

# Long-term management in the service of France



Caisse des Dépôts is a State-owned financial institution whose public interest missions have made it the leading administrator of the savings deposits and pension funds of French citizens, and of private sector funds that are granted special protection under French law.

It is the leader in financing both social housing and urban policy in France as well as the partner of choice for local and regional authorities, and focuses its investments on development projects overlooked by private sector sources.

# The administration and transformation of public savings

Caisse des Dépôts centralises and administers a substantial portion of the regulated savings deposits collected in France. These deposits are held within various tax-exempt liquid savings products under terms and conditions determined by the public authorities.

Offering a guaranteed return, these products represent the most popular savings instrument in France. They are distributed throughout France, either by certain specific banking networks (such as the Livret A passbook distributed by La Poste and Caisses d'Épargne), or by the banking network as a whole (Livret d'Épargne Populaire, Compte pour le Développement Durable, etc.).

Caisse des Dépôts uses these resources to grant long-term or very long-term loans to finance public interest missions, such as social rented housing, urban renewal, transport infrastructure and hospital renovations. This is a unique means of financing major public interest missions without having to draw on State funds. To maintain the long-term financial equilibrium of the savings funds, deposits that are not used to grant loans are invested in the financial markets, mainly in interest rate products.

The balance sheet of the savings funds centralised by Caisse des Dépôts showed total assets of €205 billion as of 31 December 2006.

## Sources of funds: regulated savings deposits

With higher short-term interest rates and a stable household savings rate, the total outstanding deposits centralised by Caisse des Dépôts (including accrued interest) increased from €183.9 billion at the end of 2005 to €191.6 billion at 31 December 2006.

At end 2006, the net inflows for all savings funds products centralised by Caisse des Dépôts, amounted to €2.9 billion.

## Uses of funds: loans totalling €5.5 billion (up 25%)

Caisse des Dépôts uses the savings funds to grant long-term loans to finance missions given priority status by the State, the top priority being given to social rented housing. 2006 saw a sharp increase in the amount of loans granted from the savings

funds, which totalled €5.5 billion, compared to €4.5 billion in 2005. The outstanding savings funds loans amount to €93 billion.

### ■ Loans to finance the construction and rehabilitation of social rented housing stock

Social rented housing in France consists of over four million housing units and currently accommodates one person in six. The government policy to step-up construction and rehabilitation in the social rented housing sector is financed primarily by savings funds loans granted by Caisse des Dépôts to social housing organisations. In 2006, loans granted to finance the construction and rehabilitation of social rented housing totalled €4.3 billion, including €592 million to finance renovation work.

The loans granted by Caisse des Dépôts to build new social rented housing units are subject to prior State approval based on an annual programme.

### ■ Loans to finance urban development and transport infrastructure

Caisse des Dépôts contributes to urban development, other than social housing projects, by granting loans to finance urban renewal projects, making economic investments and participating in land development projects. Loans granted to finance urban development in 2006 totalled €243 million.



For the period from 2004 to 2008, Caisse des Dépôts has set aside a €4 billion loan package, intended to finance the construction and extension of dedicated lanes for public transport (trams and underground trains – “TCSP” project) and major transport infrastructures (“TGV” high-speed train network, lorry-rail, etc.). The loans granted to finance transport infrastructure in 2006 totalled €533 million.

### Uses of funds: financial assets

In order to ensure the stability and liquidity of the savings funds and to secure the framework for transforming deposits into long-term loans, Caisse des Dépôts invests a significant portion of the funds it administers in the financial markets (in the form of bonds and equities).

The value of its financial asset portfolios increased year-on-year by €6.9 billion to reach approximately €110 billion at the end of 2006. This is due to an upturn in net inflows and a relatively stable level of outstanding loans. This portfolio, 91.5% of which is invested in interest rate products and 8.5% in equities, represents 53.7% of total assets.

### Net income

In order to offer attractive financial conditions to social housing organisations to build new stock for low-income households, Caisse des Dépôts manages its total assets, which represented €205 billion at end 2006, at cost, i.e., €74 million for the year.

Net income for 2006 came in at €678 million, which is down by €216 million from the previous year (€894 million), mainly as a result of two opposing trends:

- a significant drop in net banking income to €892 million in 2006 (compared to €1,450 million in 2005) due to the combined effect of higher charges on deposits, lower income from loans and the impact of adverse interest rate trends on the value of the securities, despite significant capital gains;
- an allocation of €208 million to the Fund for General Banking Risks in 2006, compared to €478 million in 2005. Like in 2005, this allocation was made to bring the savings funds’ regulatory capital into line with Basel II requirements by the end of 2007.

#### Sustainable development

### Facilitating first-time home ownership for low-income households

Caisse des Dépôts and UESL (Union de l’Economie Sociale pour le Logement, the organisation which administers a system of loans with a 1% interest rate) have introduced a home-ownership access programme for low-income households, with the deferred purchase of land rights. This programme applies to newly-built stock. Caisse des Dépôts facilitates the sale of existing social housing units to tenants by providing very low-rate loans to social housing organisations in order to purchase land for new properties to replace those that are sold. The programme will apply to 7,000 additional homes for 2007. ■

# Investing in support of local development policies

Caisse des Dépôts provides long-term investment solutions to assist local authorities with their development policies. This includes equity financing for housing, urban renewal, property, the environment, tourism, digital infrastructure and the health and social sector. Caisse des Dépôts helps to fund projects whose financing needs are not entirely met by the market, giving preference to projects involving public-private partnerships.

The Local and Regional Development Division enjoys the backing of a network of 25 regional offices, which experienced 46% year-on-year growth in 2006, and made investments totalling €342 million. Almost €80 million was allocated to engineering loans for urban renewal, and to public interest associations.

## Urban renewal and regional development

### ■ Property

Caisse des Dépôts contributes to financing major local and regional projects in the areas of housing, business property, hospitals, clinics, leisure parks, shopping centres, and public facilities and amenities operated by public-private partnerships. Investments in this field amounted to €172 million in 2006.

### ■ Companies in support of local development

Caisse des Dépôts is a shareholder in approximately 500 semi-public companies (SEMs) and local investment companies. In 2006, it invested €52.5 million of equity financing (compared with €10 million in 2005) in the development of its portfolio of such companies by targeting the most strategic projects in the context of local and regional development projects.

### ■ Urban renewal

In conjunction with ANRU, the French national agency for urban renewal, Caisse des Dépôts co-finances the engineering, development and operation of projects with a view to ensuring their quality and capacity to develop economic activities.

In 2006, Caisse des Dépôts contributed €26 million in subsidies through equity financing. Over 150 applications presented by local authorities were examined and 54 new agreements signed, bringing to 157 the total number of agreements signed since 2004.

### ■ Public interest infrastructure

Caisse des Dépôts provides equity financing for the implementation and management of public amenities and facilities, by means of public-private partnerships that transfer the management and financing of the project to a private operator within the scope of a long-term master contract. In 2006, Caisse des Dépôts participated in five new projects for a total of €37 million.

### ■ Energy and environment

Caisse des Dépôts invested €12 million in support of government energy and environment policy in 2006. This mainly concerned wind farms, biomass and geothermal energies.

## Economic development and employment

Caisse des Dépôts supports the development of the social economy, the creation of very small businesses, and not-for-profit organisations involved in job creation. It contributes to the national social cohesion drive by encouraging micro-credit and business start-ups in disadvantaged areas.



## Semi-public companies

**A semi-public company in France is characterised by its capacity as a commercial enterprise and majority-owned public company, as well as its required role of satisfying the public interest in a given region. A semi-public company is a long-term partnership between public and private players, operating mainly in the areas of property, town and country planning and the management of public amenities and facilities.**



#### ■ Management of the Social Cohesion Fund

Created on the back of the French social cohesion law and managed by Caisse des Dépôts since April 2005, the Social Cohesion Fund is backed by a five-year State subsidy program equalling €73 million. The fund, which has been designed to promote the provision of micro-credit to businesses and individuals through a guarantee mechanism, invested €10.8 million in 2006.

#### ■ Initiatives in favour of business start-ups and job creation

In 2006, Caisse des Dépôts allocated €6.5 million to financing funds for “loans on trust”, and contributed €2 million to the four major networks that support the creation and acquisition of very small businesses (less than 20 employees): FIR, Adie, *Réseau Entreprendre* and *Boutiques de gestion*. It is particularly active in terms of initiatives that support economic development in urban renewal zones and urban “tax-free” zones.

### Encouraging local and regional digital development

In 2006, Caisse des Dépôts devoted €76 million, including investments of €58 million, to broadband infrastructure for local authorities, the development of online administrative services, and the use of new technologies.

#### ■ Investment in broadband infrastructure

Eight projects received €29.3 million in financing in 2006. Six of these projects involved local authority infrastructure, and the remaining two concerned the diversification of investments in Wimax and very high-speed internet access.

#### ■ Development of digital services

In 2006, Caisse des Dépôts invested €24.10 million in the research, testing and rollout of digital services.

#### ■ Online administration and digital security

In 2006, Caisse des Dépôts invested €20 million in the creation of its wholly-owned subsidiary, CDC Confiance électronique européenne (CDC CEE), which was set up as a vehicle for the FAST offering. FAST enables the secure electronic transmission of legal or financial documents between local authorities and State departments and is the first third-party electronic transmission tool approved by the French Interior Ministry.

#### ■ Personal Medical Record (DMP – Dossier medical personnel)

The DMP is an electronic record of a given patient’s healthcare history. Since 16 May 2006, Caisse des Dépôts has been responsible for the DMP portal and the related security features. The DMP is expected to be operational in 2008.

#### ■ Encouraging the use of new technologies

Caisse des Dépôts has been co-financing the rollout of cyberbases, walk-in digital centres for the public. Seventy-seven new cyberbases were opened in 2006, bringing the total number to 409 countrywide.

# Administrative mandates for public sector pension funds

Caisse des Dépôts has been entrusted with managing public sector pension schemes since its creation in 1816, a responsibility that is part of its primary mission: to safeguard and contribute to the development of savings and personal insurance on behalf of French citizens. Caisse des Dépôts currently administers 52 pension institutions encompassing 80,000 employers, over seven million active contributors and three million pensioners, i.e., one in five retirees. In 2006, Caisse des Dépôts was entrusted with the administration of the FIPHFP fund, which is tasked with the professional integration of disabled employees in the public sector. The year was also characterised by final preparations for the launch of the “members’ right to information” programme introduced by the 2003 pension reforms.

In France, the pensions system is very much profession-oriented and is largely based on a pay-as-you-go principle: pensions of a given period are financed by contributions deducted from the revenues and salaries of employers and employees in the same period. The pay-as-you-go system is based on inter-generational solidarity: each generation of workers acknowledges its “debt” to the previous generation, and in turn its pension is paid by the future generation.

There are currently three main types of pension regime in France:

- private sector plans, covering approximately 70% of the workforce;
- special public sector plans (the State, local authorities and public enterprises) representing around 20% of the workforce; and
- other plans for the self-employed, including craftsmen, small businesspersons, independent professionals and agricultural workers, who together make up around 10% of the workforce.

## A leading player in public sector pensions

The Pensions Division is currently engaged in discretionary management in three fields:

- pensions;
  - compensation and prevention of occupational hazards as well as professional integration and in-work assistance for disabled persons; and
  - the administration of various compensation funds.
- The Pensions Division holds 52 administrative mandates. Its competencies include the various financing techniques for pension plans, from pay-as-you-go to insurance-based schemes, rights administration and plan management. As a committed player in the pensions world, it also supervises the technical

administration of the various pension schemes with the aim of achieving the highest performance standards. This includes undertaking studies on their long-term financial stability, and performing actuarial calculations and simulations designed to tailor plans to the changing economic and demographic background.

## Main funds administered

- **Five major pay-as-you-go pension schemes for permanent civil servants, fixed-term public sector employees, and manual workers in the three public functions (the State, local authorities and public hospitals):**
  - CNRACL, the basic pension fund for permanent civil servants employed by local authorities and public hospitals,
  - IRCANTEC, the supplementary pension fund for fixed-term employees in the three public functions as well as for local officials,
  - RAFF, the civil service top-up scheme covering the three public functions,
  - the Retraite des mines, or miners’ pension scheme,
  - FSPOEIE, the special pension fund for blue collar workers of State institutions;
- **Supplementary pension schemes for specific socio-professional categories;**
- **Assistance funds for the elderly based on national solidarity;**
- **CNRACL, the national fund for the prevention of industrial accidents and occupational diseases;**
- **National compensation funds between local authorities and public sector institutions;**
- **Disability annuity funds;**
- **FRR, the Pensions reserve fund;**
- **FIPHFP, the fund for the integration of disabled persons in public sector employment.**

€ **16.2**  
billion

in benefits paid

€18.5  
billion

in contributions  
received



### FIPHFP integration fund for disabled persons

The FIPHFP, whose administration has also been entrusted to Caisse des Dépôts, is primarily tasked with promoting the professional integration of disabled employees within the three public functions.

The role of this new fund is to finance human resources policies designed to achieve a ratio of disabled employees of at least 6% of total headcount in local and regional authorities, funded by those with a ratio of less than this target. In 2006, total contributions paid by employers amounted to more than €50 million.

### Members' right to information

The Pensions Division is currently preparing for the launch of the "members' right to information" programme, under which pension administration bodies are obliged to provide members with comprehensive consolidated information concerning their pension status. This information is to be provided on a periodic basis as well as at the request of members, and will come in two forms: the Individual pension statement (RIS) and Indicative global estimate (EIG) reports. The first RIS and EIG reports will be issued to members in September 2007.

### Performance, quality and responsibility

In 2005, the Pensions Division drew up a strategic plan for the three subsequent years. With performance, action and services as its watchwords, its aim is for Caisse des Dépôts to be acknowledged as the leading operator in the administration of public sector pension schemes.

For more than ten years, the Pensions Division has actively contributed to debates on the future of pension schemes, and organises an annual forum in Bordeaux that has become a firm fixture in the pension world's calendar.

## Pensions reserve fund

The Pensions reserve fund (FRR) was established in 1999, and its administration was subsequently entrusted to Caisse des Dépôts. The fund's aim is to set aside sufficient financial reserves by 2020 to address the pension funding crisis arising notably from demographic changes among the active and retired populations linked to longer average life expectancies and the retirement of the baby boom generations.

The FRR is run along the lines of an institutional investment fund, and its administrative mandates are allocated on a tender basis. At the end of 2006, the FRR spanned €31.1 billion of assets, of which around 88.5% (€27.5 billion) were invested in bonds and equities.

The fund's tender offer for administrative mandates meeting socially responsible investment criteria (concerning roughly €600 million in assets) closed in April 2006. In addition, the FRR is pressing ahead with its private equity programme, which includes total commitments in the region of €1.5 billion.

# The administration of protected private sector funds

As an administrator of private sector funds that are protected by French law, Caisse des Dépôts specialises in public interest banking and missions. As part of an approach geared towards greater efficiency in the management and development of its missions, the Banking Services Division obtained ISO 9001 certification for its activities as a whole, which attests to the quality of its economic performance, management and risk management policy. In 2006, the cash and securities deposits administered by Caisse des Dépôts averaged €45.8 billion and €13.2 billion respectively.

## Public banker to the judicial system

Caisse des Dépôts is the leading bank for the legal professions. Notaries and court-appointed receivers and agents must deposit the funds entrusted to them in the context of their assignments with Caisse des Dépôts.

The Banking Services Division ensures the delivery of high quality services consistent with financial market best practice and the specific security requirements applicable to holders of third-party funds. It achieves this by working towards greater security in the areas of account management and payment media and by taking the necessary measures to fight against money laundering and the funding of terrorism.

Measuring customer satisfaction lies at the heart of the Banking Services Division's approach. A new customer satisfaction survey conducted in 2006 revealed that customers are very satisfied with the services they receive and particularly appreciate the reliability and security of the account management services provided by Caisse des Dépôts.

Through partnership agreements entered into with the representative bodies of the legal professions, Caisse des Dépôts invests in projects that contribute to its mission as public banker to the judicial system.

For example, Caisse des Dépôts is working in partnership with the Conseil Supérieur du Notariat in order to promote the electronic transmission of administrative information between notaries, paperless mortgage documentation and electronic payments. This reform speeds up the mortgage registration process and improves the security of real estate transactions. At the end of 2006, over 1,000 notary firms (out of a total of 4,500 in France) were equipped with the CDC Net electronic data exchange system.

## Banker to the social security system

Caisse des Dépôts is the banker to the central body for France's social security system (ACOSS). This role has been confirmed by the signing of a new agreement between ACOSS and Caisse des Dépôts for the period 2006-2010. Under this new agreement, the financial conditions may vary in accordance with the term of the advances and the cash forecast reporting method. In 2006, Caisse des Dépôts authorised advances of up to €18.5 billion to the general social security system.

## Banking partner to the public interest institutions

The customers of Caisse des Dépôts include over 3,000 public interest institutions. The historical banker for semi-public companies (SEMs) and social housing organisations, Caisse des Dépôts also works with foundations, national public service associations and public institutions.

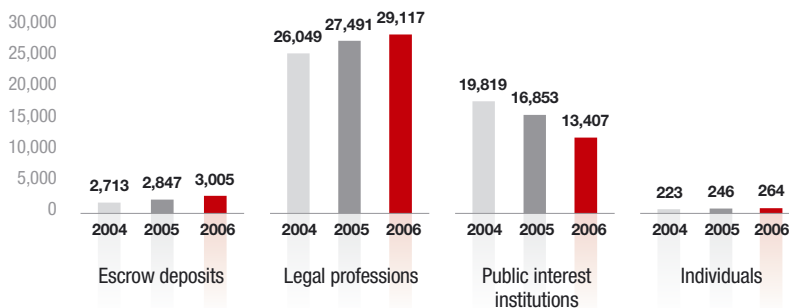


## Foundation partnership agreement

Caisse des Dépôts is actively involved, both financially and technically, in the creation of the *Fondation pour la promotion du droit continental (Civil Law Initiative)*. The purpose of this foundation is to promote and circulate information on continental law abroad. An association was set up in March 2006 as a precursor, under which the members of the decision-making bodies were appointed and the articles of incorporation were finalised. The foundation itself will see the light of day in the first half of 2007.



→ Changes in average cash deposits (€ millions)



→ Changes in securities deposits (€ millions)



## Banking partner to the public authorities

Caisse des Dépôts is commissioned by various partners – primarily public authorities – to provide administrative, financial and accounts management services.

### ■ Public service delegations

The Banking Services Division administers two public institutions which finance the French motorways, Caisse Nationale des Autoroutes (CNA) and Autoroutes de France (ADF).

It also administers sixteen other national funds and foundations such as the UTA DC-10 foundation, which paid €120 million in compensation to the families of the victims of the terrorist attack.

### ■ EU structural funds

As a paying authority, Caisse des Dépôts provides administrative and financial services alongside the regions responsible for managing the structural fund programmes. A total of €1.1 billion has been granted (financed by EU structural funds) to support 28 programmes.

### ■ EU framework programmes (FP) for research and technological development

The Banking Services Division acts as an administrative and financial coordinator for eight consortiums (research centres, universities and businesses), that receive grants under European research programmes. Caisse des Dépôts has become the leading French coordinator of the networks of excellence of the 6<sup>th</sup> FP (2003-2006). With its recognised expertise, it is well placed to meet the needs of the next generation, which covers the period 2007-2013 (7<sup>th</sup> FP).

### ■ Administration of the national register of greenhouse gas allowances

Caisse des Dépôts administers the national register of greenhouse gas allowances, which was fully operational for the first time in 2006 and achieved satisfactory results. The 150 million emission rights awarded in 2006 were recorded automatically in around 1,100 accounts.

# The carbon economy

## Carbon economy research

*Mission Climat* is Caisse des Dépôts' task force for research into and analysis of the carbon economy. Its initiatives focus on three major areas: (i) the functioning of the European emission allowance trading scheme; (ii) new tools for fighting climate change; and (iii) international carbon finance developments. Caisse des Dépôts has gained recognition in France and abroad for its work in this field, through its publications and participation in various seminars.

## Key events in 2006

### ■ European market in greenhouse gas emission allowances

The Powernext Carbon market, created in conjunction with Powernext, currently counts around sixty members and represents 60% of spot allowance transactions. Although the spot price dropped between 2005 and end-2006, volumes exchanged were still significant (31.5 million tonnes of CO<sub>2</sub> equivalent in 2006). This resulted in Caisse des Dépôts playing a key role in managing the delivery and settlement mechanism for the transactions, and in guaranteeing the security of members' financial commitments.

### ■ European Carbon Fund (ECF)

The European Carbon Fund, managed by Natixis, grew to almost €150 million in 2006. Its objective is to trade carbon credits for profit and invest in carbon assets generated by projects aimed at reducing greenhouse gas emissions in developed or emerging countries. It also finances projects in favour of the preservation of the environment and the transfer of clean technologies, and will eventually help to increase liquidity on the European carbon assets market.

### ■ Sale of Seringas licences

Seringas, the electronic system developed by Caisse des Dépôts for the registration of greenhouse gas emissions, is considered highly reliable. This has led to Caisse des Dépôts being asked to implement the system in several European Union countries, as well as Monaco, Lichtenstein, Switzerland and Belarus. Seringas currently manages over 60% of European allowances.

## New projects

### ■ Seringas software developments

In 2008, the countries that ratified the Kyoto protocol will exchange emission rights under the auspices of the United Nations, and the Seringas software will need to be adapted accordingly. In conjunction with its European partners and in preparation for the automation of the carbon emissions trading market, Caisse des Dépôts will define a standard format for the electronic exchange of standing settlement instructions.

### ■ Domestic carbon offset projects

Domestic carbon offset projects, which take their inspiration from the Kyoto protocol, are designed to reward greenhouse gas reduction projects in economic sectors not covered by the above-mentioned European exchange system. Caisse des Dépôts will be launching an appeal for projects, with a view to enabling as many companies as possible to access this mechanism. It will facilitate project start-ups by providing a foreign partner and, in liaison with this partner, guaranteeing to purchase all emission reductions generated by the projects. Payment conditions will be defined in advance.

## Creation of brokerage subsidiary Sagacarbon

In 2006, Caisse des Dépôts acquired Sagacarbon, a brokerage firm specialising in carbon emissions allowances. Sagacarbon trades in allowances on the spot market for its clients, through Powernext, of which it is a member. It also trades on the OTC market with its European counterparts. It offers innovative transactions to optimise its clients' allowances.



## Caisse des Dépôts to go carbon neutral between 2006 and 2012

**After assessing its GHG emissions at 30,000 tonnes of CO<sub>2</sub> equivalent per year, Caisse des Dépôts has undertaken to reduce them by 3% per year and to offset unavoidable emissions through the purchase and retirement of an equivalent amount of carbon credits.**