



## RATING ACTION COMMENTARY

# Fitch Affirms EPIC Bpifrance at 'AA', Outlook Negative

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Fitch Ratings - Paris - 07 Apr 2023: Fitch Ratings has affirmed EPIC Bpifrance's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'AA' with Negative Outlooks. Fitch has also affirmed Bpifrance's (previously Bpifrance Financement) debt programmes at 'AA' and 'F1+', which all benefit from EPIC Bpifrance's independent, unconditional and irrevocable first-call guarantee. A full list of rating actions is below.

Fitch views EPIC Bpifrance as a government-related entity (GRE) of France (AA/Negative) under its GRE Rating Criteria and equalises EPIC Bpifrance's ratings with those of France. The Negative Outlook reflects that on the sovereign.

## KEY RATING DRIVERS

### Status, Ownership and Control: 'Very Strong'

EPIC Bpifrance has the special legal status of *établissement public à caractère industriel et commercial* (EPIC). Its general interest missions are defined by law and are closely monitored by the state. EPIC Bpifrance is under the supervision of the Ministries of Economy and of Higher Education, Research and Innovation. The state appoints seven members of EPIC's board of directors by decree and a government commissioner has the power to veto some of the board's decisions.

In case of dissolution, all assets and liabilities would be transferred to the state or another public entity designated by the state. A change of status would require a new decree.

## **Support Track Record: 'Very Strong'**

The French state has a very strong record of providing support to EPIC Bpifrance. In January 2021, the French parliament legislated the merger between Bpifrance Financement and Bpifrance SA, which strengthened Bpifrance's capital and significantly increased its financing capacity to perform its public missions.

In 2017, the French government increased Bpifrance's capital by EUR1.8 billion, of which EUR400 million was injected in December 2017, through EPIC Bpifrance and Caisse des Depots et Consignations (CDC, AA/Negative), in equal parts, and the remaining EUR1.4 billion in July 2018.

EPIC Bpifrance may also benefit from the French state's emergency liquidity mechanisms, including the purchase of short-term bonds by the French Treasury, if needed. Fitch sees no legal or regulatory restriction on support.

## **Socio-Political Implications of Default: 'Strong'**

Fitch believes that a default by EPIC Bpifrance would temporarily endanger the provision of a key government activity, leading to significant political and economic repercussions at the state level. To fund its activities, Bpifrance relies on external financing through its debt programmes guaranteed by EPIC Bpifrance and a default would threaten Bpifrance's ability to carry out its operations.

Bpifrance is the state's main arm in implementing the EUR54 billion "France 2030" plan aimed at making the French economy more competitive and building cleaner energy (EUR8.4 billion invested during the first year of the plan), which in Fitch's view, confirms Bpifrance's strategic importance for the state. Bpifrance also played a key role during the pandemic in supporting French SMEs by creating a platform to implement up to EUR300 billion state guarantees, granting unsecured loans directly to more than 15,000 companies and topping up to 90% its guarantees on bank loans to SMEs. Bpifrance also plays a major role in the post-pandemic economic recovery plan ("France Relance").

## **Financial Implications of Default: 'Very Strong'**

EPIC Bpifrance guarantees the debt of Bpifrance, which according to Fitch, is a proxy funding vehicle for the state because Bpifrance finances public policies decided at the state level and also given the tight spread of Bpifrance bonds over government bonds.

Bpifrance is also a large issuer in both national and international capital markets. In 2022, Bpifrance borrowed EUR6.5 billion from its EMTN programme (more than double

compared with 2021), including its second EUR1.25 billion green bond.

In Fitch's view, a financial default by Bpifrance would represent contagion risk for EPIC Bpifrance, given the latter's guarantee on Bpifrance's debt programmes. EPIC Bpifrance's default would have a large impact on the credit standing of the French state and other French GREs (especially *établissements publics*) as it would erode investors' confidence in the willingness of the state to support its entities.

## Operating Performance

EPIC Bpifrance's standalone financial performance directly depends on that of Bpifrance via dividends received from the latter. Bpifrance's dividends were strong in 2022 at EUR277 million (2021: EUR211 million). EPIC Bpifrance also receives dividends from TSA (Thales holding) and Electricité de France (EDF).

Strong dividends paid by Bpifrance reflect robust activity in all its business lines in 2022. On a consolidated level, Bpifrance extended EUR17 billion financing to companies (a more than 10% increase on 2021), and spent EUR4.8 billion (up 11%) in direct equity investments in companies and indirect investments through French private equity funds. Export insurance also rose sharply to EUR32 billion (up 58%).

Personnel costs rose by a high 6.5%, given an increase in new hires, which was compensated by near stability of other opex (+0.4%) and resulted in an overall opex increase of 3.5% in 2022, below inflation.

Net cost of risk was negative at EUR163 million, up from EUR75 million in 2021. Bpifrance's net income was high at EUR1.5 billion, although lower than in 2021 (EUR1.8 billion), as in 2021 there was a one-off re-evaluation of the fund of funds portfolio of close to EUR900 million.

## Derivation Summary

Fitch views EPIC Bpifrance as a GRE of the French state under its GRE Rating Criteria and equalises EPIC Bpifrance's ratings with those of the sovereign. This reflects a support score of 50 out a maximum of 60.

## Debt Ratings

The ratings of Bpifrance's debt programmes are in line with those of EPIC Bpifrance.

## Liquidity and Debt Structure

EPIC Bpifrance's standalone debt is fairly small (EUR0.7 billion at end-2022, down from EUR0.8 billion at end-2021), almost all of which is contracted with the French state.

Cash was high at EUR7.1 billion at end-2022 (end-2021: EUR4.8 billion).

Bpifrance is the main debt issuing body with EUR60 billion of debt outstanding at end-2022, of which EUR34 billion is long-term bonds (under its EMTN and NeuMTN programmes), EUR5.4 billion short-term bonds under its NeuCP programme and EUR20 billion bilateral loans, of which EUR18.8 billion is TLTRO III facilities. Bpifrance's bonds benefit from an irrevocable, unconditional, autonomous, first-call guarantee from EPIC Bpifrance.

Bpifrance's solvency remained strong with a common equity tier ratio of 27.6% at end-2022, well above the regulatory requirement of 9.5%. Bpifrance had a good liquidity position, underpinned by a liquidity coverage ratio of 427% and a net stable funding ratio of 119% at end-2022, both above their regulatory minimum of 100%.

### **Issuer Profile**

EPIC Bpifrance holds 49.2% of Bpifrance, a French public bank in charge of the financing and development of SMEs and mid-caps in France, alongside CDC with a similar stake. Fitch does not assign IDRs to Bpifrance or its subsidiaries.

### **RATING SENSITIVITIES**

#### **Factors that could, individually or collectively, lead to negative rating action/downgrade:**

EPIC Bpifrance's Long-Term IDRs could be downgraded if the sovereign's ratings are downgraded. It could also result from weaker assessment of the strength of linkage or incentives-to-support factors, leading to a score below 45 points under our GRE Rating Criteria. This may result from a change in legal status or lower strategic importance for the state, which Fitch views as unlikely.

#### **Factors that could, individually or collectively, lead to positive rating action/upgrade:**

A revision of the sovereign Outlook to Stable could lead to similar action on EPIC Bpifrance.

### **ESG Considerations**

Fitch no longer provides ESG scores for EPIC Bpifrance or Bpifrance as their ratings and ESG profiles are derived from their ultimate parent (the French state). ESG relevance scores and commentary for the parent entity can be found here

<https://www.fitchratings.com/entity/france-80442195#ratings>

### **PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS**

EPIC Bpifrance's IDRs and Bpifrance's debt programmes ratings are linked to the ratings of France.

### Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

### References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

#### RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Bpifrance				
senior unsecured	LT	AA	Affirmed	AA
senior unsecured	ST	F1+	Affirmed	F1+
EPIC Bpifrance	LT IDR	AA Rating Outlook Negative		AA Rating Outlook Negative
	Affirmed			
	ST IDR	F1+	Affirmed	F1+

LC LT IDR	AA Rating Outlook Negative	AA Rating Outlook Negative
Affirmed		

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LC ST IDR	F1+	New Rating
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## APPLICABLE CRITERIA

[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)

[Public Sector, Revenue-Supported Entities Rating Criteria – Effective from September 1, 2021 to April 27, 2023 \(pub. 01 Sep 2021\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

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EPIC Bpifrance	EU Issued, UK Endorsed

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