



RATING ACTION COMMENTARY

Fitch Affirms Credit Municipal de Paris at 'A+'; Outlook Stable

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Fitch Ratings - Paris - 18 Sep 2023: Fitch Ratings has affirmed Credit Municipal de Paris's (CMP) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'A+' with a Stable Outlook. A full list of ratings is detailed below.

Fitch classifies Credit Municipal de Paris (CMP) as a government-related entity (GRE) of the City of Paris (AA-/Stable) under its Government-Related Entities Rating Criteria and rates it one notch below the city's IDRs. This reflects very strong institutional and financial links between CMP and the City of Paris, and the incentive for the city to support CMP.

KEY RATING DRIVERS

Status, Ownership and Control: 'Very Strong'

CMP is a special legal-status entity. As a local 'etablissement public administratif' (EPA) dependent on the City of Paris, CMP cannot file for bankruptcy or be liquidated and may only be dissolved following a decision by the Paris city council. In case of dissolution, all its assets and liabilities will revert to the city or another public entity designated by the city.

The City of Paris exercises tight control over CMP. It presides over CMP's steering and supervisory board, defines its missions and strategy, and appoints its managing director. A department at the City of Paris overseeing all dependent institutions closely monitors CMP's activities and risks.

Support Track Record: 'Very Strong'

The City of Paris has the means to support CMP in case of financial stress, through direct budgetary advances approved by the city council or through the purchase of CMP's CP issuance by the City of Paris or other entities dependent on the city. CMP's status as a local EPA, in Fitch's view, makes the City of Paris liable for CMP's debt.

CMP has received consistent support from the City of Paris, including a EUR42 million capital injection in July 2015 to address the run-off of its subsidiary (since closed) CMP Banque and to maintain a sufficiently strong financial profile. As CMP has a legal monopoly over pawnbroking in Paris, Fitch sees no legal, regulatory or policy restriction on support from the City of Paris.

Socio-Political Implications of Default: 'Moderate'

Fitch views the services provided by CMP as carrying moderate political or economic importance for the City of Paris, especially compared with essential activities, such as water provision or social housing. CMP provides financial support to the most vulnerable segments of population, including those excluded from traditional banking services. In times of economic crises, CMP can act as an economic buffer for certain populations.

However, Fitch sees close substitutes in private-sector operators, notably consumer credit institutions, to replace CMP with only minor disruption to the service.

Financial Implications of Default: 'Strong'

Fitch believes a default of CMP would have a material impact on the City of Paris' cost of borrowing. Other than social housing entities, CMP has one of the largest debt stocks among the city's satellite institutions, at approximately 6% of the City of Paris' debt at end-2022. This is due to its status as a credit institution dependent on its access to capital markets to run its operations.

A financial default of CMP would spell contagion risk for the credit standing of other entities linked to the City of Paris, including Société d'Etude, de Maîtrise d'Ouvrage et d'Aménagement Parisienne (SEMAPA; A+/Stable), as is it would weaken investors' confidence in the city's willingness to support these entities.

Operating Performance

CMP's operations are low-risk, as loans are backed by pawned assets that can be sold above loan value and are guaranteed by auctioneers for 50% of their value, while the loan amount generally represent 57% of the estimated value of the asset pawned (at end-2022). The capital guarantee given by auctioneers on pledged objects, recorded as off-balance sheet items, amounted to EUR185.7 million at end-2022. This was slightly lower than the amount of the outstanding loans net of provisions (EUR186.5 million), giving a coverage ratio of 99.6%.

Consumer-finance regulation requires pawnbroking loans to be repaid in priority by debtors, even under debt-relief procedures. The cost of risk dropped to -EUR1.4 million in 2022 from EUR0.3 million in 2021. This follows EUR1.6 million in reversal of provisions, mostly due to the settlement of a legal dispute.

CMP's net banking income decreased to EUR24.5 million in 2022, from EUR25.4 million in 2021. This was mainly the result of a 6.6% drop in net interest margin caused by a sharp increase in interest paid on refinancing (up at EUR2.6 million, from EUR0.9 million in 2021). The increase in interest revenue of 1.4% in 2022 was insufficient to compensate for this, as CMP decided in 2022 to cut by 70bp the average rate on its loans to strengthen its social role and increase competitiveness in a rising interest rate environment.

Operating expenditure increased 5% in 2022 to EUR16.9 million. This was mainly due to a 9.5% increase in staff costs, as a result of wage increases amid high inflation, and of the recruitment of new personnel to support the entity's development strategy.

CMP's net result was overall stable in 2022 at EUR4.1 million, due mainly to a significant decrease in the cost of risk.

Derivation Summary

Fitch views CMP as a GRE of the City of Paris and assigns a support score of 35 to the entity under its GRE criteria out of a maximum 60. This leads to the application of a 'top-down minus one' rating approach from the City of Paris's ratings.

Short-Term Ratings

CMP's Short-Term IDR of 'F1+' is the higher of the two options for an IDR of 'A+' as Fitch rates CMP using a top-down notching approach from the City of Paris (AA-/Stable/F1+).

Debt Ratings

The ratings of CMP's NeuMTN and NeuCP programmes are equalised with its IDRs.

Liquidity and Debt Structure

CMP's refinancing risk is low, given the institution's strong history in the interbank market. Funding is diversified via its NeuCP issuance, EUR500 million NeuMTN programme and retail savings accounts. Debt increased to EUR468 million in 2022 from EUR444 million in 2021, which was due mainly to an increase in refinancing to compensate EUR42 million of equity that CMP returned to the City of Paris in 2022.

At end-2022, its Tier 1 solvency ratio remained sound at 23%.

Issuer Profile

CMP is one of the oldest municipal credit institutions in France. Its status makes it both a local public agency linked to the City of Paris, and a credit institution governed by the French Monetary and Financial Code.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A negative action on the City of Paris's ratings would be reflected in CMP's ratings.

A downgrade could also result from a weakening in strength-of-linkage or incentives-to-support factors, leading to a support score below 35 points under our GRE Criteria. This could result from an adverse change in CMP's legal status or weaker financial support from the City of Paris, which Fitch views as unlikely.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Positive rating action on the City of Paris would be reflected in CMP's ratings.

An upgrade could also result from a strengthening of the city's support through our assessment of significantly stronger incentive-to-support factors.

ESG Considerations

Fitch no longer provides ESG scores for CMP as its ratings and ESG profile are derived from its parent. ESG relevance scores and commentary for the parent entity - City of Paris - can be found here: <https://www.fitchratings.com/entity/paris-city-of-86072101>

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The ratings of CMP are linked to the ratings of the City of Paris (AA-/Stable).

References for Substantially Material Source Cited as Key Driver Rating

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

RATING ACTIONS

ENTITY / DEBT ◆

RATING ◆

PRIOR ◆

Credit Municipal de Paris (CMP)	LT IDR	A+ Rating Outlook Stable		A+ Rating Outlook Stable
	Affirmed			
	ST IDR	F1+	Affirmed	F1+
	LC LT IDR	A+ Rating Outlook Stable		A+ Rating Outlook Stable
	Affirmed			
senior unsecured	LT	A+	Affirmed	A+
senior unsecured	ST	F1+	Affirmed	F1+

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APPLICABLE CRITERIA

[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 27 Apr 2023\) \(including rating assumption sensitivity\)](#)

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Credit Municipal de Paris (CMP)

EU Issued, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating

upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

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