

Research Update:

France-Based Credit Municipal de Paris Assigned 'AA-/A-1+' Ratings; Outlook Negative

November 23, 2023

Overview

- We regard France-based Credit Municipal de Paris (CMP) as a government-related entity with an extremely high likelihood of receiving extraordinary support from its sole owner, the City of Paris.
- CMP has a long operating history in pawnbroking and a monopoly position in the Paris region, but its credit activity is small and concentrated.
- We calculate CMP holds a very strong capital base, backed by recurring, although modest, earnings due to competitive pricing and a low cost of risk, yet it has a concentrated funding profile with structural liquidity risk due to the predominance of short-term wholesale debt, supplemented by a small deposit base.
- We assigned our 'AA-/A-1+' long- and short-term issuer credit ratings to CMP.
- The negative outlook on CMP mirrors that on the City of Paris.

Rating Action

On Nov. 23, 2023, S&P Global Ratings assigned its 'AA-/A-1+' long- and short-term issuer credit ratings to Credit Municipal de Paris (CMP). The outlook is negative.

Rationale

In our view, there is an extremely high likelihood that the City of Paris would provide extraordinary support to CMP in the event of financial distress. Furthermore, we consider that the City of Paris' limited level of contingent liabilities does not constrain its capacity and willingness to support CMP in a timely manner if needed. Therefore, the city's general propensity to support is not doubtful, in our view. We factor in our assessment CMP's:

- Integral link with City of Paris as a 100% public-sector-owned financial institution benefiting from the owner's strong commitment of support and tight supervision. The mayor directly nominates CMP's executive director and the supervisory board define its missions and strategy.

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In addition, CMP benefits from its legal status as a public administrative agency (Etablissement Public Administratif). As such, the City of Paris is--by law--ultimately responsible for meeting CMP's obligations and would have to take over all CMP's assets and liabilities if it were dissolved; and

- Very important role as a historical player in social and solidarity finance in the Paris region. Over four centuries, CMP has provided day-to-day financial support to Parisians through the bank's pawnbroking activity and free budget support services, while preventing unfair practices in the private sector. The welfare institution has proven its role as a social shock absorber to a small minority of the population. We consider financial distress at a historical and closely tied entity like CMP would be damaging reputationally for Paris and could affect the refinancing capacities of other city-related entities. In turn, we believe the City of Paris would take all necessary measures to prevent such an event.

We consider CMP a bank-like financial institution despite its niche business model in pawnbroking.

CMP is a bank under the 1984 French Banking Law and must respect all banking regulations; it is also a municipal institution, which must meet public accounting requirements and comes under the control of the French audit administration. Of the two, the bank accounting system prevails. CMP's activities are defined by law. Its primary mission and monopoly remain in pawnbroking in the Paris region. CMP is also a deposit-taking entity, with savings accounts and term deposits representing 22% of its funding base as of year-end 2022. We expect it will obtain access to the European Central Bank's collateral system in early 2024.

Despite higher interest rates, we expect CMP's monopoly position to support its business model and earnings generation.

With total assets of €712 million as of year-end 2022, CMP is a historical institution that has a long track record of generating recurring, but modest, operating profits from its niche credit activity and other ancillary products. The latter include auction sales or renting part of its headquarters in central Paris. CMP benefits from low cost of risk thanks to the physical collateral associated with the loans it makes, and it offers competitive pricing compared to the revolving loans provided by unsecured consumer financiers. Although CMP has a low operating efficiency compared to peers, the bank does not distribute dividends to the City of Paris and doesn't have to maximize profits. CMP executes its "mission sociale" under the close control and supervision of its public shareholder, but we consider the concentrated competences in its executive management as a potential operating risk.

We expect CMP to maintain a risk-adjusted capital (RAC) ratio of above 15% with a large buffer and prudent liquidity management.

The RAC ratio was 25.5% as of year-end 2022 and we expect it to remain relatively stable over the next two years, with retained earnings compensating for the projected increase in its loan book and S&P Global Ratings' risk-weighted assets. Due to the nature of its pawnbroking business, CMP has a low cost of risk coupled with a high nonperforming loan (NPL) ratio, at 4.05% of total loans as of year-end 2022. CMP has nonfinancial risks associated with the physical collateral it accepts on its loans, such as secure storage, as well as counterfeiting and anti-money-laundering risks. In our view, it also has structural liquidity risk, with a funding profile concentrated on short-term wholesale commercial paper. However, this is mitigated by a liquidity portfolio of about the same size, comprising short-maturity assets that represent 67.1% of total assets, or €478 million, as of year-end 2022. We also expect CMP to prudently manage the unrealized losses and credit risk in its securities portfolio.

Outlook

The negative outlook on CMP mirrors that on the City of Paris.

Downside scenario

We could lower our ratings on CMP if we downgrade the City of Paris. We could also take a negative rating action if CMP's role for or link with the City of Paris weaken or if we revise down CMP's stand-alone credit profile by one notch.

Upside scenario

We will revise the outlook to stable if we take a similar action on the City of Paris and our view of the extremely high likelihood of extraordinary support is unchanged.

Ratings Score Snapshot

Issuer Credit Rating	AA-/Negative/A-1+
SACP	bb+
Anchor	bbb+
Business position	Constrained (-3)
Capital and earnings	Very Strong (+2)
Risk position	Moderate (-1)
Funding and liquidity	Moderate and adequate (-1)
Comparable ratings analysis	0
Support	+7
ALAC support	0
GRE support	+7
Group support	0
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

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- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- City of Paris 'AA/A-1+' Ratings Affirmed; Outlook Remains Negative In Line With Outlook On Sovereign Rating, Oct. 6, 2023
- Large French Banks' Net Interest Income Should Pick Up From Mid-2024, Sept. 26, 2023
- Economic Outlook Eurozone Q4 2023: Slower Growth, Faster Tightening, Sept. 25, 2023

Ratings List

New Rating

Credit Municipal de Paris

Issuer Credit Rating AA-/Negative/A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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