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Groupe Caisse des Depots et Consignations

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Groupe Caisse des Depots et Consignations

Major Rating Factors

Issuer Credit Rating
AA/Stable/A-1+

Strengths:

- Critical public policy role
- Integral link with the central government
- Diversified operations

Weaknesses:

- Structural volatility in earnings
- Capitalization constrained by sizable equity investments

Outlook

The stable outlook on Groupe Caisse des Depots et Consignations (CDC) reflects S&P Global Ratings' outlook on France. We believe that CDC will retain its critical role for and integral link with France, and therefore expect our ratings on the group will move in line with those on France.

Downside scenario

We would lower our ratings on CDC following a similar rating action on France, if we perceived a weakening of the group's link with or role for the French government, or if CDC's financial profile deteriorated such as to cause us to review our assessment of the group's financial standing importance to the government.

Upside scenario

We would raise the long-term rating on CDC if France's credit quality were to improve and the likelihood of support for the group's remained almost certain.

Rationale

We equalize our ratings on CDC with those on France (unsolicited; AA/Stable/A-1+) because, based on our view of the group's critical role for and integral link with the French government, we believe that there is an almost certain likelihood that the government would provide timely and sufficient extraordinary support to CDC in the event of financial distress. Because we do not see the likelihood of government support as subject to transition risk, we expect that the ratings and outlook on the group will move in line with those on France.

CDC conducts key public missions and implements government policies, as examplified in the pandemic

Reflecting its critical role to the government, CDC is largely involved the public support schemes to combat the social and economic impacts of the COVID-19 pandemic, directly and indirectly through its subsidiaries. This notably includes:

- Supporting social security institutions funding through short-term liquidity instruments provided to Agence Centrale des Organismes de Securite Sociale (AA/stable/A-1+), which manages national social security cash flows and collects social contributions from employers;
- Supporting private sector and SMEs through direct lending, investment and support to export financing, from 50%-owned Banque Publique d'Investissement (BPI France). BPI France will be managing the €300 billion state guarantee scheme on bank loans to support private companies. It will also increase its own guarantees extended on bank loans to small and midsize enterprises, to which it will also extend new unsecured loans. We understand CDC might also provide further capital investments in French blue chips and corporations, in light of its investment strategy; and
- Supporting social housing providers, local governments and public and private-nonprofit hospitals, though direct lending or capital injections.

The Plan d'Action pour la Croissance et la Transformation des Entreprises (PACTE) law in April 2019 affirmed CDC's public interest mandate, carried out on behalf of the French government. The group's prime public role is to guarantee the financial security of the funds it manages, and its key mandates include:

- Centralizing and managing most regulated savings deposits collected by French banks (primarily the Livret A) and providing long-term financing to general interest programs, including social housing and local investments entrusted to Direction des Fonds d'Epargne (DFE);
- Administering several public retirement schemes, and deposits of legal professions, including notaries;
- Acting as a long-term investor in affiliates and through strategic shareholdings to support government policies, directly and through (BPI France). Jointly owned by CDC and the French government, BPI France's key role is to support and fund investments by French small and midsize enterprises. Under a central governemnt-initiated project to create a major French public financial group, CDC is the majority shareholder in postal operator La Poste (66%, together with the government at 34%) as of March 2020, and will also control public development bank SFIL in the year. Its other major equity investments include social and intermediary housing operator CDC Habitat, real-estate developer Icade, and electricity transmission system operator Réseau de Transport d'Electricité (through Coentreprise de Transport d'Electricité). The group also has a portfolio of highly rated bonds and equities in large listed French companies and, to a lesser extent, operates as a private equity investor; and
- Supporting regional and local development, and providing long-term funding to local authorities, including through direct lending (from DFE) and investments in local projects, and indirectly through SFIL and CDC's 35% stake in Banque Postale Collectivités Locales, a joint venture with La Banque Postale (LBP) that distributes loans to LRGs and public hospitals, and whose loans are partly being refinanced by SFIL.

CDC retains its integral link with the French government

We understand that the group, as a public agency (Etablissement public) defined by a special law dating from 1816, is immune to liquidation and bankruptcy law and decisions on its dissolution would revert to the French government, which we view as ultimately responsible for CDC's liabilities. Strict procedures ensure effective governance, monitoring, and control of the group. The French president appoints CDC's CEO (for a five-year term), most recently in November 2017. Under the French Monetary and Financial Code, the group is subject to parliamentary supervision.

Its supervisory board (CS) comprises members of the French parliament and senior civil servants, and is responsible for ensuring that CDC's strategy is in line with its mandate, and that its financial policy remains defined under sound principles. While the PACTE Law modified the composition and activities of the group's CS, it has not altered the links between CDC and the government, in our view, because the government and parliament still fully control the group and its strategy. The law also indicates a government decree sets the level of dividends paid to the state (€1.40 billion in 2020, including €1.07 billion from core activities [section générale]) and €368 million of corporate tax-equivalent payments), although after CS review and so that CDC's solvency is preserved.

CDC's financial profile keeps distinctive features

CDC has comparatively limited lending activity and generally low counterparty risk. The group's deposit base is steadily increasing, with deposits exceeding loans almost fourfold over recent years.

For 2019 CDC posted a €2.06 billion net profit on its section générale, up from €1.77 billion in 2018, backed by solid capital markets, strong performance of subsidiaries and large gains on investments portfolio, despite continued very low interest rates. In our opinion, the group's capitalization remains constrained by large investments in equities, which can also lead to large swings in net income.

While CDC is not a bank, the French banking regulator (ACPR) has reviewed its capital adequacy over recent years, and ACPR is in charge of prudential controls over CDC, under the PACTE law. the group does not disclose the standardized regulatory solvency ratios. We understand that CDC's internal prudential model--which ACPR reviewed, at the request of the CS--suits its overall business model and activities, especially its equity activities. While ACPR now fully regulates the group under the PACTE law, we understand this internal model will continue to prevail over standard regulatory solvency ratios. We continue to assess that CDC's solvency ratios would be substantially negatively affected if it implemented the forthcoming Basel IV ratios--with higher risk-weights on equities portfolios.

CDC's balance sheet does not consolidate DFE's regulated savings portfolio. About 70% of the latter's portfolio routinely funds long-term loans to support public investments and social housing, and DFE invests the balance in a portfolio of securities under prudent guidelines. Reflecting an adverse combination of very low interest rates (affecting the interest margin), low inflation (affecting revenues from its inflation-linked notes portfolio), higher compensation paid to LBP for its banking accessibility mission, and subsidised loans to social housing providers, DFE's operating income contracted to €679 million. This is down from €1.55 billion in 2018 and €1.42 billion in 2017. Its total adjusted equity reached €12 billion at year-end 2019.

Environmental, Social, And Governance Factors (ESG)

Environmental factors are mainly reflected in our analysis of CDC's public policy mandates and its related critical importance to the government, with the group making environmental factors an integral part of its strategy. This translates into its mandates for funding environmentally friendly activities--notably funding and promoting public transportation, land regeneration, and renewable energy and energy efficiency--and this also irrigates its investment strategy for managed assets. On the liability side, CDC has issued an inaugural benchmark green bond (€500 million) in February 2017, and an inaugural benchmark sustainability bond (€500 million) in June 2019.

External social factors are important in CDC's activity of funding local projects of public interests, especially funding local governments and social housing operators. We believe that internal social factors are low risk for the group, with strikes generally having a limited effect on its activities in recent years.

Governance factors are generally neutral to our assessment given CDC's integral link with the state, which also informs its objectives and mandates as a key public finance institution.

Table 1

Groupe Caisse des Depots et Consignations--Key Figures

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	178,702	161,293	171,822	164,816	154,998
Customer loans (gross)	4,326	4,248	5,415	5,785	10,542
Adjusted common equity	33,384	32,208	27,028	25,243	25,392
Operating revenues	11,726	10,439	10,655	4,745	4,099
Noninterest expenses	8,785	8,235	8,050	2,280	2,181
Core earnings	2,375	1,887	2,080	1,789	1,295

Table 2

Groupe Caisse des Depots et Consignations--Business Position

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2019**	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (currency in millions)	11,711	10,473	10,692	4,878	4,115
Commercial banking/total revenues from business line	4.29	3.81	5.73	6.85	6.37
Insurance activities/total revenues from business line	2.04	7.08	1.26	14.02	14.14
Agency services/total revenues from business line	11.06	10.76	9.97	24.62	24.01
Other revenues/total revenues from business line	63.24	64.62	63.00	19.11	21.41
Return on average common equity	5.31	4.84	5.33	5.42	4.47

Table 3

Groupe Caisse des Depots et Consignations--Capital And Earnings

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2019**	**2018**	**2017**	**2016**	**2015**
Net interest income/operating revenues	2.47	4.02	2.23	7.04	9.29
Fee income/operating revenues	(0.14)	(0.18)	(0.16)	(0.40)	0.02
Market-sensitive income/operating revenues	5.69	0.00	8.89	13.40	5.81
Noninterest expenses/operating revenues	74.92	78.89	75.55	48.05	53.21
Preprovision operating income/average assets	1.71	1.31	1.53	1.53	1.26
Core earnings/average managed assets	1.38	1.12	1.22	1.11	0.85

Table 4

Groupe Caisse des Depots et Consignations--Risk Position

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	1.84	(21.55)	(6.40)	(45.12)	(18.40)
Total managed assets/adjusted common equity (x)	5.41	5.06	6.42	6.60	6.14
New loan loss provisions/average customer loans	0.86	0.31	0.02	0.71	1.43
Gross nonperforming assets/customer loans + other real estate owned	19.56	22.76	22.16	15.19	8.15
Loan loss reserves/gross nonperforming assets	12.41	27.61	48.92	55.18	56.34

Table 5

Groupe Caisse des Depots et Consignations--Funding And Liquidity

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2019**	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	59.94	58.39	54.64	51.36	50.20
Customer loans (net)/customer deposits	5.90	6.06	7.49	9.04	18.21
Long-term funding ratio	87.11	84.81	81.53	79.11	77.77
Stable funding ratio	132.33	131.56	126.75	124.75	117.51
Short-term wholesale funding/funding base	17.61	20.29	24.61	27.49	29.16
Broad liquid assets/short-term wholesale funding (x)	3.38	2.82	2.42	2.17	1.82
Net broad liquid assets/short-term customer deposits	85.40	77.67	77.47	75.78	53.04
Short-term wholesale funding/total wholesale funding	43.95	48.76	54.25	56.51	58.56

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- France 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 3, 2020
- La Poste, La Banque Postale Outlooks To Stable As COVID-19 Impact Offsets New Structure Benefits; Affirmed At 'A/A-1', March 27, 2020
- French Development Bank SFIL Likely To Retain State Support After Takeover By CDC, Oct. 10, 2019

Ratings Detail (As Of April 29, 2020)*	
Groupe Caisse des Depots et Consignations	
Issuer Credit Rating	AA/Stable/A-1+
Commercial Paper	
Local Currency	A-1+
Senior Unsecured	AA
Short-Term Debt	A-1+
Issuer Credit Ratings History	
25-Oct-2016	AA/Stable/A-1+
14-Oct-2014	AA/Negative/A-1+
12-Nov-2013	AA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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