

RatingsDirect®

Summary:

Caisse des Depots et Consignations

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Summary:

Caisse des Depots et Consignations

Credit**Rating:** AA/Negative/A-1+

Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none">• Critical public policy role and integral link with the French state.• Public sector institution that we see as an extension of the French government.	<ul style="list-style-type: none">• Structural volatility in earnings.• Capitalization constrained by sizable equity investments.

Outlook

S&P Global Ratings' outlook on Caisse des Dépôts et Consignations (CDC) is negative and mirrors that on the Republic of France (unsolicited AA/Negative/A-1+). We expect that CDC will continue to act as an arm of the French state and support government policies, ensuring an almost certain likelihood of support from the French authorities should the need arise.

The ratings and outlook are expected to move in tandem with those on France.

We could lower the ratings on CDC if we downgraded France. Although we consider these possibilities as remote, we could also lower the ratings if we perceive a weakening of CDC's links with and role for the French state 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.

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 in the event of need 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 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, which 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 state.

CDC's mandates are:

- To centralize and manage most of the regulated savings deposits collected by French banks (primarily the Livret A) and to provide long-term financing to general interest programs, including social housing and local investments (this activity is entrusted to Direction des Fonds d'Epargne [DFE]; not rated);
- To administer several public retirement schemes;
- To administer deposits of legal professions, including notaries;
- To act as the custodian of the French social security agency;
- To support regional and local development; and
- To 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 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 provide 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 state. 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.

In late August 2015, the French president announced plans to bring Agence Française de Développement (the French Agency for Development [AFD]; AA/Negative/A-1+) closer to CDC. This reinforces our view of CDC's role as the most important GRE in France. AFD has a sovereign mandate for executing development policy and assistance, along with fighting against extreme poverty.

CDC's legal status is unique.

It is a public sector institution (Etablissement public) defined by a special law dating from 1816. We understand that CDC is immune from liquidation and bankruptcy law and decisions on dissolution would revert to the French state, 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 the president of the Republic of France 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 its net income. CDC's deposit base is stable. As of year-end 2015, deposits exceeded loans by almost 5x.

For 2015, CDC posted €1.371 billion in net profit versus €1.793 billion in 2014. Recurring net profit stood at €1.523 billion as of year-end 2015, in line with 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.

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-off gain associated with the creation of BPI France. On the contrary, in 2012, sizable impairments related to Franco-Belgian banking group Dexia and France Telecom were booked.

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

At year-end 2015, CDC's total balance-sheet stood at €156 billion. This was 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. Regulated savings 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 €9.6 billion as of year-end 2015. Its net income amounted to €1 billion in 2015.

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Group Rating Methodology, Nov. 19, 2013
- Guarantee Criteria--Structured Finance, May 7, 2013

- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Research Update: France 'AA/A-1+' Ratings Affirmed; Outlook Remains Negative, April 22, 2016
- Research Update: France 'AA/A-1+' Ratings Affirmed; Outlook Remains Negative, Dec. 11, 2015
- France 'AA/A-1+' Ratings Affirmed; Outlook Remains Negative On Risks To Reform, June 26, 2015
- Outlook Revised To Negative On Several French Entities Following Similar Action On France, Oct. 14, 2014
- France Outlook Revised To Negative; 'AA/A-1+' Ratings Affirmed, Oct. 10, 2014

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