Agence Francaise de Developpement

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

Secondary Contacts:
Mehdi El mrabet, Paris + 33 14 075 2514; mehdi.el-mrabet@spglobal.com
Federico Loreti, Paris + 33140752509; federico.loreti@spglobal.com

Table Of Contents

Major Rating Factors
Outlook
Rationale
Selected Indicators
Related Criteria
Related Research
Agence Francaise de Developpement

Major Rating Factors

Strengths:
• Critical mission for the French government's development aid policy, with a special focus on sustainable development
• Public financial institution fully owned and directly controlled by the central government
• Strong track record of support from the central government

Weaknesses:
• Activity primarily in speculative-grade countries and concentrated on a small number of counterparties given the agency's mission
• Capital requirements likely to increase due to bank regulation

Outlook

The stable outlook on Agence Francaise de Developpement (AFD) reflects S&P Global Ratings' stable outlook on France (unsolicited; AA/Stable/A-1+). We believe that AFD will retain its critical role for and integral link with the country. We do not expect the upcoming new Orientation and Programming Law on Development and International Solidarity to be voted on in 2020, or the potential integration of French international technical cooperation agency Expertise France into the AFD group, will have negative implication for AFD. We therefore expect the ratings on AFD will move in line with those on the sovereign.

Downside scenario

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 it were to lose its state public industrial and commercial agency (Établissement Public à Caractère Industriel et Commercial d'État; EPIC d'Etat); 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 view these scenarios as unlikely.

Upside scenario

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

Rationale

We regard AFD as a government-related entity that would benefit under stress from an almost certain likelihood of extraordinary support from France, based on our assessment of the agency's:
Critical role for the French government as the legally mandated agency for its strategic policy of bilateral aid and concessionary lending to developing countries and French overseas territories, with a special focus on sustainable development; and

Integral link with the government as a fully owned, directly controlled public financial institution lending to the public sector and to the private sector through its core subsidiary, Société de Promotion et de Participation pour la Coopération Economique.

We expect AFD to keep its EPIC status. Because AFD is an EPIC d'Etat, we view the French government as ultimately responsible for its solvency. Its status also prevents it 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), 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 the agency's EPIC d'Etat status will change within our outlook horizon.

French government's direct monitoring of AFD, and its strategic, financial, and operational involvement 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 the agency. On Feb. 8, 2018, at the request of the French president 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 the country'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, the agency formalized its 2018-2022 strategy (Plan d'orientations stratégiques) and signed a multiyear agreement (Contrat d'objectifs et de moyens; COM) for 2017-2019 with the central government. We expect the new COM with the central government to be signed in the next months to maintain AFD's current thematic, geographic, and budgetary objectives. AFD's 2018-2022 plan and most recent COM clearly outline AFD's objectives. The agency has rapidly increased its annual commitments, exceeding €14 billion in 2019 (versus €10.3 billion in 2017). We anticipate that annual commitments will remain high in the coming years. We believe at least 50% of those commitments will be for nonsovereign entities, and 50% for climate change projects. AFD's goal to help achieve SDGs and the Paris Agreement make environmental, social, and governance (ESG) objectives an integral part of both its internal and external strategy. The latter means that 100% of the agency's operations on the asset side go through an ESG evaluation. On the liability side, AFD has a climate bond framework that is fully aligned with the Green Bond Principles.

We anticipate state's ongoing and extraordinary support to be granted in case of need, as proved by a strong track record. The French government has provided extraordinary support to AFD before through its direct takeover of debt cancellations of African countries under the IMF and World Bank's Heavily Indebted Poor Countries initiatives. As well, the agency benefits from a reserve account financed by the French government to cover sovereign risks. The French state also demonstrated its ongoing support to AFD in December 2016, when it converted €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 and CET 1 ratios are well above the minimum regulatory requirements. However, we understand that AFD is likely to face a challenge from 2021 in relation to its large exposures limit, given its lending concentration on a few sovereign borrowers, and we expect the central government to be involved in solving it.
AFD's activity is and will remain primarily in speculative-grade countries (rated 'BB+' and lower) and concentrated on a small number of counterparties, as involved by its mission. Foreign exchange 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. Asset quality of the non-sovereign portfolio was impacted by the deteriorated economic situation in Turkey in 2018. We understand nonperforming loans (NPL) remain manageable, at below 4% as of June 2019. After years of increasing activity, we consider that AFD has entered a stabilization phase and we expect a more gradual increase of assets in the next two years. We consider that current volatility in revenues is mainly due to accounting treatment of hedging instruments at fair value. 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 the agency's solvency allows access to cheap funding.

Selected Indicators

### Agence Francaise de Developpement--Key Figures

<table>
<thead>
<tr>
<th>(Mil. €)</th>
<th>2019*</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>46,542</td>
<td>42,868</td>
<td>39,717</td>
<td>37,749</td>
<td>35,834</td>
</tr>
<tr>
<td>Customer loans at amortized cost</td>
<td>27,490</td>
<td>26,486</td>
<td>25,438</td>
<td>24,220</td>
<td>21,859</td>
</tr>
<tr>
<td>Common shareholders' equity</td>
<td>6,030</td>
<td>5,980</td>
<td>5,799</td>
<td>5,522</td>
<td>2,906</td>
</tr>
<tr>
<td>Net income</td>
<td>89.7</td>
<td>115.2</td>
<td>312.8</td>
<td>246.2</td>
<td>172.9</td>
</tr>
<tr>
<td>Tier 1 capital ratio (%)</td>
<td>16.2</td>
<td>17.8</td>
<td>16.4</td>
<td>16.8</td>
<td>9.4</td>
</tr>
</tbody>
</table>

*Data as of June 30.

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

- Summary: France, Oct. 4, 2019

### Ratings Detail (As Of February 24, 2020)*

<table>
<thead>
<tr>
<th>Agence Francaise de Developpement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer Credit Rating</td>
</tr>
<tr>
<td>Certificate Of Deposit</td>
</tr>
<tr>
<td>Local Currency</td>
</tr>
</tbody>
</table>

*WWW.STANDARDANDPOORS.COM/RATINGSDIRECT*
<table>
<thead>
<tr>
<th></th>
<th>Commercial Paper</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Currency</td>
<td>AA/A-1+</td>
<td></td>
</tr>
<tr>
<td>Senior Unsecured</td>
<td>AA</td>
<td></td>
</tr>
<tr>
<td>Short-Term Debt</td>
<td>A-1+</td>
<td></td>
</tr>
</tbody>
</table>

**Issuer Credit Ratings History**

<table>
<thead>
<tr>
<th>Date</th>
<th>Rating Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>25-Oct-2016</td>
<td>AA/ Stable/A-1+</td>
</tr>
<tr>
<td>14-Oct-2014</td>
<td>AA/Negative/A-1+</td>
</tr>
<tr>
<td>12-Nov-2013</td>
<td>AA/ Stable/A-1+</td>
</tr>
</tbody>
</table>

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

**Additional Contact:**

EMEA Sovereign and IPF; SovereignIPF@spglobal.com