MOODY'S INVESTORS SERVICE

CREDIT OPINION
20 May 2020

Update

Rate this Research

RATINGS

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

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 stable outlook, to Caisse Des Depots et Consignations (CDC). We consider CDC a government-related issuer. From the perspective of its credit risk profile, CDC is intrinsically linked with the Government of France (Aa2 stable) 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 February 2020.

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 (called Fonds d'Epargne) conduct activities on behalf of the French State, such as the investment of regulated savings deposits[1] in long-term projects (for example, 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 ACOSS[2], and invests in local development projects. The investment strategy of the central section remains independent from that of 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 the 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, which is decided 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.

» CDC has very close ties with the French State through both executive and legislative branches.

» It is not subject to liquidation laws.

» Its creditors have an ultimate recourse to the French State.

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 stable, in line with the outlook on the rating of the French government, which was returned to stable from positive on 21 February to reflect more limited fiscal progress than expected. Similar to other European countries, France is heavily affected by the coronavirus outbreak. We assume 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

Upward pressures on the rating of the government of France, and in turn on CDC's, are limited at this stage. While unlikely in the short term, the outlooks could return to positive and the ratings ultimately upgraded if France’s fiscal and debt metrics were to improve materially on the back of more significant structural measures on the state's spending policies.

Factors that could lead to a downgrade

A downgrade is unlikely, as evidenced by the stable outlook currently assigned to the government of France's, and in turn CDC's, long-term ratings. However, both ratings would come under downward pressure if the reforms implemented since 2017 were to be reversed over the coming years with materially negative medium-term implications for growth, or if the unavoidable temporary increase in the budget deficit and debt ratio due to the coronavirus outbreak were not corrected again over the coming years.

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.

Key indicators

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

	12-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	180,628.0	163,002.0	173,543.0	166,510.0	155,844.0	3.8[4]
Total Assets (USD Million)	202,754.6	186,334.8	208,390.0	175,626.8	169,292.6	4.6[4]
Tangible Common Equity (EUR Million)	30,919.0	29,609.0	23,577.0	22,604.0	22,167.0	8.7[4]
Tangible Common Equity (USD Million)	34,706.5	33,847.4	28,311.2	23,841.6	24,079.9	9.6[4]
Problem Loans / Gross Loans (%)	2.2	6.5	22.2	15.2	8.1	10.8[5]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	0.3	0.9	5.0	3.8	3.8	2.8[5]
Net Interest Margin (%)	0.2	0.4	0.2	0.3	0.4	0.3[5]
Net Income / Tangible Assets (%)	1.3	1.2	1.2	1.1	0.8	1.1[5]
Cost / Income Ratio (%)	82.8	91.1	82.9	60.8	69.2	77.4[5]
Market Funds / Tangible Banking Assets (%)	27.5	29.9	32.1	34.8	36.6	32.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	29.6	28.9	64.5	64.1	60.5	49.5[5]
Gross Loans / Due to Customers (%)	6.0	6.5	8.4	9.9	19.1	10.0[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel II; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods 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) carry out activities on behalf of the French State, such as the investment of regulated savings deposits (for example, Livret A) in long-term projects, mainly social housing. CDC's central section (Section Générale) collects legal deposits and raises funds in the markets and invest in local development projects (that is, infrastructure, renewable energy and others). The investment strategy of the central section remains somewhat independent from the French government's policy. 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 shares of the French State and CDC in the insurance company CNP Assurances (IFSR A1 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 is the main shareholder of La Poste and its banking subsidiary LBP and insurance subsidiary CNP Assurances (which is the main French life insurer, with €440.4 billion of total assets as of December 2019). The binding agreement was signed in March 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 undertaken 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 2019, CDC reported a consolidated net income (central section and savings funds) of €2.7 billion, which is slightly below the 2018 results (€3.3 billion). CDC's shareholders' equity (group share, the consolidated central section) was up 16% to €41.6 billion as of 31 December 2019 from €35.9 billion a year earlier.

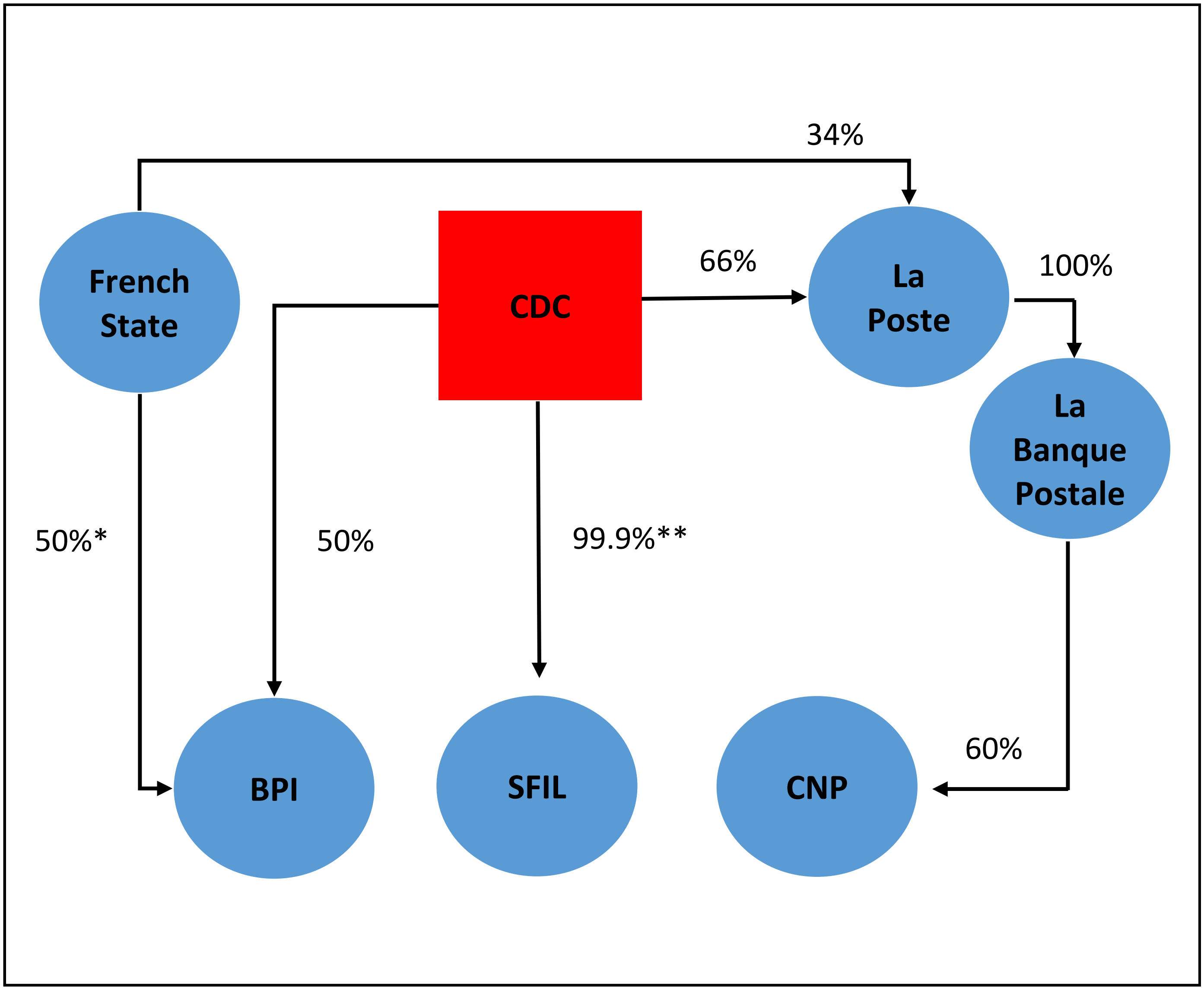
CDC's investment strategy includes potentially reducing the stakes in companies that are not critical to fulfilling its public missions (for example, financing social housing and helping the transition to renewable energies).

On 31 August 2018, CDC, the French postal services (La Poste) and La Banque Postale (LBP) announced the French government's plan to closely create a new bank-insurance group under the umbrella of La Poste and ultimately CDC. The new public financial institution, whose shareholding structure was finalised in March 2020, will comprise CDC , LBP and its affiliate insurer CNP Assurances, and will be in charge of financing local areas and providing financial services to public-sector entities, enterprises and households. Through this operation, CDC becomes the major shareholder of La Poste, while La Poste's bank subsidiary LBP, is 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.

The combination of LBP and CNP creates a large bank-insurance group, which is a critical step for competing with local peers in the French market. That being said, this operation is also particularly important for La Poste, which has to cope with a continuous decline in its postal activities. CDC also acquired the French State's and LBP's respective participations in SFIL (Aa3/Aa3 stable, a3)[3], the leading institution for the financing of French local authorities, and became its sole owner.

We do not expect it to entail major changes in the governance, or in the relationship of CDC with the French State.

Exhibit 2
Organizational structure of the newly created public financial institution



* The French State has a 50% ownership in Bpifrance S.A. trough its participation in EPIC Bpifrance
** The French state retained one ordinary share in SFIL
Source: Moody's Investors Service

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. CDC issued a EUR500 million Green Bond in 2017, and a EUR500 million Green, Social and Sustainability Bond in June 2019, consistent with the company's ambition to support the ecological and energy transition, and reduce social inequalities.

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 do we apply any corporate behavior adjustment. CDC has not shown any governance shortfall in recent years despite its rather complex set up. Nonetheless, corporate governance remains a key credit consideration and requires close ongoing monitoring.

Ratings

Exhibit 3

Category	Moody's Rating
CAISSE DES DEPOTS ET CONSIGNATIONS	
Outlook	Stable
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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