



Fitch Affirms EPIC Bpifrance at 'AA'; Outlook Stable

Fitch Ratings - Paris - 26 March 2020:

Fitch Ratings has affirmed EPIC Bpifrance's (EPIC) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'AA' with a Stable Outlook and Short-Term Foreign-Currency IDR at 'F1+'.

Fitch has also affirmed Bpifrance Financement's EUR6 billion negotiable euro commercial paper (NeuCP), EUR4 billion negotiable European medium-term notes (NeuMTN), and EUR35 billion euro medium-term notes (EMTN) programmes at long-term 'AA' and short-term 'F1+'. In addition, Fitch affirmed the senior unsecured bonds at 'AA'. The bonds issued under these programmes benefit from an independent, unconditional and irrevocable first-call guarantee from EPIC Bpifrance.

Fitch classifies EPIC Bpifrance as a government-related entity (GRE) of the French state (AA/Stable) under its GRE rating criteria and equalises EPIC Bpifrance's ratings with those of the sovereign.

EPIC Bpifrance's public missions are carried out by Bpifrance SA and its subsidiaries. Together, they constitute Bpifrance Group, which is the French public bank dedicated to promote the financing and development of companies in France, notably small and medium enterprises (SMEs) and mid-caps.

Fitch rates the holding company EPIC Bpifrance, but not Bpifrance SA or its subsidiaries (including Bpifrance Financement) existing under Bpifrance Group.

Key Rating Drivers

The equalisation of EPIC Bpifrance's ratings with those of the French state reflects the following assessments on the rating factors.

Status, Ownership and Control: Very Strong

EPIC Bpifrance has the status of fully-owned public establishment. In case of dissolution, all its assets and liabilities would be transferred to the state or another public entity designated by the state. EPIC Bpifrance is also classified as a central government body (Organisme Divers d'Administration Centrale; ODAC). EPIC Bpifrance's general interest missions are defined by law and closely monitored by the French state, notably by the Ministries of Economy and of Education. The six members of EPIC's board of directors are appointed by the state and a government commissioner has the power to veto some of the board's decisions. Finally, EPIC Bpifrance's public missions are supervised by the French parliament through annual performance reports.

Support Track Record and Expectations: Very Strong

In 2017, the French government significantly reinforced the funds allocated to Bpifrance Group by increasing its capital by EUR1.769 billion, which Fitch views as a positive track record of support. The first EUR400 million of capital was released in December 2017 (equally between EPIC Bpifrance and Caisse des Depots et Consignations; CDC; AA/Stable); and the remaining EUR1.369 billion of capital was released in July 2018 (equally between EPIC Bpifrance and CDC). EPIC Bpifrance could also benefit from the French state's emergency liquidity mechanisms (emergency loans, purchase of short-term bonds by the French Treasury) in case of need.

Finally, Fitch considers the law of 16 July 1980 makes the state liable for the debt of its public establishments, although we do not consider the law to be tantamount to a guarantee. Fitch sees no legal or regulatory restriction on state support.

Socio-Political Implications of Default: Strong

Fitch considers that a default of EPIC Bpifrance would temporarily endanger the provision of a key government activity, leading to significant political and economic repercussion at the state level.

Bpifrance Group is a strategic public institution implementing France's economic support policy by promoting the financing and development of French companies, notably SMEs and mid-caps. Beyond its core business, Bpifrance also covers the financial risks associated with public export guarantee through Bpifrance Assurance Export since the transfer of COFACE SA (A+/Stable) in 2016. In 2019, Bpifrance also reinforced its sovereign funds activities with the absorption of CDC International Capital under Bpifrance International Capital and its technical support to enterprises with the launch of Bpifrance Creation.

In Fitch's view, the role of Bpifrance in the current pandemic crisis, supporting French companies' cash flow, highlights its strong importance for the state. As part of the emergency measures announced by the state on 16 March 2020, Bpifrance will increase its guarantee to up to 90% on companies' loans granted by banks for three to seven years and on overdrafts confirmed for 12 to 18 months. It will also provide unsecured loans from three to five years to SMEs and mid-caps impacted by the sanitary crisis.

Bpifrance relies on external financing through Bpifrance Financement's EUR6 billion NeuCP, EUR4 billion NeuMTN and EUR35 billion EMTN programmes to fund its activities. As a result, in Fitch's view a default would have immediate implications and threaten Bpifrance's ability to carry out its operations.

Financial Implications of Default: Very Strong

Fitch considers that EPIC Bpifrance is a proxy funding vehicle for the French state as it finances public policies decided at the state's level. EPIC Bpifrance is also a large issuer on the market through Bpifrance Financement's programmes.

Accordingly, we believe that a default of EPIC Bpifrance would be very detrimental for the French state's credit-standing and would also have a serious impact on the borrowing capacity of other French GREs, especially other public establishments.

Financial Operations:

Bpifrance Group's budgetary performance remained robust in 2019, with a low cost of risk of EUR83 million and a positive gross operating income of EUR742 million at end-2019 (EUR796 million at end-2018).

Bpifrance Group benefits from diversified sources of funding, through Bpifrance Financement, limiting its refinancing risk. Its funding is underpinned by the eligibility of Bpifrance Financement's securities for the public-sector purchase programme of the European Central Bank (ECB) and its classification as an agency in haircut category II within the ECB's rules (equivalent to local and regional governments' debt instruments). At end-September 2019, Bpifrance Financement's liquidity reserve was a sound EUR14 billion, including EUR5 billion of deposits with Agence France Tresor. This translates into a solid liquidity coverage ratio under Basel III regulations (522% at end-September 2019).

Derivation Summary

EPIC Bpifrance has a score of 50 points under the GRE Rating Criteria, which leads to an equalisation its ratings with those of the French state. Fitch does not assess EPIC Bpifrance's Standalone Credit Profile (SCP) due to its close financing and operational links with the French state.

RATING SENSITIVITIES

Rating action on the French state would lead to similar action on EPIC Bpifrance's IDRs and the ratings of guaranteed bonds issued by Bpifrance Financement.

A downgrade could result from a significantly lower assessment of strength of linkage or incentive to support factors, leading to a score below a total of 45 points under the GRE Rating Criteria, which would lead to a top-down assessment minus 1. This could result from a change in legal status or lower strategic importance for the state, which Fitch views as unlikely.

ESG Considerations

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Bpifrance Financement		
senior unsecured	LT AA Affirmed	AA
senior unsecured	ST F1+ Affirmed	F1+
EPIC Bpifrance	LT IDR AA ● Affirmed	AA ●
	ST IDR F1+ Affirmed	F1+
	LC LT IDR AA ● Affirmed	AA ●

Additional information is available on www.fitchratings.com

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Applicable Criteria

Rating Criteria for International Local and Regional Governments (pub. 13 Sep 2019)
Government-Related Entities Rating Criteria (pub. 13 Nov 2019)

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Solicitation Status
Endorsement Policy

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