S&P Global
Ratings

RatingsDirect®

Summary:

Caisse des Depots et Consignations

Primary Credit Analyst:
Sylvie Dalmaz, PhD, Paris (33) 1-4420-6682; sylvie.dalmaz@spglobal.com

Secondary Contact:
Mehdi Fadli, Paris (33) 1-4420-6706; mehdi.fadli@spglobal.com

Table Of Contents

Major Rating Factors

Outlook

Rationale

Related Criteria And Research

Summary:

Caisse des Depots et Consignations

Credit Rating:	AA/Stable/A-1+

Major Rating Factors

Strengths:	Weaknesses:
• A critical public policy role and integral link with the French government. • A public-sector institution that we see as an extension of the government.	• Structural volatility in earnings. • Capitalization constrained by sizable equity investments.

Outlook

The stable outlook on France-based Caisse des Depots et Consignations (CDC) reflects the outlook on France. S&P Global Ratings believes that CDC will retain its critical role for and integral link with France, and therefore expects its ratings on CDC will move in line with those on the sovereign.

Although we consider these possibilities to be remote, we could lower the ratings on CDC if we perceived a weakening of CDC's links with or role for the French government, or if we saw deterioration in CDC's financial profile that we believed would call into question the institution's ability to carry out its public policy role.

We could raise the rating if France's credit quality were to improve and the likelihood of support for CDC remained almost certain.

Rationale

The ratings on CDC are equalized with those on France. We consider CDC to be a government-related entity (GRE). In line with our criteria for rating GREs, we base our view that there is an almost certain likelihood of extraordinary government support for CDC if needed, on our assessment of CDC's:

- Critical role in contributing to many public policy missions on behalf of the French government and in acting as a long-term investor supporting the French public's interest; and
- Integral link with the French government, of which we consider CDC to be an extension. CDC has the status of a public-sector institution, established by a special law that only the French parliament can modify. Procedures in place ensure effective governance, monitoring, and control over CDC.

CDC is mandated to conduct public missions

Although CDC is a separate entity, we view it as an arm of the French government. CDC is mandated with conducting specific public missions and providing support in the implementation of government policies. Since its creation, CDC's overriding public role has been to guarantee the financial security of the funds it manages. It is managed prudently with close oversight by the French government.

CDC's mandates are to:

- Centralize and manage most of the regulated savings deposits collected by French banks (primarily the Livret A) and provide long-term financing to general interest programs, including social housing and local investments entrusted to Direction des Fonds d'Epargne (DFE; not rated);
- Administer several public retirement schemes;
- Administer deposits of legal professions, including notaries;
- Act as the custodian of the French social security agency;
- Support regional and local development; and
- Act as a long-term investor in affiliates and strategic shareholdings to support government policies.

CDC is a key stakeholder in the long-term funding of local authorities in France. In addition to providing direct lending, it holds:

- A 20% stake in Société de Financement Local (SFIL). Created in 2013, SFIL is a public-sector entity that provides loans to regional and local governments. It is also 75% owned by the French government and 5% by La Banque Postale. CDC is committed to providing funding to SFIL to a maximum limit of about €10 billion.
- A 35% stake in La Banque Postale Développement Local, which is 65% owned by La Banque Postale. The joint venture distributes loans to local and regional governments and public health institutions, with targeted annual loan production of €4 billion-€5 billion. These loans are expected to be refinanced by SFIL.

CDC's public role has been most recently exemplified by the creation of the Banque Publique d'Investissement (BPI France) in 2013. BPI France is jointly owned by CDC and the French government. Its main mission is to support and fund investments by French small and midsize enterprises (SMEs). BPI France incorporates former national strategic investment fund Fonds stratégique d'investissement (FSI), former fund manager CDC Entreprises, and former credit and guarantee provider to SMEs, Oséo.

Apart from BPI France, CDC's major equity investments include leading French life insurer CNP Assurance, postal operator La Poste, and real-estate operators Société Nationale Immobilière and Icade. In addition, CDC 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.

CDC's legal status is unique

CDC is a public-sector institution ("Etablissement public") defined by a special law dating from 1816. We understand that CDC is immune to liquidation and bankruptcy law, and decisions on dissolution would revert to the French government, which we consider to be ultimately responsible for CDC's liabilities (under Law 80-539 enacted on July 16, 1980). The French government and CDC have very strong links. CDC's CEO is appointed by France's president for a five-year term. Under the French Monetary and Financial Code (article L518-2), CDC is subject to parliamentary supervision. CDC's supervisory board comprises members of the French parliament and senior civil servants. The supervisory board is responsible for ensuring that CDC's strategy is in line with its mission, and that its financial policy is defined under sound principles.

CDC's financial profile contains certain key features

The balance sheet is typified by limited lending activity and generally low counterparty risk. CDC's equity portfolio is large and can lead to swings in net income. CDC's deposit base is stable, with deposits exceeding loans by almost 5x at year-end 2016.

For 2016, CDC posted €1.783 billion in net profit versus €1.371 billion in 2015. Recurring net profit stood at €1.564 billion as of year-end 2016, in line with the previous year. CDC's recurring profits remained resilient, despite low interest rates. Dividends received on CDC's equity portfolio and associated capital gains held up well, as did the contributions of the group's subsidiaries.

CDC's equity investments can result in swings in reported profits. While in 2015, CDC posted impairments at BPI France related to equity interests in the energy sector, its bottom line was boosted by some exceptional gains in 2014 at French telecommunications corporation Orange. Of note, in 2013, net profits included a significant one-time gain associated with the creation of BPI France. On the other hand, in 2012, sizable impairments related to Franco-Belgian banking group Dexia and France Telecom were booked.

Although CDC is not a bank, French regulators review its capital adequacy. In our opinion, CDC's capitalization is constrained by its large investments in equities.

At year-end 2016, CDC's total balance sheet stood at €167 billion, down by roughly 50% from year-end 2012. The decrease was a result of a change in the method of consolidating BPI France (formerly FSI and CDC Entreprises) and CNP Assurance, which occurred in 2013.

We note that DFE is not consolidated into CDC's balance sheet. DFE's regulated savings portfolio amounted to €255 billion as of year-end 2015. 65% of this total routinely funds long-term loans to support public investments, the balance being invested in a portfolio of securities under prudent guidelines. DFE's total adjusted common equity stood at an estimated €9.10 billion as of year-end 2016, and its net income amounted to €621 million that year.

Related Criteria And Research

Related Criteria

- General Criteria: Methodology for Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria - October 21, 2016
- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Ratings On France Unaffected By The Presidential Election Outcome, May 8, 2017
- France 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 7, 2017
- Caisse des Depots et Consignations Outlook Revised To Stable After Similar Action On France; 'AA/A-1+' Ratings

Affirmed, Oct. 25, 2016

Additional Contacts:
Financial Institutions Ratings Europe; FIG_Europe@spglobal.com
International Public Finance Ratings Europe; PublicFinanceEurope@spglobal.com