

# An organisation geared towards performance



As a State-owned financial institution, Caisse des Dépôts applies strict governance practices to ensure the secure management of the funds entrusted to it. Caisse des Dépôts has a duty to continually improve economic performance and keep a tight rein on costs in order to consolidate its financial strength and ensure optimum efficiency and quality of service.

# Governance model

Placed by the Law of 28 April 1816 (superseded by the Financial and Monetary Code) under the supervision and guarantee of the legislative authority, Caisse des Dépôts has a unique governance model tailored to its specific status.

## Institutional governance

The Chairman and Chief Executive Officer of Caisse des Dépôts, appointed for a period of five years by decree of the President of the French Republic adopted in the Council of Ministers, takes an oath of office before the Supervisory Board. The Chairman and Chief Executive Officer is responsible for administering the public institution's funds and assets and is assisted by five Senior Executive Vice-Chairmen, one of whom has the title of Corporate Secretary. The Chairman and Chief Executive Officer chairs the public institution's Management Committee and the Group Management Committee.

The Supervisory Board is composed of members of Parliament, members of the Council of State and of the Court of State Auditors, the Governor of the Banque de France (central bank), the Chairman of the Paris Chamber of Commerce and Industry and the Director of the French Treasury. The Chairman of the Supervisory Board of CNCE is invited to attend meetings of interest to the Caisses d'Épargne banking group. The Supervisory Board, which met on 22 occasions during 2006, exercises oversight in particular with respect to strategic policies, the administration of savings funds and the preparation of the financial statements (certified by the Statutory Auditors). The Supervisory Board further sets an annual maximum limit for issues of debt instruments by Caisse des Dépôts. Every year, the Chairman of the Supervisory Board submits a report to the French Parliament on the financial position of Caisse des Dépôts.

Caisse des Dépôts is supervised by the Court of State Auditors.

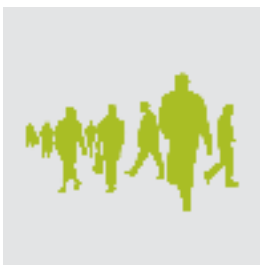
## Bodies for collective decision-making and strengthened governance

Governance with respect to investments and economic and financial benchmarking at Caisse des Dépôts is performed by several bodies. These bodies are charged with providing the insight underpinning investment decision-making processes and with ensuring optimum control over Caisse des Dépôts' long-term economic and patrimonial interests.

The Audit & Risks Committee is set up by the Supervisory Board and is chaired by a member of that Board. The Audit & Risks Committee comprises members of the Supervisory Board, the Statutory Auditors, representatives of the Finance and Strategy Department and representatives of the Risk and Internal Control Department. The Audit & Risks Committee is responsible for monitoring the parent company and consolidated results on a half-yearly basis.

# 1816

Section X of the Law of 28 April 1816 placed the Caisse des Dépôts "under the specific supervision and guarantee of the legislative authority".



The Group's organisational structure is presented on pages 4-5



The Savings Funds Committee, another specialised committee of the Supervisory Board, was formed in response to a recommendation contained in the Noyer/Nasse report on regulated savings funds. The Savings Funds Committee is composed of members of the Supervisory Board (who include the Committee's Chairman and reporter), and representatives of the Savings Funds Division, the Risk and Internal Control Department and the Audit Department. The Savings Funds Committee examines the interim accounts and review of operations pertaining to the savings funds and, more generally, oversees all matters concerning the savings funds' activity on behalf of the Supervisory Board.

In 2004, with the aim of upholding its interests as a shareholder within a framework of impeccable governance and transparency, Caisse des Dépôts set up an Advisory Committee open to independent figures.

The Advisory Committee, chaired by René Barbier de la Serre, has drafted three documents:

- general principles of corporate governance;
- a charter for corporate officers representing Caisse des Dépôts;
- a guide to voting at general meetings.

These directives and guidelines are intended to ensure that the contributions of Caisse des Dépôts' representatives on the governance bodies of companies of which Caisse des Dépôts is a shareholder are both consistent and relevant.

Caisse des Dépôts ensures that governance at its subsidiaries conforms to best practice in the Paris financial marketplace. This entails the creation of specialised committees (Audit, Investment, Nominations) at all subsidiaries, on which the representatives of Caisse des Dépôts are active and vigilant.

All investment decisions taken by Caisse des Dépôts are further subject to in-depth scrutiny by commitments committees. Depending on the investment thresholds applied, these committees may be organised at the operations level, in which case they are chaired by operational managers or by the heads of Group subsidiaries. Beyond certain thresholds, decisions must be validated by the head of the Finance and Strategy Department (by the Chairman and Chief Executive Officer in the case of commitments above €30 million), in accordance with the governance practices established by the respective subsidiaries' specialised committees formed by the boards of directors and supervisory boards.

# Risk prevention and management

Caisse des Dépôts has designed its risk management and internal control mechanisms by reference to standards applicable to banking and financial institutions operating in the Paris financial marketplace.

## Operational risks

Caisse des Dépôts' internal control system is founded on the principle of segregation of control functions from operational functions. Control tasks, which fall under the functional responsibility of the Risk and Internal Control Department, are supervised by a designated risk officer at each of the public institution's businesses or subsidiaries. The risk officer reports to the head of the entity in question, is hierarchically independent of operational managers and coordinates a risk committee chaired by the head of the entity. Management of compliance risk is included in the scope of ongoing control and involves the use of risk management tools (incident database, risk-mapping, control plans, business continuity plan, etc.).

In 2006, the scope of internal control was formalised in documented control plans. Related monitoring, notably with respect to remedial action, is assured by means of half-yearly, bilateral discussions between the local risk officer and representatives of the Risk and Internal Control Department.

The rollout of this system to the subsidiaries has facilitated the exchange of best practice comparable to that achieved by CNP Assurances (product conformity, self-assessment of processes, etc.).

In the field of IT security, 2006 saw the inception of a large-scale project dealing with compliance and fraud prevention, centred on user identity management for critical applications.

To combat increasingly sophisticated and targeted Internet-based attacks, Caisse des Dépôts has strengthened its alert mechanism for detecting and monitoring attempted attacks on the integrity of its information systems. Regular tests are also performed to assess the degree of vulnerability to internal and external security threats.

## Financial risks'

The Risk and Internal Control Department is involved in the determination of the commitments contracted by the various businesses and plays a central role in the monitoring of credit and market risks on investment portfolios.

The Risk and Internal Control Department has the right to conduct a second, independent review of financial risks in a manner suited to the nature of the investment.

### ■ Public interest investments

Commitments proposed in committees at the highest decision-making level within the individual businesses or Caisse des Dépôts are supported by a risk evaluation checklist. The checklist testifies to the strategic compliance of the project, the proper identification of the related risks and definition of hedging policies, and the adequacy of returns in relation to asset class.



## Changes in internal control at the business-line level

In 2006, the principal changes in the internal control system at the business-line level were as follows:

- the Banking Services Division implemented a divisional control plan focusing on compliance monitoring and the control of outsourced services;
- the Pensions Division continued to integrate the *Retraite des mines* (miners' pension regime), the *Fonds de réserve pour les retraites* (pensions reserve fund) and the *Régime additionnel de la fonction publique* (supplementary pension scheme for civil servants) into its internal control system.

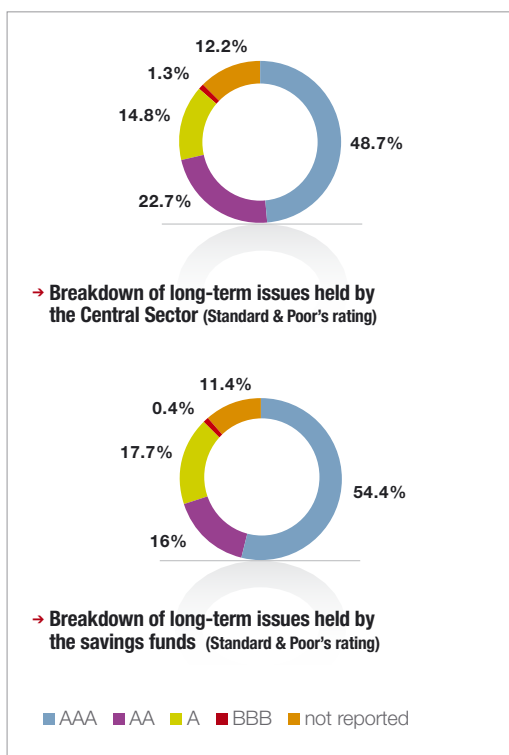


## Implementation of Basel II standards

Caisse des Dépôts, which is not legally subject to Basel II regulations, has decided to base its internal capital adequacy methodology on those regulations. The Basel II project, conducted by the Risk and Internal Control Department jointly with the finance Departments and business lines, will enable the public institution to enhance its risk-monitoring and capital-allocation mechanisms. The decision was made to comply with the standardised approach by end-2006 and a new, group-wide risk-monitoring system has been implemented. At the same time, in order to take account of the specific nature of the public institution's risks and counterparties, impact studies are being carried out with respect to risks related to Pillar 2 of the Basel II framework (overall interest rate, inflation, concentration, etc. risks) and the necessary modifications are being made for the use of internal methods.

### ■ Investment portfolios

Risks arising on investment portfolios are examined at a dedicated monthly committee meeting attended by members of the Risk and Internal Control Department and financial executives from the Caisse des Dépôts proprietary trading business and the savings funds activity. Individual counterparty limits are fixed using approved, documented methodological approaches that ensure consistent treatment across counterparties. The methodological approaches applied take into account control limits, the measurement of "major risks", diversification rules, sector analyses and exposure limits, and the management objectives set by finance department. Monitoring of compliance with prescribed limits, including with respect to off-balance sheet instruments, is assured on a daily basis by the Risk and Internal Control Department. Teams charged with analysis and control use dedicated IT tools, information provided by credit rating agencies and other financial information, and their own research findings.





Credit risk on the investment portfolios of Caisse des Dépôts remains very low, given the preponderance of French government securities, investment-grade bonds and equivalent securities.

In addition to monitoring credit risk, the Risk and Internal Control Department provides oversight for all market risks on investment portfolios and issues related recommendations at ad hoc multi-disciplinary or specialised committee meetings. This oversight is largely based on the application of quantitative risk assessment methods (VaR, volatility, tracking error, etc.) to listed equity holdings, which represent a significant portion of investment portfolios.

## Business ethics

The introduction and monitoring of standards and procedures governing the appropriate personal and professional conduct of Caisse des Dépôts' employees are assured by the Ethics unit. One area covered is the circulation of privileged information, including the preparation and dissemination of up-to-date securities blacklists and watchlists within the public institution.

The Ethics unit is also responsible for coordinating anti-money laundering efforts within the Group, backed by training and awareness-raising programme, as well as for monitoring employees in sensitive positions in relation to internal charters and regulations.

## Back Offices Department

The group-wide Back Offices Department supporting transaction execution and recording functions played a key role in the achievement of operational quality and security objectives in 2006 and in the reduction of unit costs.

Assets held in custody for major investors (Central Sector, savings funds, "FRR" pensions reserve fund and the State) surged 20%. Transactions involving financial instruments and cash operations likewise showed strong growth. Newly-introduced products (organised derivatives, Euro Medium Term Notes and commercial paper) are now widely used.

At the same time, the Back Offices Department has continued to adapt its information systems to meet investors' emerging needs and to comply with marketplace standards and requirements.

# Economic performance

During 2006, Caisse des Dépôts remained committed to the strategic and financial management approach applied in prior years. The Group emphasised measures to enhance its economic performance and improve cost containment, with a view to consolidating the Group's financial strength and business development at the service of France.

## Strategic and financial management

The strategic and financial management process, spearheaded by the Finance and Strategy Department, provides invaluable support for strategy implementation within Caisse des Dépôts. The Department has four main tasks:

- coordination and strategic planning with respect to the Group's major development projects;
- proprietary trading and asset/liability management for the benefit of the public institution;

- strategic and financial monitoring of subsidiaries;
- assurance of the security of Caisse des Dépôts' accounts and results, and monitoring of performance against objectives and of financial forecasting for the Group.

The Finance and Strategy Department oversees the strategic and financial planning process for each Group subsidiary and each business of the public institution. This process results in the signature by the Chairman and Chief Executive Officer of a letter setting forth objectives and the strategic direction for each individual entity for the year and—in the case of open-market operations—targets in terms of revenues, profitability and solvency. These letters are drawn up following discussion of the medium-term (three- to five-year) plan for the subsidiary concerned. The supervision of subsidiaries is based on a monthly operations report and more in-depth information exchanges throughout the year, which enable the assessment of progress towards objectives. This feedback complements the work carried out by the subsidiaries' governance bodies.

## Development focuses

- Strengthen Caisse des Dépôts' position as the leading equity investor in the Paris financial marketplace.
- Promote profitable growth and the development of the Group's subsidiaries. As a committed shareholder, Caisse des Dépôts is keen to support the business expansion of its subsidiaries, including acquisitions, by providing the necessary financial resources or by bringing new equity investors on board.
- Seek out development opportunities for the Group. Infrastructure development, which is essential to economic expansion, remains a strategic priority for Caisse des Dépôts. The Finance and Strategy Department supports the major investment projects undertaken by the public institution's various businesses, notably in areas dealing with digital security (for example, Fast). The Department may also acquire consolidatable positions in companies operating in the field of collective services. One example of such a company is Séché Environnement, ranked third in France in waste management.
- Maintain Caisse des Dépôts' status as a champion of best practice in the Paris financial marketplace, particularly with respect to the observance of accounting standards.



Less than **1%**

increase in Caisse des Dépôts' gross expenses relative to 2005

## Economic management

As in prior years, Caisse des Dépôts continued to work to improve its economic performance and contain overheads, a pre-requisite to the smooth development of its activities.

In 2006, efforts resulted in a less than 1% increase in gross expenses relative to 2005. Contributing factors were:

- consistently rigorous budgetary monitoring;
- the implementation of targeted action plans to enhance the public institution's overall economic performance and cost containment:
  - the optimisation of information systems, leading to a significant reduction in IT running costs (average annual reduction of 3% since 2003);
  - the implementation of a more efficient procurement policy;
  - proactive manpower planning and the alignment of the employee mobility policy with business development;
  - the rollout of performance- and results-based management, backed by performance plans for all of the public institution's key businesses.

The increase in net expenses over 2006 was 3.5%. This is in line with the objective established by Caisse des Dépôts at the time of its 2004 budgetary reform intended to support future business expansion and the Group's financial base. Emphasis has been maintained on containing operating expenses. The share of costs related to support functions in total expenses has fallen

by eight points in the space of four years, thanks mainly to the corporate employee mobility policy and the redeployment of support functions to growth businesses.

These measures will be continued with a view to achieving sustainable cost control, which is essential to the long-term development of the public interest activities entrusted to Caisse des Dépôts.

## Informatique CDC

**Informatique CDC is the dedicated information systems management economic interest grouping shared by Caisse des Dépôts, CNCE and CNP Assurances. The pooling of IT resources within the unit is delivering synergies. In 2006, the services provided by Informatique CDC's 1,240 highly skilled engineers and technicians enabled:**

- Caisse des Dépôts to strengthen its position as a first-class counterparty, thanks to Informatique CDC's capacity to execute projects and adapt systems to maximise availability and operational and data security;
- the CNCE group to maintain its competitive advantage in credit and interest rate derivatives, by implementing a new technical architecture permitting swifter valuation and classification of those instruments;
- CNP Assurances to enhance the efficiency of its CNP Trésor sales network, thanks to the provision of an extranet offering round-the-clock access and full-spectrum functionalities.

For further information, go to ■ [www.icdc.caissedesdepots.fr](http://www.icdc.caissedesdepots.fr)

# Impact of Caisse des Dépôts' activities on society

Caisse des Dépôts has implemented a corporate social responsibility policy that enshrines its commitment to sustainable development in France. Three principal objectives have been set for 2006 and 2007: action in the sphere of socially responsible investment, the development of economic tools to combat climate change and the promotion of sustainable real estate development.

## Our responsibilities

Sources from which more detailed information may be obtained are summarised in the following table. They include Caisse des Dépôts' Corporate Social

Responsibility Report (CSR), which may be consulted on line at [www.caissedesdepots.fr](http://www.caissedesdepots.fr). Key indicators of performance in sustainable development and carbon investment are also presented below.

<b>Consolidation of effective governance at the service of France</b>	<b>2006 reference sources</b>
Promotion of original governance founded on Parliamentary control, and the protection of administered funds and of Caisse des Dépôts' long-term patrimonial interests	Annual Report Report to Parliament
Maintaining of a high level of risk management and application of new standards; consideration of environmental risk factors	Report to Parliament
<b>Responsible long-term financial investment</b>	
Gradual integration of "ESG" (Environmental, Social and Governance) criteria into the asset management process	CSR Report
Full exercise of the role of long-term shareholder in accordance with explicit, documented rules	Annual Report and CSR Report
Promotion of an international framework for responsible investment	CSR Report
<b>Reflection of social changes in the exercise of public mandates</b>	
Support for the legal professions and regulated bodies in their sustainable development initiatives	Online factsheets
Proposal of forward-looking economic mechanisms and instruments to help reduce greenhouse gas emissions; support for the development of carbon finance tools	Annual Report and CSR Report
<b>Integration of sustainable development imperatives into housing and territorial planning</b>	
As a key player in social housing, promotion of the adoption of new criteria and tools that foster sustainable housing and urban planning practices	CSR Report
Financing of infrastructure with due attention paid to social needs, environmental considerations and territorial balance	Online factsheets
Co-investment with local authorities in sustainable development projects (renewable energy sources, waste management, digital equipment, public facilities dedicated to culture, tourism or recreational pursuits) and encouragement of the involvement of private investors	CSR Report
Support for social economy and solidarity initiatives, innovations that strengthen community ties, job creation at the small business level and the fight against financial exclusion	Annual Report
<b>Assessment and reduction of the negative direct impacts of Caisse des Dépôts' facilities and operations</b>	
Reduction of environmental impacts and achievement of carbon neutrality	CSR Report
Promotion of training and diversity in the workforce	CSR Report
Achievement of the objectives of the performance plan through the optimisation of human and financial resources	Annual Report
Development of a responsible procurement policy	CSR Report

€8 billion

in centralised tax-exempt passbook savings deposits earmarked for sustainable development at Caisse des Dépôts (Livret développement durable).

## Key indicators of sustainable development performance in 2006

Consolidation of effective governance at the service of France	2006 indicators
Number of meetings of the Supervisory Board	22
Number of meetings of the Risk Committee	10
Number of meetings of the Savings Funds Committee	6
<b>Responsible long-term financial investment</b>	
Number of investee-companies' general meetings attended	218
Number of resolutions for which votes were cast	1,900
Total amount of assets held in funded retirement funds administered by Caisse des Dépôts on a socially responsible investment basis ("FRR" pensions reserve fund and "ERAFF" supplementary pension scheme for civil servants)	€3.3 billion
Amount invested in carbon assets (through the European Carbon Fund)	€25 million
Public interest equity investment (managed funds)	€1.2 billion
Number of SMEs financed directly or through funds	2,500
Number of related jobs	180,000
Sustainable management (PEFC certification) of forests controlled by Caisse des Dépôts	100% (41,500 ha)
<b>Reflection of social changes in the exercise of public mandates – carbon investment</b>	
Share of greenhouse gas emission allowances managed by the Seringas software	60% (13 countries)
Quota transactions conducted through Powernext Carbon: - amount, - share of total	31mtce CO <sub>2</sub> 60%
<b>Integration of sustainable development imperatives into housing and territorial planning</b>	
Centralised tax-exempt passbook savings deposits earmarked for sustainable development (Livret développement durable)	€8 billion
Lending for: - emergency social housing - social housing - intermediate housing	€854 million €542 million €30 million
Share of social housing certified as: - energy-efficient - very energy-efficient	About 35% About 3%
Lending for: - railway infrastructure projects - tramway projects	€229 million €220 million
- Number of cyberbases financed - Total amount invested in digital infrastructure	518 €35 million
- Total amount invested in renewable energy projects	€9 million
- Commercial real estate investments (decided commitments) in urban tax-free zones ("ZFU's")	€2.3 million
- Number of companies created using loans on trust backed by Caisse des Dépôts - Number of related jobs	17,000 33,000
<b>Assessment and reduction of the negative direct impacts of Caisse des Dépôts' facilities and operations</b>	
<b>Environmental performance:</b> ■ electricity consumption per employee ■ CO <sub>2</sub> emissions per employee	10.7MWh 5.5tce CO <sub>2</sub>
<b>Social performance:</b> ■ percentage of women in management positions ■ percentage of women among high-potential managers ■ percentage of employees that have received training ■ percentage of disabled employees ■ average age of employees ■ staff turnover	48.3% 40.91% 86% 2.5% 45.6 years 5%
<b>Economic performance:</b> ■ increase in the public institution's gross expenses	0.9%

Further information is available at ■ [www.caissedesdepots.fr](http://www.caissedesdepots.fr) where Caisse des Dépôts' 2006 Corporate Social Responsibility Report may be consulted. The report is supplemented by factsheets summarising the sustainable development challenges faced by each of the Group's businesses.