FITCH AFFIRMS ACOSS'S FRENCH CP & ECP PROGRAMMES AT 'F1+'

Fitch Ratings-Paris/London-11 March 2013: Fitch Ratings has affirmed ACOSS's (Agence Centrale des Organismes de Securite Sociale) EUR20bn Euro Commercial Paper (CP) programme and EUR25bn French CP programme Short-term local and foreign currency ratings at 'F1+'.

KEY RATING DRIVERS
The ratings reflect ACOSS's status as a state agency (EPA) and its critical importance to the state as it is in charge of cash flow management for most social security institutions (SSI) and collection of social and unemployment contributions. As an EPA, ACOSS benefits from an implicit solvency guarantee from the French state ('AAA'/Negative/'F1+'), which is ultimately responsible for its assets and liabilities. ACOSS's debt is consolidated in French public debt.

The French government exerts strong administrative, legal and financial oversight over ACOSS. It defines its strategy, monitors its management, and is the main single social security contributor. Each year, lawmakers set ACOSS's revenue, expenditure and borrowing limit. ACOSS's accounts are audited and certified annually by the national court of accounts and reported to Parliament.

Social security cash flows are highly predictable as shown by ACOSS's track record of accurate liquidity forecasts. Predictability is underpinned by the sizeable proportion of cash flows scheduled by contract (28.3%) and by the relatively low short term financial impact of macroeconomic trends or social security reforms. Day-to-day predictability is high as ACOSS tightly controls payment operations while contributions collection is mostly automated.

Funding is short term, well diversified, and mostly relies on a EUR20bn ECP programme and a EUR25bn billets de tresorerie programme. The state, SSI and CADES ('AAA'/Negative/'F1+') routinely purchase ACOSS's CP in order to mutualise available public cash (28% of 2012 funding). Caisse des depots et consignations (CDC, 'AAA/Negative/F1+') can also provide short-term loans of up to EUR4bn. The state set ACOSS' borrowing cap to EUR29.5bn in 2013, from EUR22bn in 2012.

Liquidity risk management is sophisticated and has been enhanced through the specialisation of cash management functions and the modernisation of payment processes. Risk management procedures are increasingly in line with banking regulations and financial institutions standards. ACOSS maintains excess liquidity buffers and aims at keeping a liquidity coverage ratio of 100% over a 30-day horizon. As a public agency, ACOSS is eligible to last resort emergency funding from the state.

ACOSS's debt reflects the accrued social security deficits and as such is regularly taken over by CADES, the state agency in charge of amortising French social debt. EUR6.6bn of debt was bought back from ACOSS in 2012 and CADES can take over up to EUR10bn every year until 2017. Fitch expects ACOSS's debt to have increased to EUR16.6bn at end-2012, and to reach EUR25bn at end 2013.

ACOSS's debt is likely to increase in the medium term as the social security system generates deficits. Based on projections from the 2013 social security finance bill, ACOSS's debt could exceed EUR30bn by 2016 without further refinancing from CADES or social security balancing measures.

RATING SENSITIVITIES
A negative rating action could result from a downgrade of France's Short-term ratings or an adverse change in ACOSS's legal framework.

The ratings of ACOSS's CP programmes depend on those of France, which in Fitch's view are based on some key assumptions regarding macroeconomic and budgetary performance, notably Fitch forecast of 0.3% GDP growth in 2013, 1.1% in 2014 and 1.6% until 2016.

The rating of France is potentially sensitive to policy actions that would materially increase public debt and/or contingent liabilities as a result of state intervention in the domestic economy and industry.

Fitch assumes that commitments made by eurozone policymakers at recent summits, including the creation of a single supervisory mechanism for European banks will be implemented. The agency also assumes that the risk of fragmentation of the eurozone remains low and is not incorporated into Fitch's current rating of France, although Fitch's 'CCC' rating of Greece does reflect a material risk of Greek exit from EMU over the new few years.

France's ratings also incorporate Fitch's assumption that the government will adhere to its commitments under the Stability and Growth Pact, Fiscal Compact and as set out in its Multiyear Public Financing Plan.

The ratings of ACOSS's CP programmes also factor in the assumption that ACOSS' status will not change.

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Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Tax Supported Rating Criteria' dated 15 August 2012, and 'Ratings of Public Sector Entities - Outside the United States' dated 4 March 2013, are available on www.fitchratings.com.

Applicable Criteria and Related Research
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
Rating of Public Sector Entities - Outside the United States
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=701963