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INVESTORS SERVICE

CREDIT OPINION
14 December 2020

Update

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RATINGS

Caisse Des Depots et Consignations	
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 following rating affirmation

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 a credit risk profile perspective, the governance structure of CDC as well its missions and modus operandi reflect CDC's close ties with the Government of France (Aa2 stable). Therefore, CDC's ratings are aligned with the rating of the Government of France, 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 (mainly social housing). CDC's central section (Section Générale) remit consists in collecting legal deposits (for example, from notaries), provides custody services, notably for ACOSS[2], and investing the proceeds in local or national policy 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 oversight 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 all 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.

Outlook

The outlook is stable, in line with the outlook on the rating of the French government. Like other European countries, France is heavily affected by the coronavirus outbreak. We assume that the pandemic will have a significant, but ultimately 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/or the ratings upgraded if France's fiscal and debt metrics were to improve materially given 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's trajectory due to the coronavirus outbreak were not corrected again over the coming years.

Additionally, should we perceive a weakening in CDC's operational or financial integration with the French State, the long-term ratings could be downgraded.

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 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 (from notaries) 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 is not a bank per se but rather a department of CDC which will focus on local areas' need and will do business through 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 oversight 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, since March 2020, 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). CDC is now the ultimate parent of a large public financial conglomerate, concentrating a large amount of the State's strategic investments.

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) that are mainly invested in housing financing, as well as the administration of public retirement schemes.

In 2019, CDC reported an aggregated 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).

CDC's importance as a government agency was further reaffirmed on 4 March 2020 by (i) the transfer from the State and the CDC to the French post office (La Poste) of their respective stakes, approximately 1.1% and 40.9% of the capital of CNP Assurances (CNP, A1 IFSR Stable) paid, as part of a capital increase, by allocation of La Poste shares to the State and to CDC; and (ii) the acquisition by CDC, from the State, of an additional stake in La Poste's capital of nearly €1 billion. Pursuant to these transactions, CDC holds 66% of the capital and voting rights in La Poste. At the same date the transfer from La Poste to La Banque Postale (LBP, La Poste's banking subsidiary) of all CNP Assurances shares, received from the State and from the CDC, paid by a capital increase from LBP, led to the creation of a financial conglomerate within La Poste, with LBP now holding 62.1% of CNP's capital. Further, on 30 September 2020, the equity stakes of the French government and LBP in SFIL (75% and 5%, respectively) were also transferred to CDC (with the exception of one ordinary share retained by the French State), reinforcing CDC's role as the main financier of French local and public authorities. CDC is now the ultimate parent of a large public financial conglomerate, concentrating a large amount of the State's strategic investments.

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 which will benefit from the dividends that the financial group will upstream.

We do not expect the reshaping of the ownership set up described above to have a bearing on the governance of CDC nor on its relationship with the French State.

In September 2020, CDC unveiled a €26 billion stimulus package in order to finance the economic recovery. The plan articulates itself around four pillars:

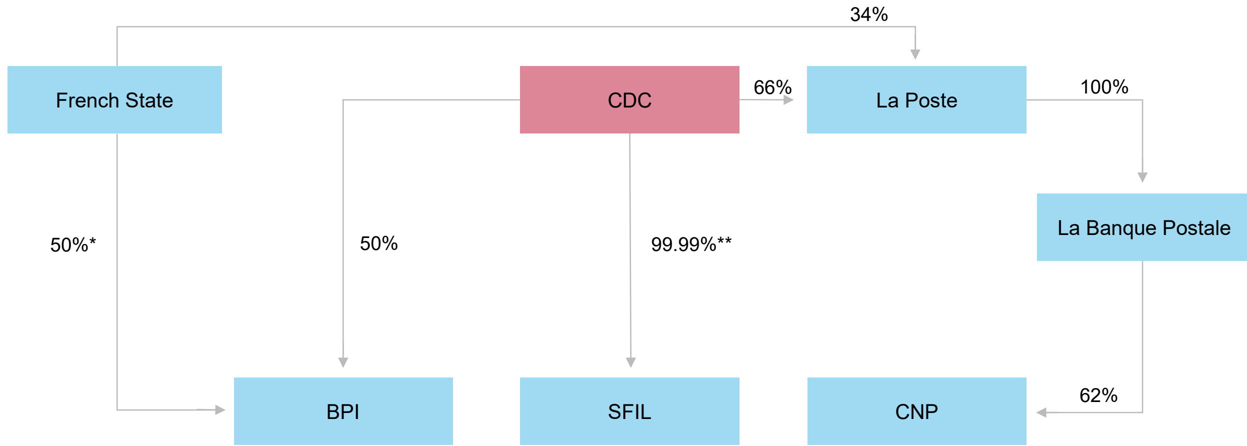
» €6.3 billion are dedicated to finance the ecological and energy transition. CDC will lend and invest to promote the development of renewable energies, develop the circular economy, upgrade the energy efficiency of buildings, etc.

» €8.3 billion will contribute to the development of French SMEs and medium-sized firms.

» €500 million will be dedicated to supporting health and social workers and, more broadly, reinforce social cohesion.

» €11.1 billion will be allocated to the construction of social housing. Through its subsidiary CDC Habitat, CDC will construct 40,000 new dwellings.

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). In addition, CDC has been mandated by the French government to conduct investments with an environmental and energy aspect in order to preserve natural environments and biodiversity. The institution does so by managing forest assets; funding low-carbon projects, the production of renewable energies, resource (water) management systems, energy-saving solutions and companies involved in the energy and ecological transition.

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 €500 million Green Bond in 2017, and two €500 million sustainable bonds in June 2019 and September 2020, 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 et Solidaire and Livret d'Epargne Populaire.

2 ACOSS (Agence Centrale des Organismes de Sécurité Sociale) is a French social security agency.

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