Agence Centrale des Organismes de Sécurité Sociale) is a French social security agency.
- 3 The ratings shown are the bank's long-term deposit rating, senior unsecured debt rating and Baseline Credit Assessment.

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