Agence Française de Développement (AFD)

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	AA
Short-Term IDR	F1+

Outlook

Long-Term IDR	Stable

Financial Data

Agence Française de Développement (AFD)

	31 Dec 14	31 Dec 13
Total assets (EURm)	31,242.5	25,712.6
Total equity (EURm)	3,009.0	2,828.4
Total long-term funding (EURm)	24,339.4	18,940.7
Net income (EURm)	132.4	168.2
Core Tier 1 capital ratio (%)	8.71	10.93

Related Reports

France (June 2015)

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Key Rating Drivers

Statutory Guarantee, Strategic Role: AFD's Issuer Default Ratings (IDRs) are underpinned by an implicit solvency guarantee from the French state (AA/Stable/F1+), given AFD's status as a public agency (EPIC). They also reflect AFD's strategic role as the main supplier of French development aid, a key foreign policy instrument.

State-Dependent Entity: Fitch Ratings classifies AFD as a dependent public-sector entity (PSE) under its rating of PSEs criteria, due to its statutory solvency guarantee, legal status, strategic importance to, and, to a lesser extent, control by and integration with the state. As a result, the ratings of AFD are equalised with and credit-linked to France's ratings.

State Oversight: AFD is the state's development bank. Its missions are defined by the government and monitored by sponsor ministries (foreign affairs, finance, interior and overseas). The policy framework for French development aid was last updated in June 2013 and confirmed AFD's role as a central operator.

State Funding: The state provides support to AFD through borrowing and loans guarantees as well as budgetary transfers. Fitch expects state funding to remain stable over the medium term as development aid is protected from the French government's spending cuts.

Strong Lending Growth: AFD's outstanding loans in 2014 were up by 17.7%, a pace similar to the 15.9% seen in 2013. This is in line with AFD's business plan, which could lead to the balance sheet doubling in size by 2020. Business growth in 2014 was almost entirely due to AFD's own-risk lending abroad. Of its outstanding loans at end-2014, 95% were contracted at AFD's own risk.

Improved Results: Earnings before tax totalled EUR146m in 2014, against EUR184m in 2013, as conservative provisioning offset the benefits of cheap funding. Its cost/income ratio remains high, reflecting its narrow interest margin, the cost of its agencies' network, and the importance of high-cost advisory services to borrowers.

Sound but Decreasing Capital Ratios: Strong lending growth has not been matched by capital issuance or retained earnings, resulting in a deterioration of capital ratios since 2007. Capitalisation remains sound, but the regulatory capital ratio fell slightly to 17.4% at end-2014, from 18.1% at end-2013. AFD's core Tier 1 ratio also decreased to 8.7% in 2014, from 10.9% in 2013. Nonetheless, we believe the state will ensure that AFD has the means to implement its business plan while maintaining sound capital ratios.

Comfortable Liquidity: AFD faces low refinancing risk due to its fairly large capital base, its long-funding structure, and the predictability of its loan disbursement schedule. At end-2014, short-term funding relied on a EUR2bn certificate-of-deposit programme and on a EUR30bn EMTN programme.

Rating Sensitivities

Sovereign Rating, Status Change: Any rating action on France would be reflected in AFD's ratings. Although unlikely, an adverse change in AFD's legal status that weakened potential support from the state would lead to a downgrade.

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
2014	AA	AA
2013	AA+	AA+
1999	AAA	AAA

Related Criteria

Rating of Public-Sector Entities (February 2015)

Tax-Supported Rating Criteria (August 2012)

Public-Sector Entity Support Factors

AFD is the French state's development finance agency. It implements France's bilateral and multilateral aid policy, and supports the development of French overseas territories.

AFD has equity stakes in several subsidiaries, most importantly Proparco, a 63.9%-owned development finance institution dedicated to funding private investments abroad. AFD and its subsidiaries are consolidated in the AFD Group.

The AFD Group produces consolidated financial statements in accordance with IFRS. AFD also produces financial statements in accordance with French GAAP.

Principal Rating Factors

	Legal status	Strategic importance	Control and oversight	Integration/ financial
Rating factors	Strong	Strong	Strong	Moderate

Source: Fitch

Legal Status

Fitch considers AFD's legal status as highly supportive of its credit quality. As an industrial and commercial public agency (EPIC), AFD cannot be liquidated or file for bankruptcy proceedings. It can only be dissolved by law, which would entail an automatic and unconditional transfer of all its assets and liabilities to the state, or to another public entity designated by the state.

Fitch believes AFD's EPIC status means it would benefit from very strong state support in case of need. According to law 80-539 of 16 July 1980, the state is ultimately responsible for the financial commitments of its EPICs: if ordered to do so by a judge, the state must mobilise all necessary resources to enable an EPIC to repay its debt. Although the French government has no legal obligation to prevent a default, Fitch assumes that the government is highly motivated to provide support and that it has the legal and financial means to enable EPICs to meet debt-service obligations on time.

According to banking regulations, AFD is a specialised financial institution with a public service mission. It abides by banking regulations and is regulated by the Resolution and Prudential Control Authority (ACPR) and the French central bank.

Strategic Importance

Fitch considers AFD's strategic importance as highly supportive of its credit quality. AFD implements one of the state's core competencies as it is the main operator of development aid policy, which is an important foreign policy instrument in France. It finances development projects in designated foreign countries, within the policy framework defined by the French government.

AFD funds development projects in French overseas departments, regions and territories. It can also act on behalf of the European Union and other international organisations, and manage projects funded by these institutions.

Control and Oversight

Fitch considers the control and oversight by the state as highly supportive of AFD's credit quality. Although AFD is an autonomous agency responsible for its management, budget and assets, it is under strict state control. AFD is statutorily under the supervision of several ministries (foreign affairs, finance, interior and overseas territories), and its managing director is nominated and can be removed by the French president. The supervising ministries approve AFD's budget and strategy, and can veto any particular project.

As a public agency, AFD is subject to the control of the national Court of Accounts and the Ministry of Finance's general inspectors. As a financial institution, AFD is under the supervision of the ACPR, and must follow banking regulations and publish audited accounts.

AFD's long-term strategy is set by the State Council on International Development and Cooperation (CICID) and updated through multi-annual strategic plans (POS). In July 2013, the CICID updated the objectives of French development aid policy, which led to some changes in AFD's scope of activities. It notably lifted restrictions concerning the geographical scope of AFD's activities. The operational and financial relationship with the state is laid out in a multi-annual performance contract (COM), which was updated in 2014.

AFD's board of directors monitors the bank's activity and approves its main decisions. The board is made up of six state representatives, four members of parliament, five experts in economic, financial and ecological issues, and two staff representatives. The state representatives define AFD's strategic guidelines before their presentation to the board.

Integration

Fitch considers AFD's integration into the general government accounts as moderately supportive of its credit quality. Financial integration is strong as AFD benefits from stable and predictable state funding in order to implement its policies. Fitch estimates that state funds, including pass-through subsidies and bilateral aid, reached close to EUR1.2bn in 2014.

AFD benefits from various sources of state funding for which we do not have a full consolidated estimate. However, the main financial flows from the state include long-term Treasury loans used to subsidise loans in foreign countries, Foreign Office credits used to fund donations to NGOs, bilateral aid, or repurchase of restructured sovereign debt. AFD also receives fees for its activities on behalf of the state.

AFD has distributed dividends to the state since 2003. The new performance contract with the state indicates that higher priority should be given to building up capital reserves, and the French state has committed not to exceed a 20% earnings distribution ratio.

Since AFD is a financial institution, its debt is not consolidated in France's public debt. However, guarantees granted by the state to AFD are reported as state off-balance-sheet liabilities (EUR1.2bn at end-2014).

AFD mostly relies on private law personnel. Nonetheless, institutional integration is strong as AFD is the reference institution in policy discussions regarding French development aid at the government or EU level.

Overall Assessment

In view of the above factors, Fitch has classified AFD as a dependent PSE under its rating of PSEs criteria. This is attributable to the entity's statutory solvency guarantee, legal status, its strategic importance and, to a lesser extent, the control and integration with the state.

As a result, the ratings of AFD are equalised with and credit-linked to France's ratings.

Operations

Business Activities

AFD has three broad lines of business, of which its main mission is to provide long-term loans, subsidies and loan guarantees to sovereign and non-sovereign counterparties in developing markets, generally at AFD's own risk.

Second, AFD acts on behalf of the French state by redistributing government funding through concessional loans or direct budgetary aid to sovereign states, NGOs or through multilateral instruments (Heavily Indebted Poor Countries Initiative, UnitAid or the IMF's poverty reduction and growth facility).

AFD's third line of business is providing technical expertise in developing countries (eg project management and sustainable development), notably within the framework of AFD-funded projects.

The state compensates AFD for financing made on its behalf. It also provides the agency with preferential long-term loans and subsidies in order to help lower interest rates on loans. AFD provides technical help to foreign countries and businesses through project advisory and training services.

Financial Performance

Steady Asset Growth, Concentrated Loans Portfolio

AFD's outstanding loans grew by 17.7% in 2014, a pace similar to the 15.9% seen in 2013. This is in line with AFD's business plan, which could lead to the balance sheet doubling in size by 2020. Business growth in 2014 was almost entirely due to AFD's own-risk lending abroad.

Loans are concentrated on several geographical zones as AFD's lending scope is defined by the state's policy guidelines, which give particular priority to African countries. At end-2014, the top 10 country exposures accounted for 61% of outstanding loans (see Figure 1).

Figure 1

Main Country Exposures

End 2014	(EURm)	Total (%)
Morocco	1,878.3	12
Columbia	1,057.6	7
Mexico	938.2	6
Turkey	946.9	6
Tunisia	944.9	6
Brazil	863.4	5
Vietnam	853.7	5
Indonesia	842.7	5
South Africa	794.9	5
China	703.6	4
Top 10 exposures	**9,824.2**	**60.9**
Consolidated outstanding	**16,119.2**	**100**

Source: Fitch, AFD

Moderate Profitability, Improving

Earnings before tax totalled EUR146m in 2014, against EUR184m in 2013. AFD benefited from cheap funding and low cost of risk, despite prudent provisioning.

AFD's cost/income ratio remains high, at 59% at end-2014, although this is a structural feature that reflects its specific business model. Unlike other development finance institutions such as Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO; AAA/Stable/ F1+) or KfW (AAA/Stable/F1+), AFD operates a branch network providing on-the-ground technical assistance and project management. It also directly handles the administrative management of individual loans, and dedicates strong resources to advisory services.

Stable Credit Risk

Credit risk is AFD's main business risk as loans are made to risky counterparties in developing markets, on long maturities. At end-2014, 85% of risk-weighted exposures, under the standard approach, were rated 'BBB+' and below. However, the rate of impaired loans is low and decreasing, at 2.9% of gross loans at end-2014, from 4% at end-2011.

Credit risk is also mitigated by the fact that most of AFD's own-risk loans to sovereign borrowers are eligible for Club of Paris restructuring. As was the case in recent years for loans to the Democratic Republic of Congo or Côte d'Ivoire, the restructuring of a sovereign borrower's loans would be covered by the French state.

AFD's loans to non-sovereign borrowers carry higher risk as they are made to corporate entities and are not eligible for Club of Paris restructuring. However, we believe AFD's technical expertise underpins its ability to limit risks. Credit risk is also mitigated by AFD's privileged-creditor status as a development finance institution, as well as its requirements concerning external guarantors and securities.

AFD's securities portfolio reached EUR3.9bn at end-2014, or 12.7% of assets. This included EUR1.1bn of interest rate and foreign exchange derivatives, mostly used to hedge outstanding loans. Available-for-sale securities reached EUR0.9bn. Held-to-maturity assets remained stable at EUR715m at end-2014, of which 85% consisted of government bonds.

Risk Management

Risk management is run by a consolidated risk management division, under the managing director's supervision. AFD systematically hedges its foreign-currency loans and financing transactions through cross-currency swaps. As its net currency position represents less than 2% of capital, AFD is not exposed to market risk-related capital requirements. Counterparty risk exposure on financial instruments is managed within global limits for both individual counterparties and groups of counterparties.

AFD matches interest rates and maturities across the balance sheet, with micro-hedging of fixed-rate loans. AFD securities investment guidelines forbid investing in government or government-related entities bonds with ratings below 'A−'.

Capitalisation, Funding and Liquidity

Capitalisation

AFD is well capitalised, but its regulatory capital ratio fell to 17.37% at end-2014, from 18.12% at end-2013. AFD's core Tier 1 ratio also decreased to 8.7% in 2014, from 10.9% in 2013. Strong lending growth has not been matched by capital issuance or retained earnings, resulting in a deterioration of capital ratios. As a credit institution, AFD must apply Basel III capital requirements, which means that its capital base will eventually have to be strengthened in order to maintain the current pace of asset growth.

Declining capital ratios could directly affect lending policy. Due to the concentration of loans toward a handful of sovereign borrowers, capital buffers must be increased in order to ensure lasting compliance with requirements concerning major risks.

AFD's average payout ratio since 2008 has been high, at 88%, which has contributed to the decline in its capitalisation. We understand that the financial relationship with the state could evolve, which could help strengthen AFD's capital base.

Long-Term Funding

AFD is funded via benchmark programmes, private placements and other public transactions. Its strong liquidity profile stems from the long-term nature of its assets, and from high investor demand linked to its creditworthiness and explicit state support. The state's implicit solvency guarantee allows AFD to achieve cheap funding conditions, which are passed on to borrowers.

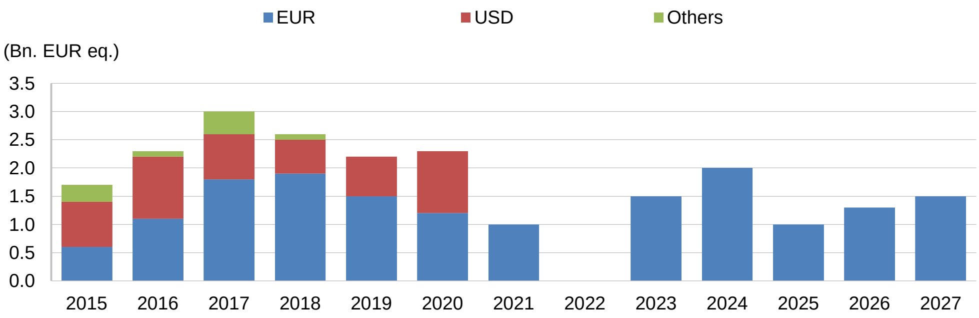
Market-based funding reached EUR5.3bn in 2014 and is estimated at around EUR5.5bn over 2015-2017, reflecting a slight increase in the growth of loans. At end-2014, senior debt securities amounted to EUR21bn, while special treasury loans represented EUR166m and subordinated debt (mostly held by the state) EUR2.6bn.

Fitch expects debt to grow steadily over the medium term as new loan commitments could reach about EUR9bn. According to its business plan, AFD's total assets could reach EUR50bn by 2022.

AFD's long-term funding is mainly based on its EUR30bn EMTN programme and on its track record as a recurrent issuer in the major international currencies (foreign-currency issuances are systematically hedged). AFD also benefits from subordinated special treasury loans, which are earmarked for concessional loans. The funding policy aims at adjusting borrowing maturity in order to match average asset maturity (about eight years) and smooth out the long-term repayment schedule.

Figure 2

Redemption Profile of AFD Bonds as of May 2015



Source: Fitch

Liquidity

AFD faces low liquidity risk thanks to its relatively large capital base, its long-funding structure, and the predictability of its loan disbursement schedule. At end-2014, external short-term funding relied on a EUR2bn certificate-of-deposit programme and on the EUR30bn EMTN programme.

Appendix A

Figure 3

Agence Française de Développement (AFD)

(EUR000)	2010	2011	2012	2013	2014
Profit and loss					
Interest revenue	837,375.0	953,716.0	1,161,032.0	1,202,303.0	1,343,002.0
Interest expenditure	-603,009.0	-745,414.0	-936,174.0	-921,348.0	-1,057,378.0
Net interest income	234,366.0	208,302.0	224,858.0	280,955.0	285,624.0
Net fees and commissions					
Other operating income	183,796.0	182,002.0	199,966.0	265,453.0	221,924.0
Personal expenses	-155,457.0	-166,437.0	-170,267.0	-184,658.0	-184,769.0
Other operating expenses	-103,921.0	-101,521.0	-107,756.0	-117,823.0	-112,645.0
Net gains and losses on securities and trading					
Net operating income/(loss)	158,784.0	122,346.0	146,801.0	243,927.0	210,134.0
Provisions	-43,370.0)	-40,433.0	-22,261.0	-65,870.0	-68,843.0
Operating profit (loss) after provisions	115,414.0	81,913.0	124,540.0	178,057.0	141,291.0
Other non-operating revenues/expenses	7,438.0	1,565.0	4,540.0	5,833.0	4,606.0
Contributions from state budgets					
Profit (loss) before tax	122,852.0	83,478.0	129,080.0	183,890.0	145,897.0
Taxation	-11,202.0	-8,827.0	-17,093.0	-15,653.0	-13,459.0
Net profit (loss)	111,650.0	74,651.0	111,987.0	168,237.0	132,438.0
Balance sheet					
Assets					
Cash and cash equivalents	46,048.0	24,099.0	11,518.0	15,316.0	48,069.0
Liquid securities					
Deposits with banks					
Loans	13,361,416.0	15,956,715.0	19,269,717.0	22,335,702.0	26,297,168.0
Other earning assets	769,114.0	763,379.0	767,932.0	741,302.0	764,257.0
Long-term investments	1,601,004.0	2,022,398.0	2,861,211.0	2,181,685.0	3,453,927.0
Fixed assets	155,976.0	173,119.0	189,267.0	197,518.0	195,432.0
Intangible	13,184.0	12,346.0	15,211.0	16,530.0	19,596.0
Other long-term assets	237,267.0	194,568.0	202,663.0	224,507.0	464,084.0
Total assets	16,184,009.0	19,146,624.0	23,317,519.0	25,712,560.0	31,242,533.0
Liabilities & equity					
Customer deposits					
Deposits from banks	31,652.0	13,555.0	11,964.0	9,627.0	8,074.0
Short-term borrowing	-	400,313.0	300,000.0	693,964.0	1,088,502.0
Other short-term liabilities	474,721.0	740,465.0	872,122.0	576,947.0	2,657,034.0
Debt maturing after 1 year	9,535,350.0	11,699,335.0	15,623,011.0	17,660,203.0	20,585,783.0
Other long-term funding					
Other provisions and reserves	512,851.0	565,627.0	611,916.0	656,926.0	724,599.0
Other long-term liabilities	3,007,625.0	3,085,256.0	3,190,186.0	3,286,501.0	3,169,496.0
Equity					
Reserves	2,621,810.0	2,642,073.0	2,708,320.0	2,828,392.0	3,009,045.0
Total liabilities & equity	16,184,009.0	19,146,624.0	23,317,519.0	25,712,560.0	31,242,533.0

Source: Issuer and Fitch calculations

Appendix B

Figure 4

Agence Française de Développement (AFD)

(%)	2010	2011	2012	2013	2014
Ratios					
Performance					
Interest revenue on loans/loans	5.90	5.63	5.72	5.10	4.86
Interest expense/borrowings and deposits	6.30	6.15	5.87	5.02	4.88
Net interest income/earning assets	1.65	1.24	1.12	1.22	1.05
Net operating income/net interest income and other oper. revenue	37.97	31.35	34.56	44.64	41.40
Net operating income/equity and reserves	6.06	4.63	5.42	8.62	6.98
Net operating income/total assets	0.98	0.64	0.63	0.95	0.67
Credit					
Growth of total assets	15.67	18.31	21.78	10.27	21.51
Growth of loans	12.42	19.42	20.76	15.91	17.74
Impaired loans/total loans	-	-	-	-	-
Reserves for impaired loans/impaired loans	-	-	-	-	-
Loan impairment charges/loans	-	-	-	-	-
Liquidity and funding					
Long-term debt/total equity and reserves	363.69	442.81	576.85	624.39	684.13
Liquid assets/total assets	0.28	0.13	0.05	0.06	0.15
Total deposits and debt/total assets	59.11	63.27	68.34	71.42	69.40
Liquid assets/short-term deposits and borrowing		6.02	3.84	2.21	4.42
Capitalisation					
Equity and reserves/total assets	16.20	13.80	11.61	11.00	9.63
Net profit/total equity and reserves	4.26	2.83	4.13	5.95	4.40
Loans/equity and reserves	509.63	603.95	711.50	789.70	873.94
Regulatory capital adequacy ratio	-	-	-	-	-

n.a.: Not available
Source: Issuer and Fitch calculations

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.