Research Update:

French Development Bank Agence Francaise de Developpement Affirmed At 'AA/A-1+'; Outlook Stable

Primary Credit Analyst:
Mehdi Fadli, Paris (33) 1-4420-6706; mehdi.fadli@spglobal.com

Secondary Contact:
Mehdi El mrabet, Paris + 33 14 075 2514; mehdi.el-mrabet@spglobal.com

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Overview

• We consider that there is an almost certain likelihood that Agence Francaise de Developpement (AFD) would receive timely and sufficient extraordinary support from the French government in case of financial distress.
• We therefore equalize our long-term rating on AFD with our long-term sovereign rating on France.
• Consequently, we are affirming our 'AA/A-1+' ratings on the agency.
• The stable outlook reflects that on the sovereign.

Rating Action


Rationale

We equalize our ratings on AFD with those on France (unsolicited; AA/ Stable/A-1+). This is because, based on our view of AFD'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 AFD in the event of financial distress.

Moreover, we do not see the likelihood of government support as subject to transition risk. As a result, we expect that the ratings and outlook on AFD will move in line with those on France. Furthermore, we consider the French government's contingent liabilities limited, and unlikely to constrain its capacity and willingness to support AFD in a timely manner in the case of financial distress. More generally, we consider the French government's general propensity to support the government-related-entity (GRE) sector is not in doubt.

Our opinion of an almost certain likelihood of government support reflects our view that AFD:
Plays a critical role for France as the legally mandated agency for the French government's strategic policy of bilateral aid and concessory lending to developing countries and French overseas territories, lending to the public sector and to the private sector mainly through its core subsidiary, Société de Promotion et de Participation pour la Cooperation Economique (Proparco); and

Has an integral link with the French government as a fully owned, directly controlled public financial institution.

AFD is a state public industrial and commercial agency ("Établissement Public à Caractère Industriel et Commercial d'État"; EPIC d'Etat). AFD's public service-focused activities cannot be carried out on a commercial basis, in our view. Because AFD is an EPIC d'Etat, we view the French government as ultimately responsible for its solvency. Its status also prevents AFD from being subject to bankruptcy proceedings; if it were dissolved, all assets and liabilities would be transferred to the French state or a state-designated body. Moreover, if needed, we understand that the state could intervene swiftly, most likely through its public debt fund (Caisse de la Dette Publique; CDP), which can buy AFD's debt. This would provide continued funding if it were difficult to gain access to the capital markets. We do not expect AFD's EPIC d'Etat status will change within our outlook horizon.

We also consider that the French government's direct monitoring of AFD, and its strategical, financial, and operational involvement with AFD, will remain important. The Ministry for Europe and Foreign Affairs, the Ministry of Economy and Finance, and the Ministry for Overseas France provide strong and broad state supervision of AFD. On Feb. 8, 2018, at the request of the President of France and for the first time in the current presidential term (2017-2022), France's Prime Minister convened the first Interdepartmental International Cooperation and Development Committee (CICID), gathering eight Ministers, including the three supervising ministries of AFD. This CICID defined the main thematic and geographical priorities of France's public development aid, aimed at meeting the target set by the French President in July 2017 to increase France's public development aid to 0.55% of gross national income by 2022. These priorities include concentrating development aid on implementing the United Nations Sustainable Development Goals (SDGs) and the Paris Agreement, with particular focus on Africa. Following this CICID, during which AFD was confirmed as a central pillar of France's development aid, AFD formalized its 2018-2022 strategy ("Plan d'orientations stratégiques"; POS) and signed a new multiyear agreement ("Contrat d'objectifs et de moyens"; COM) with the central government.

The POS and the COM clearly outline AFD's thematic, geographic, and budgetary objectives. AFD is expected to continue rapidly increasing its annual commitments above €14 billion from 2019 (versus €10.3 billion in 2017). At least 50% of those commitments should be targeted toward non-sovereign entities, and 50% should concern climate change projects. AFD's willingness to abide by SDGs and the Paris Agreement make environmental, social, and governance (ESG) factors an integral part of both its internal and external
strategy. The latter means that 100% of AFD's operations on the asset side go through an ESG evaluation, as per the COM. On the liability side, AFD has also put a climate bond framework in place, fully aligned with the Green Bond Principles.

The French government has provided extraordinary support to AFD in the past through its direct takeover of debt cancellations of African countries under the International Monetary Fund and World Bank's Heavily Indebted Poor Countries initiatives. AFD also benefits from a reserve account ("compte de reserve") financed by the French government to cover sovereign risks. The French state also demonstrated its ongoing support to AFD in December 2016, when it turned €2.4 billion subordinated loans (Tier 2) into Common Equity Tier 1 (CET1) capital to allow AFD to abide by regulatory capital rules, while supporting its increasing activity. In 2018, AFD received the last €120 million disbursement of the third annual tranche of €280 million Additional Tier 1 (subordinated debt) subscribed by the state (€160 million was disbursed in 2017). Total capital ratio was 17.41% in June 2018, well above the minimum regulatory requirement. The state finance bill for 2019 also allows the Minister of Economy and Finance to extend AFD's sovereign loans with up to €750 million in new guarantees in 2019.

We note that AFD's activity is primarily in speculative-grade countries (rated 'BB+' and lower) and concentrated on a small number of counterparties. Foreign exchange risk and interest rate risk are almost fully hedged, but concentration risk appears material. On sovereign exposure, we understand the French state carries the credit risk of loans, as the French Treasury directly negotiates restructuring with sovereign creditors. In 2018, the sovereign rating downgrade of Turkey eroded the quality of the non-sovereign portfolio, but nonperforming loans (NPL) remain limited (3.2% in June 2018). We expect assets and revenues will continue to increase as AFD expands its activity. Without a deposit base, AFD relies mostly on wholesale funding. However, we believe that funding is well matched to assets overall, and the state's ultimate responsibility for AFD's solvency allows access to cheap funding.

**Outlook**

The stable outlook on AFD reflects our stable outlook on France. We believe that AFD will retain its critical role for and integral link with France. We do not expect the upcoming new Orientation and Programming Law on Development and International Solidarity to be voted on in 2019, or the potential integration of French international technical cooperation agency Expertise France into the AFD group, will have any negative implication for AFD. We therefore expect the ratings on AFD will move in line with those on the sovereign.

We could lower our ratings on AFD following a similar rating action on France. We could also lower the ratings if we believe that AFD no longer has an integral link with the government, for example, if AFD were to lose its EPIC d'Etat status; or if AFD's role were to diminish, for instance, because the
state decided to rely solely on multilateral banks for international aid or concessional loans. However, we currently view these developments as unlikely.

Conversely, we could raise the rating if France's credit quality were to improve and the likelihood of support for AFD remained almost certain.

**Related Criteria**

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

**Related Research**

- Research Update: Societe de Promotion et de Participation pour la Cooperation Economique Rated 'AA/A-1+'; Outlook Stable, Feb. 16, 2018
- Research Update: France 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 5, 2018

**Ratings List**

Ratings Affirmed

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<thead>
<tr>
<th>Loan Type</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer Credit Rating</td>
<td>AA/Stable/A-1+</td>
</tr>
<tr>
<td>Senior Unsecured</td>
<td>AA</td>
</tr>
<tr>
<td>Short-Term Debt</td>
<td>A-1+</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>AA/A-1+</td>
</tr>
</tbody>
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers:
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