

# Caisse des Dépôts et Consignations

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	Rating	Outlook
Moody's	Aa1	Negative
S&P	AA	Negative
Fitch	AA	Stable

Source: Moody's, S&P and Fitch

## Background

Caisse des Dépôts et Consignations (CDC) is a French public financial institution that performs public interest missions on behalf of the government, as well as engaging in long-term investment intended to support economic development in France. In recent years, CDC has continued to play an important role in supporting French government policy. Given this close linkage with the state, CDC benefits from 0% Basel II risk weight, Level 1 classification under the Liquidity coverage ratio (LCR) rules and most recently has been added to the list of agencies eligible for the ECB's Public Sector Purchase Programme.

## Ownership and support

CDC's unique legal status as an autonomous public-sector financial institution was originally derived from a special law enacted in 1816. Even though CDC has no share capital – balance sheet capital is comprised solely of accumulated reserves – it is subject to parliamentary supervision and considered to be an extension of the French state.

Furthermore, although there is no explicit guarantee on its debts, CDC is not subject to bankruptcy laws in France and its solvency is protected under the provisions of Law 80-539, whereby, in the event of dissolution, decisions on the institution's assets and liabilities become the responsibility of the French state.

CDC's strategic importance to the French state and integral links with the public administration are reflected in the **equalisation of CDC's credit rating with that of the French state by all three major agencies**.

## Main activities

The following **public interest missions** are undertaken by CDC on behalf of the French state and on a non-profit basis. Furthermore, these activities are strictly segregated from the rest of CDC's operations and are **not consolidated** in CDC's group financial statements.

- **Savings funds management** – centralises the custodianship and management of regulated tax-exempt savings collected by retail banking networks in France (main product is known as a "Livret A" account). These funds are primarily used to finance public housing initiatives.
- **Retirement plan management** – CDC manages several public retirement programmes, as well as having responsibility for the administrative management of the national pension fund reserve.

The following activities are also considered to be **public interest missions**, although these operations are **consolidated** in CDC's financial accounts.

- **Legal deposit and banking services** – CDC has a state monopoly in the administration of funds protected by French law. These are primarily deposits collected by the legal professions. CDC also acts as a banker for the French social security system and other public interest bodies.
- **Local development** – CDC assists the French State and local authorities by providing equity financing for public development projects in areas such as housing, transport, renewable energy and digital infrastructure. In addition, CDC supports new businesses and local job-creation schemes, provides private equity financing to small businesses and is engaged in providing infrastructure finance for long-term public interest projects.
- **Financial investments** – CDC is a major long-term investor on the Paris Stock Exchange. It holds investments in listed companies, unlisted equities, bonds, real estate, infrastructure, forestry assets, and units in private equity and venture capital funds.

The balance of CDC's **consolidated** activities consists of **long-term investments** in affiliate and subsidiary companies. These companies operate primarily in **competitive** sectors, such as insurance, banking, real estate, transportation and leisure.

Since July 2013, one of the major subsidiaries includes **Banque Publique d'Investissement** or **bpifrance** (CDC has 50% ownership, with the remaining share held by the French State). This organisation is primarily involved in providing SME funding, guarantees and quasi-equity financing which support innovation.

In January 2013, CDC became one of the shareholders (20% ownership) in the **Société de Financement Local** – SFIL (holding company of the former Dexia Municipal Agency). This entity was created with a mandate of providing public sector funding, thus filling the gap following the fallout of Dexia.



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Other CDC's investments include **La Poste** (26%-ownership, postal and local banking services), **CNP Assurances** (41%, life insurance), **Icade** (42%, real estate), **Veolia Transdev** (50%, transportation) and **Compagnie des Alpes** (40%, leisure).

## Financial strength indicators

**Asset quality** – CDC had total consolidated assets of €143bn as of end-FY13. The majority were bonds, stocks and participations, a mix that reflects its role as a prominent institutional investor. Out of total financial assets of €79bn as of end-FY13 (debt instruments not measured at fair value through profit or loss as well as loans and prepayments), approximately 1.0% was classified as impaired. CDC invests only in structured products rated AAA on issuance by at least one agency.

**Profitability** – CDC has a profit sharing agreement with the French state whereby 50% of consolidated net profit is distributed to the state, with a limit set at 75% of net profits registered in CDC's social accounts. Historically, CDC's core revenues have been stable, but profitability has been volatile due to the large (€11bn) equity holdings through the Strategic Investment Fund (this was transferred to BPI in July 2013).

In FY14, CDC reported net profit attributable to owners of €1.8bn, compared to net profit of €2.1bn in FY13. Net banking income was largely unchanged YoY, and the decrease was driven by exceptional €1.2bn gains from the assets transferred to bpifrance reported in FY13 and absent the following year.

**Capitalisation** – CDC is not a bank and, therefore, does not disclose capital ratios. Since 2010, CDC's capital adequacy has been monitored by the Prudential Control Authority, France's bank regulator.

**Funding** – CDC mainly finances its long-term investments from accumulated reserves and deposits from the legal professions, although does access term debt markets to diversify its liabilities. At end-FY13, customer deposits made up 44% of total liabilities. Interbank funding accounted for 18%, while debt securities in issue comprised 25%. CDC maintains a €18.5bn EMTN programme, under which it plans issuance of around €4bn per year in maturities from 2 to 30 years. While the majority of outstanding benchmark issues have come in EUR and USD, this has been complemented by smaller benchmarks in GBP, CHF and JPY, as well as private placements in various currencies.

## Rating agencies' views

**Moody's** rates CDC Aa1/Negative, which is in line with the rating for the French State. According to Moody's, CDC's credit risk profile is intrinsically linked to the French state, reflecting the governance structure, as well as operational and financial ties. While being a separate entity from a legal standpoint, CDC is essentially engaged in delivering government policies at the state's behest, in Moody's view.

**S&P** rates CDC AA/Negative. The rating agency changed the outlook from stable in October 2014, following similar action on the French State reflecting the risk that a sovereign downgrade would lead to a downgrade of CDC's ratings. S&P expects CDC to continue playing an active role in French public policy, ensuring an "almost certain" likelihood of support from the French authorities in the event of need.

**Fitch** downgraded CDC's rating to AA/Stable from AA+ in December 2014, which mirrors a similar rating action on the French State. The rating is based on Fitch's belief that there is an implicit guarantee for all of CDC's obligations from the French state due to its unique, fully state-controlled legal status. Consequently, ratings are aligned and will move in tandem with those of the French state.

CDC – key financial data			
€mn	FY13*	FY12*	FY11*
<b>Balance sheet</b>			
Total assets	143,089	145,324	262,263
Customer loans	10,357	7,391	12,807
Interbank deposits	20,423	22,274	13,938
Customer deposits	49,325	49,173	50,736
Debt securities	27,709	23,222	25,879
Total equity (excl. non-controlling interests)	27,460	23,690	21,168
<b>Income statement</b>			
Net interest income	452	663	3,876
Net banking income	3,649	3,533	8,162
Cost of risk	55	235	69
Pre-tax profits (loss)	2,973	(962)	1,339
Net profit (attributable to owners)	2,137	(454)	206

\*Note: FY13 and FY12 include restatements due to the application of updated accounting standards and the use of the equity-accounting method for joint ventures, which led to material changes in the recognition of CNP Assurances and Transdev Group in consolidated financials. Source: Company reports

# Credit Research

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- 3) Prohibition of the ratings in cases where Credit Rating Agencies have a close relationship with the issuers of the financial instruments to be rated, etc.
- 4) Duty to disclose information (preparation and publication of rating policies, etc. and public disclosure of explanatory documents).

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