MOODY'S
PUBLIC SECTOR EUROPE

CREDIT OPINION
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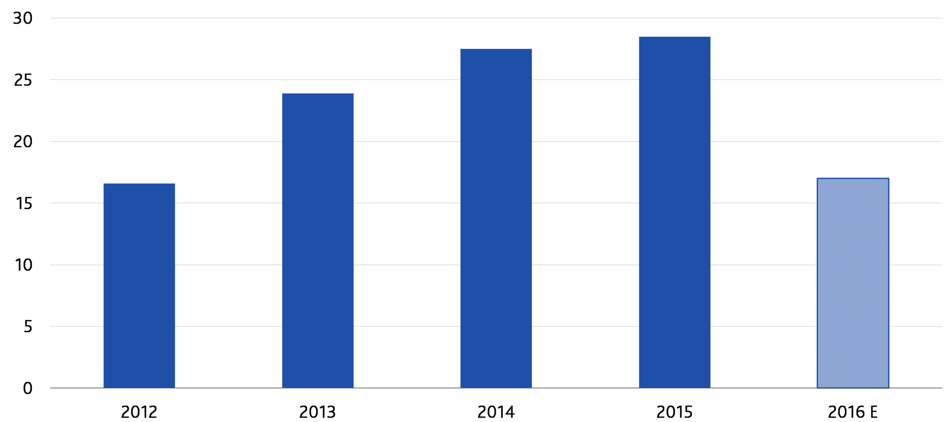
Agence Centrale Organismes Securite Sociale

Annual Update

Summary Rating Rationale

The P-1 rating reflects ACOSS's status as an Établissement Public Administratif (EPA), implying a high degree of support and supervision from the national government. MPSE does not assign a baseline credit assessment (BCA) to ACOSS because it believes that it should be analysed as part of the central government to reflect the high level of government involvement in its operations and governance, as well as its critical public service role.

Exhibit 1
ACOSS's accumulated deficit after debt transfers to CADES (EUR billion)



E - estimated
Source: ACOSS's annual accounts, MPSE

Credit Strengths

» High degree of central government support and supervision derived from its EPA status

» Adequacy of cash facilities authorised by the French general social security finance law (LFSS) and unrestricted market access

» Good predictability of short-term cash flows and implementation of policies aimed at reducing technical risks

Credit Challenges

» Sensitivity of cash balances to economic cycles and political decisions

Rating Outlook

We do not assign a rating outlook to ACOSS.

Factors that Could Lead to a Downgrade

Any change in ACOSS's EPA status or any reversal in its long-term financial balance by allowing its deficits to continue to rise without securing appropriate and timely funding would be considered a negative credit factor.

Key Indicators

Exhibit 2

ACOSS

EUR billion	2012	2013	2014	2015	2016 E
Cash position at YE before debt transfers of the year	-18.6	-15.0	-13.7	-11.0	-12.1
Debt transfers to CADES	6.6	7.7	10	10	23.6
Cash position at year end after debt transfers of the year	-12.0	-7.3	-3.7	-1.0	11.5
Accumulated deficits after debt transfers	-16.6	-23.9	-27.5	-28.5	-17.0

E - estimated

Source: ACOSS's annual accounts, MPSE

Issuer profile

ACOSS was created in 1967 as an EPA with the specific purpose of managing the centralised cash flows of France's social security system. Contributions and tax receipts dedicated to social security funding (totalling EUR489.3 billion in 2015) are transferred to ACOSS, who is then responsible for transferring adequate cash flows to each local social security agency in charge of providing allowances and benefits (EUR500.3 billion in 2015). Given that social security expenses have traditionally exceeded contributions, ACOSS has historically recorded deficits, with the total being reduced on several occasions through transfers to CADES - an administrative agency whose sole purpose is to assume and redeem debt arising from ACOSS.

Detailed Rating Considerations

HIGH DEGREE OF CENTRAL GOVERNMENT SUPPORT AND SUPERVISION DERIVED FROM ITS EPA STATUS

MPSE considers ACOSS to be a government-related issuer. From a credit risk perspective, it is not meaningful to distinguish between ACOSS and the French government, because of the intrinsic operational and financial ties between the two. As such, ACOSS's rating derives from the application of the approach for GRIs rated solely on support, as described in Moody's rating methodology for government-related issuers entitled “Government-Related Issuers: Methodology Update” published in October 2014.

ACOSS operates under the dual authority of the Ministry of Economy and Finance and the Ministry of Health.

ADEQUACY OF CASH FACILITIES AUTHORISED BY THE LFSS AND UNRESTRICTED MARKET ACCESS

The French government's commitment to ACOSS's financial sustainability ensures access to liquidity facilities that are in line with its needs. In the social security budget law (Loi de Financement de la Sécurité Sociale, or LFSS), the government sets an annual limit (plafond de ressources non permanentes) on the maximum outstanding short-term debt ACOSS can have.

ACOSS benefits from credit facilities provided by the state-owned financial institution Caisse des Depots et Consignations (CDC), via a multi-year financial agreement, renewed in 2015 for 4 years. On top of the credit facilities of EUR10 billion which have a maturity between 3 and 12 months, ACOSS benefits from additional financing of EUR2.5 billion with a maturity of up to 7 days used to cover cash receipts and disbursements mismatches (“tuiles” loans) and EUR1.5 billion in the form of an overdraft facility with a maturity of up to 24 hours. In 2016, given the EUR 23.6 billion debt transfer to CADES and hence reduced financing needs, ACOSS will not use its EUR10 billion facility with CDC.

In addition, following increased borrowing requirements in recent years ACOSS has diversified its short-term funding sources. These include (i) a treasury notes programme (BT) of EUR25 billion, part of it being subscribed by the French treasury and CADES in line with the government's emphasis on treasury mutualisation and optimisation between the different social security entities ; and (ii) a Euro Commercial Paper programme sized at EUR20 billion, whose currency risk is hedged. Moreover, the central government can decide to transfer ACOSS's additional deficits to CADES. We positively note that ACOSS maintains a liquidity buffer of EUR700 million with CDC (EUR500 million) and with Banque de France (EUR 200 million).

GOOD PREDICTABILITY OF SHORT-TERM CASH FLOWS AND IMPLEMENTATION OF POLICIES AIMED AT REDUCING TECHNICAL RISKS

As the central government has the ultimate responsibility for taking decisions on all legal measures, frameworks and policies affecting ACOSS, its management and organisational structure reflect the government's influence and oversight. We note that since 2012, ACOSS has implemented a system that enhances its liquidity risk management, a positive with regards to the quality of ACOSS's risk management and internal controls.

SENSITIVITY OF CASH BALANCES TO ECONOMIC CYCLES AND POLITICAL DECISIONS

The treasury position of ACOSS has traditionally reflected the annual deficits incurred by the healthcare and pension branches of the social security system. At year-end 2010, ACOSS recorded an unprecedented accumulated deficit of EUR49.5 billion (of which EUR25.4 billion was derived solely in 2010). Since 1996, debt transfers from ACOSS to CADES have occasionally resulted in significant improvements in ACOSS's cash position. In 2011, ACOSS transferred a total of EUR65.3 billion to CADES, corresponding to the social security system's accumulated deficits for 2009, 2010 and 2011. As a result, at year-end 2011, ACOSS reported an accumulated deficit of EUR4.7billion. Since 2012 and until 2018, CADES funds the deficits of the social security system on a yearly basis (limited to EUR10 billion per year and EUR62 billion over the 2011-2018 period). ACOSS transferred EUR6.6 billion of its 2012 deficit to CADES, EUR7.7 billion in 2013 and EUR10 billion in 2014 and 2015. The 2016 PLFSS provides for the removal of the EUR10 billion annual limit and the possibility to anticipate transfers in 2016 from ACOSS to CADES for an amount of €23.6 billion. This measure reflects the low interest rate environment which will allow CADES to minimise its financing costs and will significantly reduce ACOSS's accumulated deficit. As a result, ACOSS expects the accumulated deficit to decrease at EUR 17 billion as at YE 2016, down from EUR28.5 billion at YE2015.

In 2016, the general social security budget law sets ACOSS's borrowing limit at EUR40 billion for the first 7 months of the year and at EUR30 billion from August to December 2016. This should enable ACOSS to fund its deficits, with an estimated low-point of EUR33.3billion in January 2016. We note that the 2015 social security budget law proposal allowed ACOSS to make loans of 1 to 12 months to the Caisse nationale de la mutualité sociale agricole (CNMSA). In 2016, this facility was extended to the Caisse autonome nationale de la securite sociale dans les mines (CANSSM). Both agreements have been signed within a well-defined and government-approved framework, in line with the government's treasury mutualisation strategy for social security entities, with the goal of reducing CNMSA's and CANSSM's funding costs, which are currently higher than ACOSS's. ACOSS estimates the total amount of these loans over 2016 to not exceed EUR2.9 billion.

Rating Methodology and Scorecard Factors

In our assessment of ACOSS's credit profile, we apply our global rating methodology for Government-Related Issuers, published in October 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 3

Category	Moody's Rating
AGENCE CENTRALE ORGANISMES SECURITE SOCIALE	
Commercial Paper -Dom Curr	P-1

Source: Moody's Investors Service

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