# Groupe Caisse des Depots et Consignations

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# Groupe Caisse des Depots et Consignations

## Credit Highlights

| Issuer Credit Rating |
| --- |
| AA/Stable/A-1+ |

**Overview**

| Key Strengths | Key Risks |
| --- | --- |
| Critical public policy role. | Structural volatility in earnings. |
| Integral link with the central government. | Capitalization constrained by sizable equity investments. |
| Diversified operations. | |

- France's new PACTE law affirms Groupe Caisse des Depots et Consignations's (CDC's) general public interest mandate and allows state and parliamentary controls over CDC to be maintained.
- The PACTE law also permits CDC's majority takeover of La Poste in return for transferring its 40.9% stake in CNP Assurances to La Poste.
- In our view, the PACTE law does not affect the almost certain likelihood that CDC would receive timely and sufficient extraordinary support from the French government in the case of financial distress.

## Outlook

The stable outlook on CDC reflects our outlook on France. We believe that CDC will retain its critical role for and integral link with France, and therefore expect our ratings on CDC 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 CDC's link with or role for the French government, or if we saw deterioration in CDC's financial profile that would cause us to review our assessment of the importance of CDC's financial standing in 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 CDC 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 CDC's critical role for and integral link with the French government, we consider 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 CDC will move in line with those on France.

## Government Influence

Supporting our view of its critical role for the French government, CDC conducts key public missions and provides support in implementing government policies.

CDC's prime public role is to guarantee the financial security of the funds it manages. Its key mandates include:

- Centralizing and managing most of the 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, not rated);
- 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 Banque Publique d'Investissement (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. CDC's other major equity investments currently include leading French life insurer CNP Assurances, postal operator La Poste, real-estate operator CDC Habitat, developer Icade, and electricity transmission system operator Réseau de Transport d'Electricité (through Coentreprise de Transport d'Electricité). CDC 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.
- Supporting regional and local development, and acting as a key stakeholder in the long-term funding of local authorities, including through direct lending (from DFE) and through investments in local projects, and indirectly through its 20% stake in public development bank SFIL (AA/Stable/A-1+) and its 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.

The Plan d'Action pour la Croissance et la Transformation des Entreprises ("PACTE") law (voted on April 11, 2019 by parliament) affirms CDC's public interest mandate, carried out on behalf of the French government. The law also allows CDC's majority takeover of La Poste (A/Positive/A-1) in return for transferring its 40.9%-stake in French life insurer CNP Assurances (A/Stable/--) to La Poste, as announced in late August 2018. However, we still lack clarity regarding the project's calendar and specifics. We note that some potential regulatory obstacles, including a possible requirement for a buyback of CNP Assurances' shares held by minority shareholders, could cause the project to depart from the initially announced terms. If so, we would then assess the potential effect on CDC's financial standing, considering that CNP Assurances has historically been a key contributor to CDC's earnings. In addition, we will also monitor the effects of a recently announced project that would involve CDC taking over SFIL, which is currently majority-owned by the state (75%), with CDC owning 20% and LBP 5%.

### In our view, CDC retains its integral link with the French government.

As a public agency ("Etablissement public") defined by a special law dating from 1816, we understand that CDC 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 (under Law 80-539 enacted on July 16, 1980). Strict procedures ensure effective governance, monitoring, and control of CDC. The French president appoints CDC's CEO (for a five-year term), most recently in November 2017. Under the French Monetary and Financial Code, CDC 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 will change the composition and activities of CDC's CS, it will not alter the links between CDC and the government, in our view, as the government and parliament will still fully control CDC and its strategy. We also note the new law indicates a government decree will set the level of dividends paid to the state (€1.6 billion in 2019, including €914 million from core activities ("section générale"), €543 million from DFE, and €117 million of corporate tax-equivalent payments) after CS review, but so that CDC's solvency is preserved. Additionally, the PACTE law also indicates that the French banking regulator ACPR will supervise CDC.

### CDC's financial profile has distinctive features

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

For 2018 CDC posted a €1,768 million net profit on its core activities ("section générale"), down from €1,906 million in 2017, in the context of continued very low interest rates, volatile capital markets, and lower gains on investments portfolio.

In our opinion, CDC's capitalization remains constrained by its large investments in equities, which can also lead to large swings in net income. This has been positive--when assets sales generated gains (Orange in 2014)--as well as negative, when assets were impaired (Dexia and France Telecom in 2012).

While CDC is not a bank, the French banking regulator (ACPR) has reviewed its capital adequacy over recent years, and we note that ACPR will be in charge of prudential controls over CDC, under the new PACTE law. CDC does not disclose the standardized regulatory solvency ratios. CDC has developed its own prudential model since 2010/2011--which ACPR reviewed, at the request of CDC's supervisory board. This internal model suits CDC's overall business model and activities, especially its equity activities. We understand that, even though ACPR will fully regulate CDC as per the PACTE law, this internal model will continue to prevail over standard regulatory solvency ratios. We assess that CDC's solvency ratios would be substantially negatively impacted if it implemented the upcoming "Basel IV" ratios with higher risk-weights on equities portfolios.

We note that CDC's balance sheet (€163 billion at end-2018) does not consolidate DFE. DFE's regulated savings portfolio amounted to a very large €253 billion as of year-end 2018. About 70% of this total 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. DFE's operating income was a high €1,549 million in 2018 (up from €1,416 million in 2017) and its total adjusted equity reached €12 billion at end-2018.

**Table 1**

**Caisse des Depots et Consignations--Key Figures**

| | --Year-ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| **(Mil. €)** | | | | | |
| Adjusted assets | 161,293.0 | 171,822.0 | 164,816.0 | 154,998.0 | 148,733.0 |
| Customer loans (gross) | 4,248.0 | 5,415.0 | 5,785.0 | 10,542.0 | 12,919.0 |
| Adjusted common equity | 32,208.0 | 27,028.0 | 25,243.0 | 25,392.0 | 24,943.0 |
| Operating revenues | 10,439.0 | 10,655.0 | 4,745.0 | 4,099.0 | 4,659.0 |
| Noninterest expenses | 8,235.0 | 8,050.0 | 2,280.0 | 2,181.0 | 2,186.0 |
| Core earnings | 1,886.7 | 2,080.5 | 1,789.1 | 1,294.8 | 1,926.7 |

**Table 2**

**Caisse des Depots et Consignations--Business Position**

| | --Year-ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| **(%)** | | | | | |
| Total revenues from business line (Mil. €) | 10,473.0 | 10,692.0 | 4,878.0 | 4,115.0 | 4,663.0 |
| Commercial banking/total revenues from business line | 3.8 | 5.7 | 6.8 | 6.4 | 10.9 |
| Insurance activities/total revenues from business line | 7.1 | 1.3 | 14.0 | 14.1 | 8.9 |
| Agency services/total revenues from business line | 10.8 | 10.0 | 24.6 | 24.0 | 28.6 |
| Other revenues/total revenues from business line | 64.6 | 63.0 | 19.1 | 21.4 | 17.4 |
| Return on equity | 4.8 | 5.3 | 5.4 | 4.5 | 6.3 |

**Table 3**

**Caisse des Depots et Consignations--Capital And Earnings**

| | --Year-ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| **(%)** | | | | | |
| Net interest income/operating revenues | 4.0 | 2.2 | 7.0 | 9.3 | 9.4 |
| Fee income/operating revenues | (0.2) | (0.2) | (0.4) | 0.0 | 0.2 |
| Market-sensitive income/operating revenues | 0.0 | 8.9 | 13.4 | 5.8 | 7.5 |
| Noninterest expenses/operating revenues | 78.9 | 75.6 | 48.1 | 53.2 | 46.9 |
| Preprovision operating income/average assets | 1.3 | 1.5 | 1.5 | 1.3 | 1.7 |
| Core earnings/average managed assets | 1.1 | 1.2 | 1.1 | 0.8 | 1.3 |

**Table 4**

**Caisse des Depots et Consignations--Risk Position**

| | --Year-ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| **(%)** | | | | | |
| Growth in customer loans | (21.6) | (6.4) | (45.1) | (18.4) | 20.1 |
| Total managed assets/adjusted common equity (x) | 5.1 | 6.4 | 6.6 | 6.1 | 6.0 |

**Table 4**

**Caisse des Depots et Consignations--Risk Position (cont.)**

| | --Year-ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| | **2018** | **2017** | **2016** | **2015** | **2014** |
| New loan loss provisions/average customer loans | 0.3 | 0.0 | 0.7 | 1.4 | 0.1 |
| Gross nonperforming assets/customer loans + other real estate owned | 22.8 | 22.2 | 15.2 | 8.1 | 5.7 |
| Loan loss reserves/gross nonperforming assets | 27.6 | 48.9 | 55.2 | 56.3 | 52.2 |

**Table 5**

**Caisse des Depots et Consignations--Funding And Liquidity**

| | --Year-ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| | **2018** | **2017** | **2016** | **2015** | **2014** |
| **(%)** | | | | | |
| Core deposits/funding base | 58.4 | 54.6 | 51.4 | 50.2 | 45.3 |
| Customer loans (net)/customer deposits | 6.1 | 7.5 | 9.0 | 18.2 | 26.2 |
| Long term funding ratio | 84.8 | 81.5 | 79.1 | 77.8 | 74.3 |
| Stable funding ratio | 131.6 | 126.7 | 124.7 | 121.5 | 122.5 |
| Short-term wholesale funding/funding base | 20.3 | 24.6 | 27.5 | 29.2 | 33.7 |
| Broad liquid assets/short-term wholesale funding (x) | 2.8 | 2.4 | 2.2 | 1.9 | 1.6 |
| Net broad liquid assets/short-term customer deposits | 77.7 | 77.5 | 75.8 | 59.3 | 47.4 |
| Short-term wholesale funding/total wholesale funding | 48.8 | 54.3 | 56.5 | 58.6 | 61.7 |

## Environmental, Social, And Governance Factors

Environmental factors are mainly reflected in our analysis of CDC's public policy mandates and its related critical importance to the government, with CDC making environmental factors an integral part of its strategy. This translates into its mandates for funding environmental-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, we note that CDC has issued an inaugural benchmark green bond (€500 million) in February 2017.

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 CDC, with strikes having a limited effect on its activities in recent years, though we note this might be tested under a recently announced personnel reduction plan ("PSE").

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.

## 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

| Ratings Detail (As Of May 15, 2019)* | |
|---|---|
| **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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