FCT Bpifrance SME 2019-1

SME ABS

Ratings

Series	Rating	Notional (EUR m)	Notional (% assets)	CE (% assets)	Coupon	Final maturity
Class A	(P) AAA$_{SF}$	1,550.9	77.5	22.5	0.20%	25 Oct 2052
Class B	NR	450.3	22.5	-	0.25%	25 Oct 2052
Residual Units	NR	0.1				25 Oct 2052
Rated notes	1,550.9					

Scope's quantitative analysis is based on the portfolio dated 30 September 2019 and the prospectus provided by the originator. Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for the SF Rating Definitions.

Transaction details

Purpose	Liquidity/Funding
Issuer	Bpifrance Financement
Originator	Bpifrance Financement
Servicer	Bpifrance Financement
Closing date	25 October 2019
Payment frequency	Quarterly: 25th January, 25th April, 25th July, 25th September

The transaction is a true-sale securitisation of a EUR 2bn revolving portfolio of loans granted to SMEs in France by Bpifrance Financement. The entity is also the seller and the servicer of the transaction. BNP Paribas Securities Services is the issuer account bank as well as the paying agent.

Rating rationale (summary)

The rating reflects: i) the legal and financial structure of the transaction; ii) the quality of the underlying collateral in the context of the robust French macroeconomic environment; iii) the ability of the originator and servicer, Bpifrance Financement; and iv) the counterparty exposure to BNP Paribas Securities Services, as account bank and paying agent.

The class A notes benefit from 22.7% credit enhancement at closing as well as protection against losses from the portfolio provided by excess asset interest of at least 1.03% annually. The rated notes are expected to amortize over a weighted average life of 4 years from the end of the three-year revolving period. After the revolving period, class A will benefit from sequential amortisation.

Furthermore, interest and principal priorities of payment are interconnected, ensuring liquidity support beyond the reserve fund for the payment of interest to class A notes. The latter also benefits from a mechanism linked to portfolio defaults, which traps excess spread to ensure sufficient collateralisation.

The risk of portfolio performance deterioration is mitigated by early-amortisation triggers. Asset- and portfolio-level covenants limit qualitative changes to the portfolio's composition.

Analytical Team

Cyrus Mohadjer
+49 69 66 77 389-59
c.mohadjer@scoperatings.com

Olivier Toutain
+33 1 82 88 23 56
o.toutain@scoperatings.com

David Bergman
+39 02 30315-838
d.bergman@scoperatings.com

Investor Outreach

Michael John MacKenzie
+44 203 71449-81
m.mackenzie@scopegroup.com

Related Methodologies

General Structured Finance Rating Methodology

Methodology for Counterparty Risk in Structured Finance

SME ABS Rating Methodology

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Tel. +49 30 27891-0
Fax +49 30 27891-100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

The performance of the assets benefits from the relatively large, resilient and diversified French economy, along with the consistent and proven track record of Bpifrance Financement, a state-owned bank with considerable experience in domestic SME lending.

The rating also factors in the transaction's counterparty risk. In addition to Bpifrance Financement acting as a servicer, BNP Paribas Securities Services will act as account bank and paying agent, while the specially dedicated account will be held by BNP Paribas. Counterparty risk is mitigated by the credit quality of the counterparties and mechanisms in the structure such as replacement triggers upon a deterioration of BNP Paribas credit quality. We have assessed the credit quality of BNP Paribas at AA-, Stable Outlook, while public information was used for Bpifrance Financement, taking into consideration the institutional role of the bank as well as its shareholders, along with the available public credit ratings.

Rating drivers and mitigants

Positive rating drivers

Credit enhancement. Class A benefits from 22.7% credit enhancement resulting from subordination as well as a EUR 4m cash reserve.

High recovery rate. We assume a base case recovery rate of 80%, materialising 24-36 months after a default. This driven by Bpifrance Financement's historical performance, resulting from both recoveries and cures.

Natural hedge of interest rates. The transaction is protected from interest rate mismatch by an eligibility criteria that limits the share of floating-rate loans to 7%, while the issued notes pay fixed interest coupons.

Robust French economy. The French economy will have a positive effect on portfolio performance and thus the rated notes. The solid economic environment is demonstrated by continued GDP growth, stable private and public investment, further boosted by a fiscal stimulus.

Negative rating drivers and mitigants

Relatively high default rate. We assume a point-in-time default rate of 6%, a relatively high level derived from the historical performance of the bank's loan book. This is mitigated by the large amount of loans curing during the initial period following a default.

Revolving portfolio. The characteristics and credit quality of the portfolio may migrate during the replenishment period, i.e. three years after the closing date. This risk is mitigated by the originator's expertise and the adequate single-asset, portfolio and performance covenants in the structure.

No back-up servicer. No back-up servicer was appointed at the closing of the transaction. Operational risk arising from servicer default is mitigated by the ownership structure of Bpifrance Financement's partial ownership by the French state.

Upside rating-change drivers

Downside rating-change drivers

Worse-than-expected asset performance exemplified by a higher-than-expected default rate or lower-than-expected recovery upon asset default would negatively impact the ratings.

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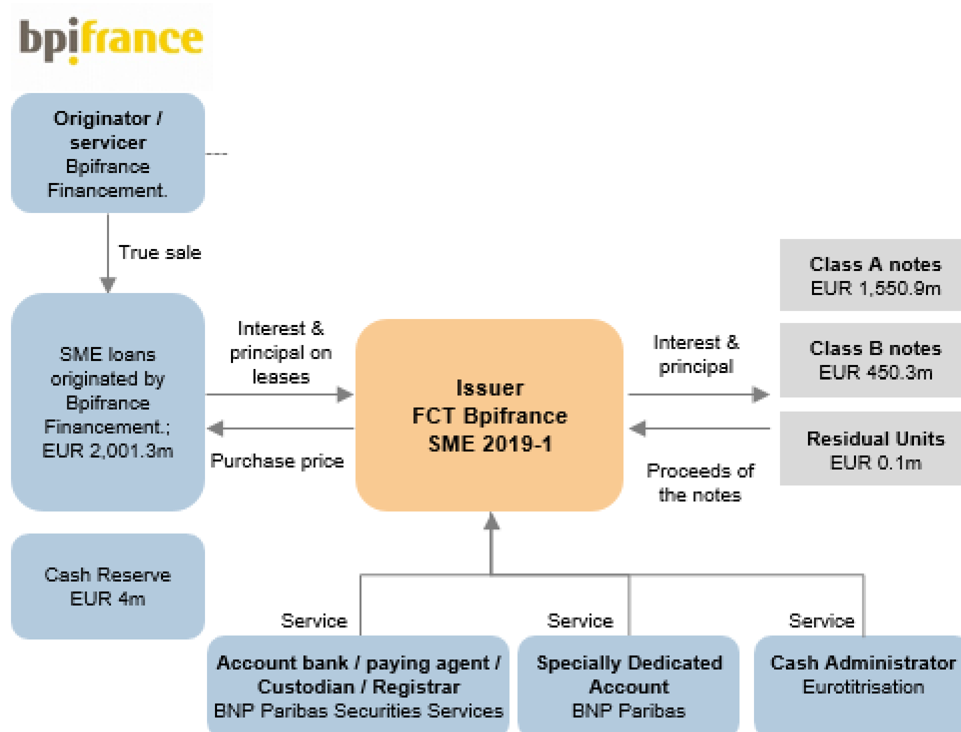
1. Transaction summary

Figure 1: Simplified transaction diagram



Source: Transaction documents and Scope.

The transaction consists of the securitisation of a EUR 2.001bn portfolio of fully amortising loans which Bpifrance Financement originated and granted to French SMEs. A large portion of the underlying loans benefit from a first ranking mortgage (c.65%), as well as other types of collateral such as third-party guarantees, financial assets or pledges over businesses. The transaction features a three-year replenishment period, subject to performance and asset-eligibility covenants.

The structure comprises two classes of notes (A and B) and residual units which finance the EUR 2.001bn securitised portfolio. Bpifrance Financement, the originator, has funded a EUR 4m reserve fund, whose level is set at 0.26% of the outstanding class A notes balance. The fixed-rates notes will follow a fully sequential amortisation. All note classes benefit from the interconnected principal and interest priorities of payment. The reserve fund provides liquidity and credit enhancement for classes A and B. Credit enhancement for the rated notes is provided via subordination and the reserve fund, as well as excess spread. The notes pay quarterly and have legal maturity on 25 October 2052.

2. Asset analysis

2.1. Securitised assets

The portfolio solely comprises medium or long-term loan receivables granted to French SMEs as part of the wider *"PLMT avec garanties"* book of Bpifrance Financement. The latter is a bank co-financing product[1] that is part of the bank's historical secured loan portfolio.

The portfolio benefits from positive selection compared to Bpifrance Financement's total book, because eligibility criteria only include performing loans with capped original loan-to-value ratios.

The current portfolio has 31 months of seasoning with a weighted average remaining time to maturity of over 10 years. Portfolio replenishments will reduce the seasoning and potentially increase the remaining time to maturity. The loans in the initial portfolio were originated between 2014 and 2019, with 56% originated from 2017 onwards. Loans transferred to the portfolio have at least one instalment paid and a maximum maturity of 20 years after the transaction closing date. The standard amortisation scheme is French and 97.5% of the loans pay a fixed interest rate.

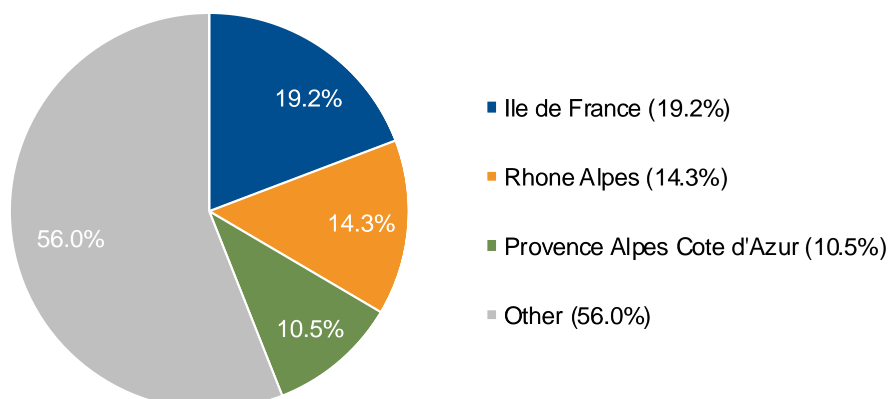
2.1.1. Granular portfolio with no relevant concentrations

We did not adjust the portfolio's credit figures (estimated using vintage data) based on obligor, sector or regional concentrations. This is because the portfolio is granular and well-diversified across sectors and regions, and these characteristics are unlikely to change significantly over the replenishment period as the current portfolio's structure resembles that of Bpifrance Financement's loan book.

Figure 2: Portfolio granularity

Granularity	Restriction
Effective obligors	1,014
Effective regions	11.4
Effective industries	4.4

Figure 3: Regional distribution of the initial portfolio (three largest regions)



[1] The financing of the loan is subject to the debtor obtaining a financing from a third-party commercial bank

2.2. Post-replenishment portfolio

Initial portfolio will change via replenishments

The closing portfolio will change via monthly replenishments during the three-year revolving period, i.e. from the closing date until 25 October 2022. The maximum replenishment amount on each replenishment date is the difference between the initial EUR 2,001m portfolio balance and the outstanding balance.

Our analysis accounted for the risks inherent to revolving transactions, namely portfolio deterioration and changes to portfolio characteristics, all within the covenanted limits on both portfolio and asset level. We believe the risk of deviation beyond these limits is covered by standard stresses applied in our analysis.

Our expectations regarding the post-replenishment portfolio consider the contractual amortisation of the initial portfolio and the addition of new unseasoned loans. Subsequent portfolio replenishments were assumed to be the most adverse possible and we considered the minimum average yield for the new loans added to the portfolio, the minimum seasoning and the maximum remaining term.

We also assumed delinquencies for 3.5% of the portfolio by the end of the revolving period, i.e. assets that are neither performing nor provisioned with excess spread. This share corresponds to the early-amortisation trigger linked to the cumulative delinquency ratio, and is thus assumed to default three months after the amortisation period begins, in line with the transaction's definition of default.

2.3. Impact of replenishment mechanisms

Replenishment covenants protect collateralisation of the rated notes

The replenishment mechanisms preserve the collateralisation of notes via non-defaulted assets and cash. The structure uses collected funds to acquire new assets every month. Portfolio defaults trigger the trapping of excess spread. The replenishment period ends on 25 October 2022 or earlier if triggered.

2.3.1. Early-amortisation triggers

Early-amortisation triggers protect against portfolio underperformance

We regard as adequate the transaction's protection against risks inherent to revolving transactions, namely a deterioration in portfolio quality or performance. The risk of adverse changes to portfolio characteristics is mitigated by portfolio and single-asset covenants over the replenishment period. Any reinvestment will be conditional upon i) compliance with the loan and portfolio eligibility criteria, ii) the representations and warranties made by the seller still being true. Early-amortisation triggers are summarised in Figure 4.

Figure 4: Normal redemption events related to the originator and assets

Trigger	Description
Event of default	The issuer defaults on a payment obligation.
Servicer	A servicer termination event has occurred and is continuing.
Fund	The fund has not purchased any SME loan receivable from Bpifrance Financement during a period of four consecutive months.
Dynamic delinquencies	Three-month rolling average of delinquencies (30+ days past due) exceed 3.5% of the outstanding portfolio balance.
Cumulative defaults	'180+ days past due' delinquencies and accelerated loans and loans that entered one of the legal proceedings referred in the transaction default definition over the securitised asset balance (initial portfolio plus replenishments) exceeds the following ratios in the respective period since closing date: 4.5% in the first 18 months; 5.5% in the next 18 months.
Principal deficiency ledger (PDL)	The principal deficiency ledger shows a debit on any monthly calculation date, after the application of the relevant interest priority of payments.

Reserve fund	Reserve fund is not at the required level after application of the interest priority of payments.
Portfolio balance	Balance of performing assets is below 90% of the closing portfolio balance.

2.3.2. Portfolio- and asset-level covenants

Transaction covenants adequately limit the migration of portfolio characteristics over the replenishment period. Figure 5 and Figure 6 summarise the main asset-level and portfolio-level covenants, respectively.

Figure 5: Main loan level covenants

Asset covenants	Restriction
Borrower nature	Underlying borrowers have to be incorporated in France and cannot be subject to insolvency events or registered on public credit registry of adverse credit history.
Underlying probability of default	The ratings provided by the Banque de France are not equal to “7”, “8”, “9” or “P”.
Loan size	Above EUR 10,000 and below EUR 8m
Maturity	Remaining term at cut-off is not less than six months but up to than 20 years.
Interest rate and margin	Fixed-rate or floating-rate margin are each at least equal to 0.9%. Reference index can only either be Euribor (one- or three-month). Borrowers cannot have floating-rate interest for fixed-rate loan agreements.
Payment	Loan receivables are amortising, payable in EUR with a fixed final maturity and instalments due monthly or quarterly. No more than 10% of the initial principal amount can be repaid in the last instalment.
Indexation	The outstanding balance of the loan is not indexed.
Overdue contracts	No arrears and no unpaid and outstanding instalments recorded.

Portfolio level covenants ensure a minimum granularity of the portfolio and limit the potentially adverse impact on portfolio performance from loan restructurings.

Figure 6: Principal portfolio level covenants

Portfolio covenants	Limit	Current portfolio as of 30 September 2019
Largest obligor	0.5%	0.39%
20 largest obligors	7.5%	7.08%
Beverage, food & tobacco[2]	30.0%	26.78%
Construction & building	25.0%	23.45%
Hotel, gaming & leisure	20.0%	13.85%
Ile de France region	30.0%	19.18%
Rhone-Alpes region	20.0%	14.31%
Minimum weighted average interest rate	1.35%	1.86%

[2] Industry classifications are based on Moody’s Industry Category

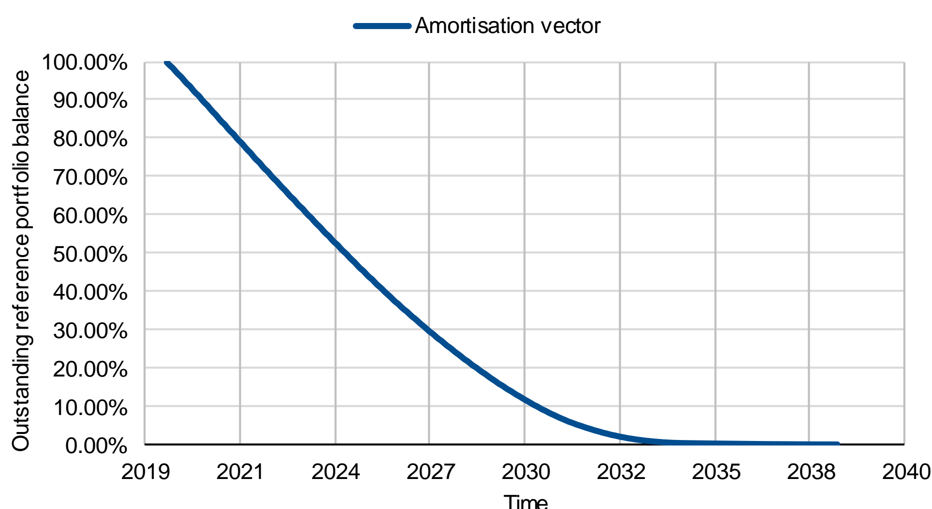
Share of floating-rate loans	7.0%	2.5%
Share of unsecured loans	5.0%	0.54%
Weighted average seasoning (months)	28	30.6
Weighted average life (months)	76	67.2
Weighted average remaining term (months)	170	127.9
Share of loans with a LTV equal or below 130%	60.0%	71.84%

2.4. Amortisation profile

French amortisation profile

The expected amortisation profile reflects the replenishment period as well as covenants regarding the maximum maturity, the weighted average remaining term, and the assets' amortisation scheme. Figure 7 shows the evolution of the portfolio during the revolving period, considered as part of our analysis of the portfolio at the start of the amortisation period. Most of the loans follow a French amortisation scheme.

Figure 7: Expected portfolio amortisation profile (0% prepayment, 0% defaults)



2.5. Portfolio modelling assumptions

Figure 8: Portfolio modelling inputs for expected portfolio at end of revolving period

	Portfolio
Point-in-time default rate	6.0%
Coefficient of variation	62.0%
Base case recovery rate	80.0%
AAA rating-conditional recovery rate	48.0%
Constant prepayment rate, low	0.0%
Constant prepayment rate, high	5.0%

2.5.1. Default rate analysis on portfolio

We calibrated the portfolio point-in-time default rate and recovery assumptions based on 2007-18 quarterly vintage data. The data sample's definition of default is aligned with the transaction's (180 days past due); we only considered the first default of a single loan.

In a given quarter, a loan is considered defaulted if:

i) The borrower of the loan entered into a safeguard proceeding, accelerated financial safeguard proceeding, judicial reorganisation or judicial liquidiation, or was subject to a partial transfer of the business.

ii) Bpifrance Financement had registered that at least one loan due by the borrower and managed through one of its information systems has been in arrears by more than 180 days.

iii) A partial or total write-off was granted to the borrower regarding any loan due by the borrower.

iv) The loan was accelerated.

2.5.2. Recovery rate

We derived the base case recovery rate using vintage data, considering recoveries accumulated within three years after a default. We estimate the recovery lag to be 24 months for 90% of expected recoveries, and 36 months for the remaining 10%.

Analysis incorporates rating-conditional recovery assumptions

The recovery data include sales proceeds from secured assets. The originator's pledge over secured assets to the issuer's benefit is credit-positive. In case of the originator's insolvency, any sales proceeds from the assets can be used to satisfy claims on behalf of the issuer resulting from the purchased receivables and the linked servicer obligations.

Our recovery assumptions are driven by i) the relatively high observed cure rates, as vintage data also include cash flow from loan receivables that had technically defaulted but resumed making regular payments; and ii) recoveries stemming from uncured defaulted assets.

Our portfolio modelling used fixed recovery rate assumptions (derived from the vintage data analysis), which were then stressed with haircuts based on the target rating of the rated notes.

2.5.3. Constant prepayment rate (CPR)

Scope tested the class A notes against the most conservative 0% CPR assumption

Scope tested the performance of the rated notes assuming 0% and 5% constant prepayment rates, as the notes generally benefit from prepayments under the strictly sequential amortisation.

3. Financial structure

3.1. Capital structure

Two classes of notes and residual units were issued. Class A and B and residual units issuance proceeds were used to purchase the initial portfolio of assets. Bpifrance Financement also funds a cash reserve and bears any upfront costs.

Both classes pay a quarterly fixed coupon of 0.2% for class A and 0.25% for class B. Unused excess spread is paid to subordinated items after the replenishment of the reserve fund and the clearance of the interest deficiency ledger and principal deficiency ledger (if applicable). The amortisation of the notes will not start until the end of the revolving period, which is three years after the closing date, or earlier if triggered by events. The amortisation is strictly sequential between class A and class B, with the latter not receiving any principal until the class A notes are fully amortised.

3.2. Reserve fund

Fully funded reserve fund provides 0.2% credit enhancement

The structure features a fully funded cash reserve fund provided by Bpifrance Financement, with an initial balance of EUR 4m, namely 0.2% of the outstanding notes amount which is also the reserve required amount on any payment date. This RF provides liquidity support for all note classes and can cover losses at transaction maturity.

On the final maturity date, the RF can also be used to cover shortfalls in the collections available to pay the outstanding principal amount. The reserve fund cannot be used to fund replenishments and does not amortise until the class A notes are redeemed in full.

The Reserve fund could cover fees and Class A interest for up to three quarterly payment periods considering the expected operating costs associated with the fund.

3.3. Priority of payments

The interconnected priorities of payment is the main protection against payment interruption

The priorities of payment protect class A noteholders by providing liquidity for timely interest payments and trapping excess spread to cover principal losses from defaults.

The structure is simple. An apparent complication consists of the separate interest and principal waterfalls and separate deficiency ledger mechanisms. This is addressed by the priorities of payment being well interconnected and behaving like a combined waterfall. Principal collections can therefore cover interest-related cash shortfalls, and excess spread can restore collateralisation should an asset default result in a principal shortfall. The latter is ensured via a principal deficiency ledger (PDL).

Figure 9: Priorities of payments and available funds

	Interest priority of payment	Principal priority of payment
Available funds	1) Interest collections from assets (including penalty interest) 2) Interest earned on issuer accounts 3) Cash drawn from the cash reserve to cover up to item 3 in the interest waterfall	1) Principal collections from the assets; 2) In relation to non-defaulted receivables: a) prepayments b) insurance payments; c) rescission and indemnification payments; 3) Recoveries (principal) 4) Amounts allocated to clear the PDL (cash diverted from the interest priority of payments under item 7); and
Replenishment period	**Quarterly payment dates**: 1) Taxes and fund operating expenses 2) Class A interests and interests arrears 3) Reserve fund replenishment	**Quarterly payment dates:** 1) Principal lent to the first two items of the interest waterfall to the extent it is not paid after the application of the latter. 2) Payment of the principal component of the purchase price of the additional loans purchased by the fund

	Interest priority of payment	Principal priority of payment
	4) Allocation to clear PDL (credit to PDL) 5) Class B interests and interests arrears 6) Payment to the seller of unpaid balance of the interest component purchase price 7) Subordinated items	3) Following the occurrence of an optional partial redemption event[3], repayment of class A based on the optional partial redemption amount[4]
Amortisation period	**Quarterly payment dates:** 1) Taxes and fund operating expenses 2) Class A interests and interests arrears 3) Reserve fund replenishment 4) Allocation to clear PDL (credit to PDL) 5) Class B interests and interests arrears 6) Payment to the seller of unpaid balance of the interest component purchase price 7) Subordinated items	1) Principal lent to the first two items of the interest waterfall to the extent it is not paid after the application of the latter. 2) Class A principal and principal arrears repayment (until redeemed in full) 3) Class B principal and principal arrears repayment 4) Subordinated items
Post-enforcement	The post-enforcement priority of payments is triggered by an accelerated redemption event or liquidation of the fund. 1) Taxes and fund operating expenses 2) Class A interests and interests arrears 3) Reserve fund replenishment as long as the fund is not liquidated 4) Full redemption of class A notes 5) Class B interest 6) Payment to the seller of unpaid balance of the interest component purchase price 7) Class B principal (in full) 8) Subordinated items	

3.4. Matched interest rates

Interest rate risk is limited by a natural hedge arising from the fixed-rate nature of both assets and liabilities.

Interest type and payment frequency accommodate well with the liabilities

We expect repayments and replenishments to reduce available excess spread, due to the covenant on replenishment interest. Our analysis considered the minimum spread of the portfolio assets at 1.35%, is the amount available during the notes' expected life. This results in excess spread of 0.25%, which represents a significant stress compared to the 1.55% excess spread available at closing. All calculations of excess spread assume stressed senior costs of 1%.

3.5. Accounts

The issuer has a treasury account held by BNP Paribas Securities Services, which holds collections from the assets as well as the reserve fund.

The transaction also features a specially dedicated account held by BNP Paribas, whose purpose is to hold all instalments paid by the borrowers, which are directly credited. Any remuneration, fee, debit interest or any other fees due to the specially dedicated account bank, along with any rejection not debited from the account, will be debited from a separate account opened by the Servicer with BNP Paribas.

The transaction is thus exposed to BNP Paribas and its subsidiary (see Counterparty Risk section), though we take comfort from the bank's public ratings and replacement trigger. The -0.5% negative carry introduced by this account is covered by credit enhancement.

[3] Optional partial redemption event occurs if the balance of performing assets is below 90% of the closing portfolio balance, and the management company elects to redeem the class A notes to avoid the occurrence of a normal redemption event on the next payment date.
[4] Should be calculated and agreed between the management company (Eurotitrisation) and Bpifrance Financement.

3.6 Repurchase option on defaulted loans

Bpifrance Financement has the option to repurchase loans that have defaulted during the last collection period. The repurchase price is equal to the outstanding principal balance of the loan at default.

Scope has not considered this element in its cashflow modelling.

4. Originator and seller

Bpifrance S.A was set up in 2013 resulting from the merger between OSEO, CDC Enterprises and FSI, a transaction orchestrated by the French government at the time. The bank operatesas "a public group primarily aiming at financing and developing companies, acting in accordance with the public policies conducted by both the State and regional authorities"[5]. The company is jointly owned by the French state and the Caisse des Dépôts, thereby implicitly benefiting from strong state support.

Bpifrance Financement is the bank of the group, offering three distinct business lines for SMEs, namely i) own account-related investments, generally co-financing debt alongside third-parties ; ii) state account-related guarantees ; and iii) innovation financing, the latter two being mainly funded by public allocations. These business lines are managed within an integrated banking model (pooling of resources, branch networks, information systems, etc.) for shared customers and based on strictly hived-off financial resources

Bpifrance Financement 's functions, systems, processes and staff are adequate

The bank's functions, systems, processes and staff allow for efficient lending. On September 5th, 2019, we met with Bpifrance Financement executives in Paris to gain a better understanding of the underwriting and servicing aspects relevant to the analysis.

4.1. Sanctioning and underwriting

The bank's network is decentralised and adequately covers the French territory, with six distinct network divisions, each composed of several regional divisions (49 in total) that are in charge of loan origination.

Underwriting directives of Bpifrance Financement are relatively stringent, with various restrictions on amounts, exposures, maturities and counterparty quality. The internal risk management tool includes three underlying layers, focusing on i) the credit risk associated with relevant risk counterparty; ii) a project rating assessing project coherence; and iii) a transactional rating determining expected recoveries based on the collateral.

Sanctioning power is delegated and segmented. Smaller loans (< EUR 150,000) are subjected to an automated credit decision tool, while every lending decision is being submitted to at least two validations levels. The underwriting process also ensures that the most sensitive cases are reviewed by a centralised credit committee (based in Paris); this takes place twice a week. In 2018, approximately 36% of decisions were taken centrally, which represents 69% of the originated volume.

The bank is a co-lender on the majority of its loan book, adding an additional decisional power to the underwriting process. Additionally, Bpifrance Financement regularly reviews the performance of its origination processes to ensure originated volumes stay within set targets.

4.2. Servicing and recovery

Adequate and proactive servicing and recovery processes

The bank's loan servicing and management of non-performing loans is adequate. The risk of outstanding performing loans is classified as either 'Full Performing' or 'Watch-list'. The latter applies to loans and counterparties displaying warning signals, thereby

[5] Article 1 of Act No. 2012-1559 dated 31 December 2012 on the creation of Bpifrance

restricting the possibility to contract new loans or use any available drawdown on existing lines of credit. Loans become non-performing after 90 days past due payments and are managed on a line-by-line basis.

The management of overdue debt starts with an automated reminder letter 12 days after the initial due date generated by Bpifrance Financement's proprietary information system. Until 120 days past due, after which a formal notice is sent, contracts can be terminated, with the full amount becoming payable. In addition to commercial renegotiations or modifications of the initial loan terms as allowed by specific contract conditions, financial restructuring might be applied to counterparties in proven financial difficulty.

A number of specific credit committees manage and monitor non-performing loans, meeting from one to two times a week at the regional and national levels. Delinquency managers fill in litigation cases that can be approved by up to four validation levels.

Bpifrance Financement 's recovery strategy is pro-active and aimed at finding a joint solution and avoiding immediate repossession of the leased object. Once a solution is agreed, restructured deals are monitored.

The bank's servicing, provisioning and recovery strategies are consistent with its business model, which focuses on the efficient handling of high volumes and aims to help defaulted obligors to resume making regular payments.

5. Quantitative analysis

We have assigned an AAA_{SF} rating to the class A notes based on our cash flow analysis. This result is driven by the transaction's credit enhancement mechanisms (sequential-amortisation trigger) and resilience to default, interest and prepayment stresses. The class A itself also shows resilience to any deterioration in recovery rates.

We used our large homogenous portfolio approximation approach (LHPA) to model the highly granular collateral pool. Key assumptions derived were then applied to the cash flow analysis of the transaction over the amortisation period. We modelled the transaction on the whole portfolio level, based on the composition of the portfolio.

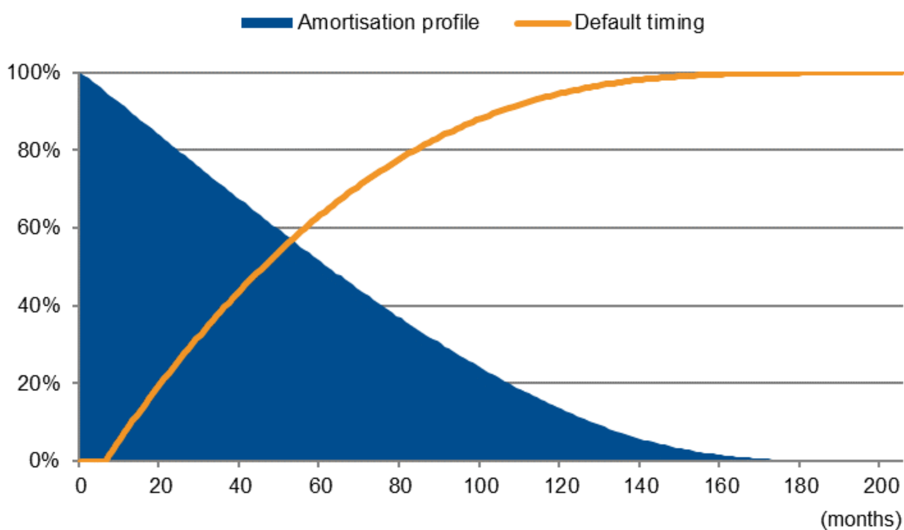
We did not apply long-term adjustments to the default rate and coefficient of variation, given the historically stable economic expansion in France.

Scope used a bespoke cash flow model to analyse this transaction

We calculated the probability-weighted loss for the rated notes using our cash flow model combined with the portfolio default distribution (inverse Gaussian). The cash flow tool also produced the expected weighted average life for the rated notes.

We considered a front-loaded default-timing term structure. Back-loaded default scenarios are not as severe owing to the fast amortisation of the portfolio. The cumulative default-timing assumptions are shown on Figure 14 and represent the assumed default timings for the portfolio when the replenishment period ends. These assumptions imply a front-loading of delinquencies, starting on the first month of the life of the transaction. The defaults are classified as 180+ days past due, in line with definitions in the documentation.

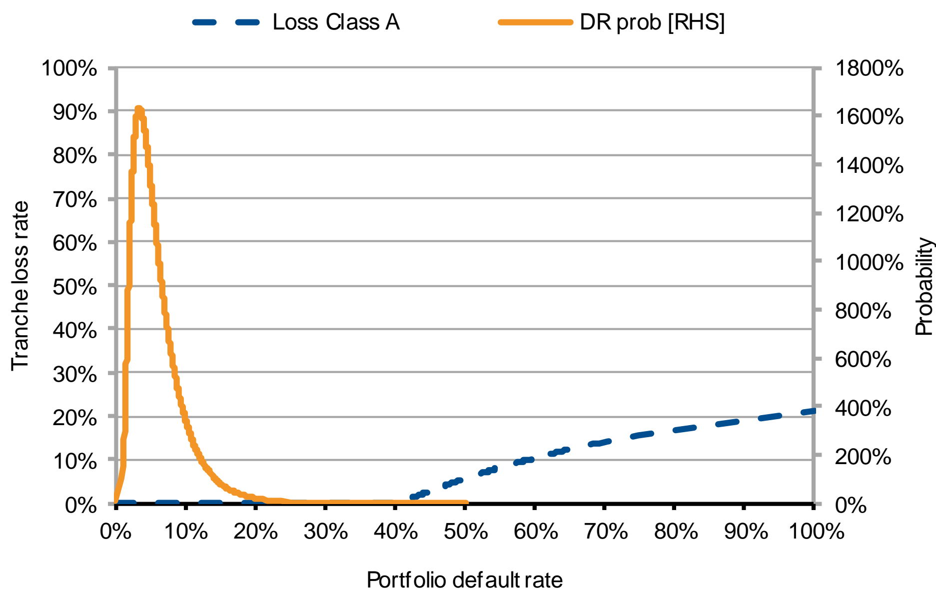
Figure 10: Default-timing assumption for the portfolio



Front-loaded default timing considered

Figure 11 shows the losses of the class A notes at all portfolio default rates. The chart shows how credit enhancement and excess spread protect the rated notes as well as recovery proceeds in case of default.

Figure 11: Cash flow model results for base case mean DR and CoV; AAA rating conditional RR



Note: The probabilities displayed on right-hand axis have to be considered in the context of the probability density calculation.

6. Rating stability

We tested the resilience of the rating against deviations of the main input parameters: the portfolio mean default rate and the portfolio recovery rate. This analysis has the sole purpose of illustrating the sensitivity of the rating to input assumptions and is not indicative of expected or likely scenarios.

The following shows how the respective model-implied rating for class A changes when the portfolio's expected default rate is increased by 50% and the portfolio's expected recovery rate is reduced by 50%, respectively:

- Class A, rated AAA_{SF}: sensitivity to probability of default, zero notches; sensitivity to recovery rates, zero notches.

7. Sovereign risk

Sovereign risk does not limit the transaction's ratings

Sovereign risk does not limit the rating given France's large, resilient and diversified economy. Economic growth remains robust relative to the euro area level, estimated at 1.3% in 2019. This is mainly achieved by stable private and public investment as well as the use of a fiscal stimulus. For 2020, Scope expects growth to slow to 1% of GDP, reflecting spill-over from the Germany economy slowdown and the possible outsourcing of automotive production.

SME bankruptcy levels in France have been relatively stable over the past five years, ranging between 0.5% and 0.7%. Lending volumes have also stabilised since 2018, after having rallied since the beginning of the low-rate environment.

The French government under President Emmanuel Macron has enacted major supply-side-oriented reforms to stimulate the growth potential (up by 0.1-0.2 pp). These include tax cuts for employers and employees, reduced ancillary wage costs, and a reform of the highly distortive tax system. At the same time, high levels of public debt (99% of GDP), structural unemployment (9%) and limited growth potential remain rating constraints. Important considerations for the rating development are the successful implementation of the pension reform and sustained debt reduction.

High and increasing external debt, at above 200% of the country's GDP, poses little risk on aggregate because it is matched by similar (liquid) asset inflow, although certain industries (e.g. real estate, automotive) are more vulnerable to shocks than others. French companies are relatively adept at investing abroad, which partly compensates for the weak trade balance (current account projected at between -0.4 and -0.7% of GDP over the medium term).

Financial risk remains balanced despite rising private-sector indebtedness. French household and corporate debt ratios are clearly above those in other euro area countries but are mitigated by the moderate debt-service-to-income ratios and the adequate provision of collateral. Real estate price movements are largely in line with peer countries' though slightly above the euro area average.

8. Counterparty risk

The counterparty risk of the transaction supports the highest ratings. No counterparty exposures are excessive, i.e. if counterparty risk crystallises, a downgrade is limited to six notches.

8.1. Operational risk from servicer

Servicer disruption unlikely

Operational risk from Bpifrance Financement as servicer is mitigated via the bank's links to the sovereign and its importance to public policies. Our view also accounts for the bank's high public ratings.

8.2. Commingling risk from account bank and paying agent

Commingling risk is not material for the rated notes

Commingling risk is mitigated through i) appropriate replacement triggers for the account bank and the specially dedicated account bank; ii) the high initial credit rating of BNP

Paribas SA, rated AA- by Scope ; iii) the presence of a specially dedicated account ('compte d'affectation spéciale').

The high credit quality of the account bank and paying agent, BNP Paribas Securities Services[6], makes the risk of commingling losses sufficiently remote as to be immaterial for the rated notes.

All instalments collected in respect of the loan receivables purchased by the issuer will be credited to the specially dedicated account pursuant to the terms of the specially dedicated account agreement. This is a standard feature of French securitisations. Under the agreement, the specially dedicated account will be subject to a dedicated account mechanism ('affectation special'). In accordance with article L. 214-173 of the French Monetary and Financial Code, the servicer's creditors are not entitled to payments whose amount exceed the sums credited to the specially dedicated account, even if the servicer becomes subject to an insolvency proceeding. The issuer will have the exclusive benefit of the sums credited to the specially dedicated account.

8.3. Set-off risk from originator

Set-off risk from the originator is fully mitigated

Set-off risk from the originator is immaterial in the context of this transaction. Bpifrance Financement is not a deposit-taking financial institution, and the lessees' claims against the lessor generally cannot be set off, except when pursuant to a mandatory rule of law. Additionally, according to eligibility criteria, SME loan agreements cannot provide borrowers the right of set-off between their payable sums and those payable to them by the seller..

9. Legal structure

9.1. Legal framework

The notes and transaction documents are governed by French law. The securitisation framework benefits from the French securitisation law, which addresses bankruptcy-remoteness and true-sale questions.

The issuer of the securitisation ("FCT Bpifrance SME 2019-1") is a bankruptcy-remote French securitisation fund ('Fonds Commun de Titrisation' or 'FCT') jointly established by the management company (Eurotitrisation) and the custodian (BNP Paribas Securities Services).

Pursuant to article L.214-175-III of the French Monetary and Financial Code, the provisions of Book VI of the French Commercial Code (which govern insolvency proceedings in France) are not applicable to the issuer. This issuer is therefore a bankruptcy-remote vehicle (the FCT does not have a legal personality; the management company acts in the name of and on behalf of the issuer.)

Pursuant to article L. 214-169-V of the French Monetary and Financial Code, the transfer of the receivables and their ancillary rights shall be made by way of a 'deed of transfer' ('acte de cession') that satisfies the requirements of article L. 214-169-IV and article D. 214-227 of the French Monetary and Financial Code. This is a standard process for the sale of the loans.

9.2. Asset renegotiations

The servicer may renegotiate certain loan agreements related to non-defaulted loans, provided that a certain number of thresholds are met regarding the interest the interest type, the final maturity date, and deferred amortisation, among others.

[6] Considering the AA- Scope rating on BNP Paribas SA

9.3. Use of legal and tax opinions

We reviewed the legal opinions produced for the issuer. These provide comfort on the issuer's legal structure and supports our general legal analytical assumptions.

10. Monitoring

Scope analysts are available to discuss all the details surrounding the rating analysis

We will monitor this transaction based on performance reports from the cash manager as well as other available information. The ratings will be monitored continuously and reviewed at least once a year, or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed, and the ongoing monitoring of the transaction.

11. Applied methodology and data adequacy

For the analysis of this transaction we applied our SME ABS Rating Methodology and Methodology for Counterparty Risk in Structured Finance, both available on our website, www.scoperatings.com.

Bpifinance Financement provided us with default and recovery data, segmented by quarterly vintage of origination, referring to a '180 days past due' default definition. The default rate data covers the 2007-18 period and is generally very granular.

I. Vintage data provided by originator

Bpifrance Financement provided '180 days past due' delinquency, recovery and cure performance data. This information formed the basis of the calibration of point-in-time default rates, coefficient of variation and base case recovery rates. Scope has slightly adjusted the default vintage to derive the mean default rate assumptions, considering i) only the first default of a loan in case the loan reperforms before defaulting again, ii) the outstanding amount of all loans related to an obligor as defaulted in case the latter only defaults on one loan. Additionally, we have merged the recoveries on uncured defaulted loans with cured loans.

Vintage data is granular and representative for the portfolio.

Figure 12: 180dpd delinquency by volume

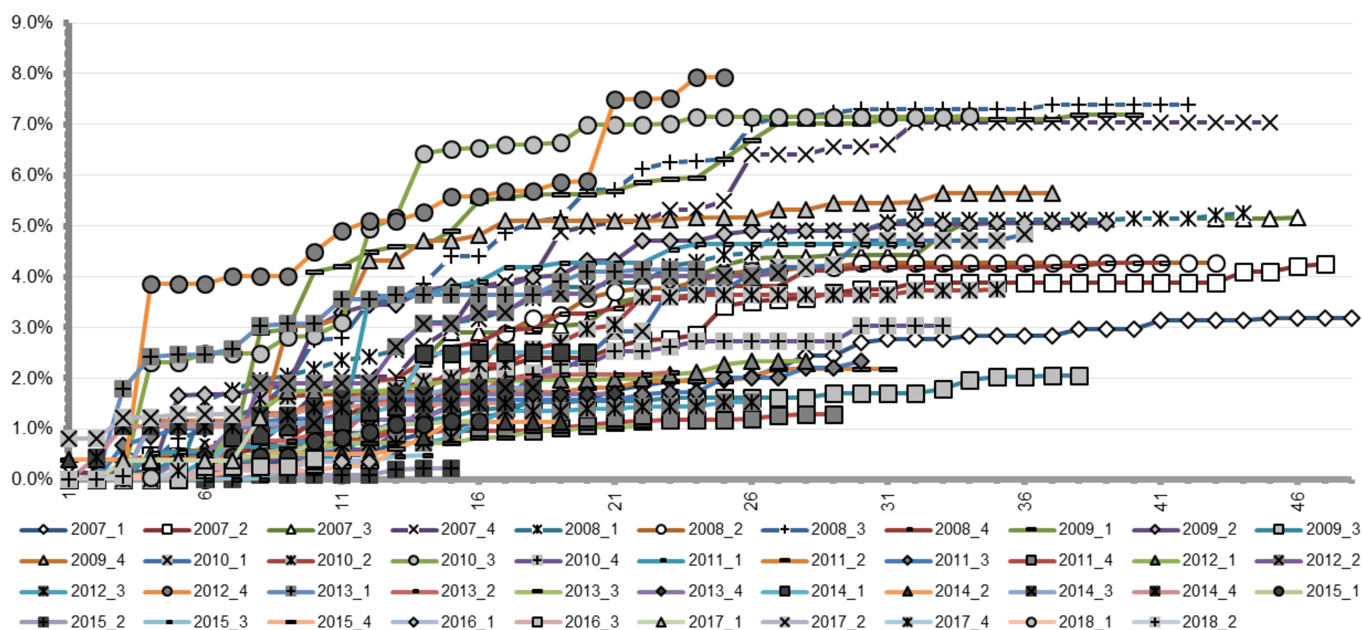
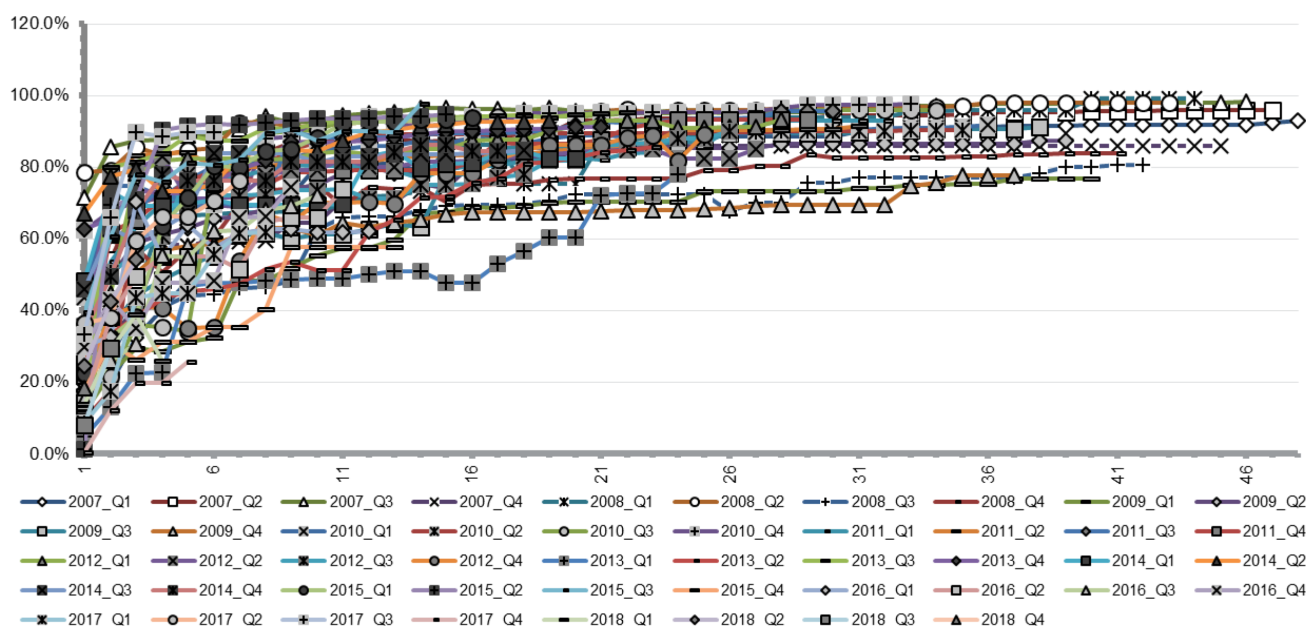


Figure 13: Cure and recovery vintage data



Scope Ratings GmbH

Headquarters Berlin
Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891-0

Frankfurt am Main
Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389-0

Paris
1 Cour du Havre
F-75008 Paris

Phone +33 1 8288 5557

London
2 Angel Square
Suite 301
UK-London EC1V 1NY

Phone +44 20 3457 0444

Madrid
Edificio Torre Europa
Paseo de la Castellana 95
E-28046 Madrid

Phone +34 914 186 973

Milan
Via Paleocapa 7
IT-20121 Milan

Phone +39 02 30315 814

Oslo
Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

info@scoperatings.com
www.scoperatings.com

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Scope Ratings GmbH, Lennéstraße 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 192993 B, Managing Directors: Torsten Hinrichs, Guillaume Jolivet.