FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Caisse des Depots et Consignations at 'AA'; Negative Outlook

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Fitch Ratings - Paris - 02 Dec 2020: Fitch Ratings has affirmed Caisse des Depots et Consignations' (CDC) Long-Term Issuer Default Ratings (IDRs) at 'AA' with Negative Outlook and Short-Term IDR at 'F1+'. A full list of rating actions follows below.

Fitch views CDC as a government-related entity (GRE) of the French state (AA/Negative) and equalises its ratings with those of the sovereign. This reflects the very strong links between CDC and the state and the very strong incentives for the latter to support CDC if needed, resulting in an overall score of 55 points out of a maximum score of 60 under our GRE Rating Criteria. The Negative Outlook reflects that of the sovereign.

CDC is a French public special entity with a highly protected legal status. It is mandated to perform various public-interest missions, such as the financing of social housing, local and sustainable development and the protection of legal deposits. It also manages most of the regulated savings deposits (notably 'Livret A') and major public pension schemes.

KEY RATING DRIVERS

The assessment of the following four rating factors results in an overall support score of 55 and the equalisation of the ratings with those of the French state.

Status, Ownership and Control: 'Very Strong'

CDC has the status of fully-owned special public agency ('etablissement spécial', a type of 'etablissements publics'), which is unique in France. CDC's legal status is defined by the monetary and financial code (article L-518) and can only be modified by law. It provides CDC with immunity to liquidation and bankruptcy law (article L 631-2 and L640-2 under the French commercial code) and decisions related to its dissolution would be made by the French state.

CDC is closely monitored by the state. It is under the supervision of the French parliament under the French monetary and financial code. CDC's CEO is appointed by the French president for a five-year term and a majority of its supervisory board comprises members of parliament and representatives.

Pursuant to the PACTE Law (Plan d'Action pour la Croissance et la Transformation des Entreprises) in May 2019, the supervisory board of CDC is a deliberative body with strengthened prerogatives on its strategic positioning and its subsidiaries, the implementation of its public-interest mandates, investment strategy and financial position. The law ensures the presence of parliamentarians on CDC's supervisory board and its tight monitoring by the French parliament. It also provides for the supervision by French banking regulator (ACPR) of CDC from 2020 under a framework that takes into account of its specificities.

Support Track Record: 'Strong'

As an 'établissement public', CDC has access to the state's emergency liquidity support mechanisms, such as emergency loans or the purchase by the French treasury of its long-term bonds or short-term notes issued through its general division. However, it has not needed any extraordinary state support over the last decades.

Fitch views the state liable for the debt of its 'etablissements publics', including CDC, under the Law of July 1980 (n° 80-539) on French public establishments. Fitch believes that the Law of 1980 is not tantamount to a first-demand guarantee but constitutes another form of support to 'etablissements publics'.

One of the key mandates under CDC's 'savings fund' division is to centralise, provide custody of and manage the funds collected in tax-exempt savings deposits by French banks, notably 'Livret A'. Those funds, which amounted to EUR263 billion at end-2019, benefit from a full, unconditional and irrevocable state guarantee.

Given CDC's core activities, Fitch sees no risk of state support being considered as illegal state aid. We also see no legal or regulatory restrictions on support.

Socio-Political Implications of Default: 'Very Strong'

In Fitch's view, a default of CDC would endanger the continued provision of essential public services with significant political and social implications.

CDC has a highly strategic role for the French state as it is mandated to perform various public-interest missions in key government policies. CDC's mandates also include the protection of legal deposits, the administration of major public pension schemes and regulated saving funds, and the management of unclaimed accounts held by French banks. It is also the institutional bank of ACOSS (AA/Negative/F1+), the French social security agency. Fitch believes the EUR26 billion recovery plan established by CDC in May 2020 to sustain French economy in response to the coronavirus pandemic confirms its key role for the state.

In addition, CDC has strategic subsidiaries whose default would have significant socio-political implications for the state, such as Bpifrance SA, the government arm for financing French SMEs and guaranteeing export-finance contracts, La Poste (A+/Negative), the French postal operator, and SFIL, the public development bank for French local and regional governments and public hospitals.

Fitch views CDC's majority shareholding in La Poste since March 2020 to create a major public financial group as further evidence of CDC's key role for the state. CDC now holds 66% of La Poste in return for the sale of its 40.9% stake in CNP Assurances to La Banque Postale (LBP; A-/Stable). Following the merger of CNP Assurances and LBP activities, CDC also took over 99.99% of Société de Financement Local (SFIL), with the state retaining one ordinary share.

Financial Implications of Default: 'Very Strong'

CDC is a proxy funding vehicle for the French state, performing numerous state mandatory financial missions. Fitch considers a financial default by CDC would have a large impact on the French state's creditworthiness and on the borrowing capacity of other French GREs (especially 'etablissements publics') as it would erode investor confidence in the willingness of the state to support these entities. A default would also significantly disrupt social-housing financing and pension funds management.

CDC is a large and regular issuer in both national and international markets with its EUR18.5 billion EMTN programme, EUR1.5 billion Neu MTN programme, EUR20 billion Neu CP programme and EUR30 billion global CP programme (ECP and USCP). CDC also issued a EUR500 million green bond in 2017, and two sustainable bonds of EUR500 million each in June 2019 and in September 2020, with the aim to become a regular issuer in this market.

Financial Profile

CDC's profitability can be volatile due to the entity's large equity portfolio and yields on fixed-income securities. CDC's shareholder equity totalled EUR42 billion at end-2019, up from EUR36 billion at end-2018. This increase was due to higher unrealised gains driven by increased stock prices in 2019. Fitch however expects a drop of CDC's shareholder equity (EUR35 billion at end-June 2020) in 2020 due to the stock market turmoil caused by the coronavirus pandemic.

At end-2019, CDC posted a sound consolidated net profit, after allocation of non-controlling interests, of EUR2.1 billion, up from EUR1.8 billion in 2018. However, Fitch expects the pandemic to negatively affect CDC's income in 2020 due to an expected drop of dividends from its equity portfolio and sharp reduction of activity for some entities (e.g. postal services for La Poste, public transportation for Transdev). CDC's majority shareholding in La Poste also led to an exceptional loss of EUR511 million on CDC's consolidated net income at end-June 2019 and an exceptional surplus of EUR1,073 million at end-June 2020. Overall, if we exclude the La Poste stake acquisition, CDC would have reported a net loss of EUR1,430 million at end-June 2020 (vs. net profit EUR1,318 million at end-June 2019).

CDC's solid liquidity profile is sustained by sizeable reserves and stable outstanding deposits from legal professions. Liquidity needs are also covered by its EUR20 billion Neu CP programme and EUR30 billion global CP programmes. CDC's strong overall liquidity cushion is also underpinned by stable savings accounts, albeit segregated in the savings fund division.

DERIVATION SUMMARY

CDC has a score of 55 points under the GRE Rating Criteria, leading to an equalisation of its ratings with those of the French state. The Negative Outlook reflects that of the sovereign. Fitch does not have a Standalone Credit Profile (SCP) assessment of CDC given its close financing and operational links with the state.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-A positive action on the sovereign's ratings would be reflected in those of CDC.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-A downgrade could result from weaker assessment of the strength-of-linkage or incentives-to-support factors, leading to a score below 45 points under our GRE Criteria. This could result from lower strategic importance for the state, which Fitch views as unlikely.

-A negative action on the sovereign's ratings would be reflected in those of CDC.

Changes to CDC's IDRs would also be reflected in the entity's issuance programmes and senior unsecured bonds ratings.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Caisse des Depots et Consignations	LT IDR	AA Rating Outlook Negative	Affirmed	AA Rating Outlook Negative
•	ST IDR	F1+	Affirmed	F1+
• senior unsecured	LT	AA	Affirmed	AA
• senior unsecured	ST	F1+	Affirmed	F1+

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APPLICABLE CRITERIA

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

Government-Related Entities Rating Criteria (pub. 30 Sep 2020)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Caisse des Depots et Consignations	EU Issued

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