

RATING ACTION COMMENTARY

Fitch Rates Agence France Locale 'AA-'; Outlook Stable

Wed 04 Sep, 2024 - 12:05 ET

Fitch Ratings - Paris - 04 Sep 2024: Fitch Ratings has assigned Agence France Locale S.A. (AFL) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) of 'AA-' with Stable Outlooks. A full list of rating actions is below.

Under Fitch's Government Related Entities (GRE) Rating Criteria, we equalise AFL's ratings with its "supporting government", a group made up of the French local and regional governments (LRGs) members of AFL with the highest possible credit profile and which collectively add up to a guaranteed financial debt threshold of 75%.

This threshold, qualifying for the single factor leading to rating equalisation, is currently reached with a highest possible credit profile of 'AA-', which happens to correspond to the sovereign rating as the latter caps the ratings of all French LRGs. There is, however, no direct linkage between AFL's rating and that of the French sovereign.

KEY RATING DRIVERS

Support Score Assessment 'Very likely'

We see 'Very Likely' extraordinary support from the "supporting government" to AFL as underlined by a support score of 32.5 (out of a maximum 60) under Fitch's GRE Criteria. This reflects a combination of responsibility-to-support and incentive-to-support factors detailed below. However, AFL's support score does not currently drive its ratings as the financial guarantee remains the sole basis of its rating equalisation.

Responsibility to Support

Decision Making and Oversight 'N/A'

Fitch sees 'Limited' decision-making power the "supporting government" has over AFL, resulting in no contribution to support from this factor. AFL has the status of a limited liability company. It is 99.9% owned by AFL-ST, which is itself owned by a large number of French LRGs that are members of the AFL group. The board is elected by the

shareholders of AFL-ST and is entirely composed of local politicians. We do not see any single LRG member exerting enough influence on AFL's policy and strategy. In addition, AFL maintains its independence from AFL-ST, ensuring that its decisions cannot be influenced by members of AFL-ST.

Precedents of Support 'Very Strong'

AFL has consistently received commitments of support from its members via direct guarantees. Each member LRG is required to provide a guarantee on AFL's debt up to the amount of its outstanding medium- and long-term loans from AFL. We calculate that the "supporting government" debt accounted for more than 150% of AFL's financial debt, excluding their own commitments to AFL. Further, by becoming a shareholder, an LRG must make a one-off capital injection based on the size of the LRG and its credit profile, as assessed by AFL. These capital injections have enabled AFL to grow and pursue its policy mission while maintaining its financial profile.

Incentives to Support

Preservation of Government Policy Role 'Strong'

We believe an AFL default would lead to grave political repercussions for its guarantors' reputation. AFL is also an important and growing participant in the financing of French LRGs, accounting for 12%-13% of their borrowing, a share that has been growing rapidly over the past years. A default of AFL would directly and immediately affect the sector's financing. However, other retail banks could replace AFL, limiting this assessment to 'Strong'. In 2023, AFL was the third largest party in LRG financing, behind La Banque Postale S.A. (A/Stable) and Caisse des Depots et Consignations (CDC; AA-/Stable).

Contagion Risk 'Strong'

AFL is a large and regular issuer on both national and international markets. It issues on average EUR2 billion per year, in line with its loan portfolio growth. An AFL default would hit its guarantors' credit standing and their borrowing capacity. It would also diminish the value of guarantees provided by French LRGs to other sectors by eroding investor confidence in their willingness and/or ability to support the entities they guarantee. However, a default would not disrupt its members' access to financing in the long term, limiting this assessment to 'Strong'.

Operating Performance

AFL currently does not have a Standalone Credit Profile (SCP). However, we assess AFL's intrinsic credit quality as adequate, based on the following credit strengths and weaknesses.

AFL's financial performance remains modest due to its narrow business profile, which focuses on low-risk, low-margin, lending to LRGs, and modest, but improving, profitability. However, AFL's financial performance has continuously improved over the past five years, driven by rapid growth of its loan portfolio and by higher interest rates that led to net interest income of EUR24.1 million in 2023 (EUR15.6 million in 2022).

AFL has very strong and stable asset quality, very low risk appetite and stable access to wholesale financing sources. Liquidity management is prudent as underlined by a large liquid asset buffer at more than 20% of total assets, which more than covers upcoming refinancing needs. Concentration risk on single borrower is moderate, under control and should continue to reduce progressively. We view the bank's capitalisation as average, with satisfactory buffers above regulatory requirements offset by AFL's small capital base. AFL has benefitted from regular capital injections from member LRGs to support its gradual growth.

Portfolio Analysis

We analyse AFL's portfolio by assessing the creditworthiness of the member LRGs it lends to, as these are also the guarantors of AFL's financial debt. We consider the highest possible credit profile of member LRGs, which make up AFL's "supporting government" and collectively guarantee more than 150% of AFL's debt. This is more than the 75% threshold for solely leading to rating equalisation.

To determine the highest possible credit profile of the guaranteeing LRGs that are AFL's "supporting government", we have individually assessed all member LRGs' credit profiles according to our LRG Rating Criteria.

Derivation Summary

We calculate the total guaranteed debt by using the share of AFL's debt that is guaranteed by the LRGs with the highest possible credit profile that allows us to exclusively equalise AFL's rating (currently AA-), excluding their own commitments to AFL. According to Fitch, this ratio (guaranteed debt divided by total AFL financial debt) is currently at more than 150%, well above the 75% required for solely leading to rating equalisation under our GRE Criteria.

Debt Ratings

We assign ratings of 'AA-/F1+' to the senior unsecured debt issued under AFL's EUR20 billion euro medium-term not and EUR1 billion euro commercial paper programmes.

Criteria Variation

Under our GRE Criteria multi-owners of a GRE are defined by ownership or control of 25% or more of the GRE. In a deviation from the criteria, we have considered all member LRGs with a credit profile of 'AA-' for the rating equalisation to reflect that all member LRGs are committed to support AFL through the guarantee mechanism.

We have considered the credit profile assessments of the member LRGs with a 'AA-' credit profile, which make up the "supporting government", rather than the IDR of the "supporting government" as required by the criteria.

Issuer Profile

AFL was created in 2013 by and for French LRGs. It is a local government financing agency, which raises resources on the capital markets finance local governments' investment programmes. It is owned by AFL-ST.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

AFL's ratings would be downgraded if its guarantors with a credit profile of 'AA-' represent less than 75% of AFL's financial debt (excluding their own commitments to AFL). This would be triggered by an overall sharp deterioration in the credit quality of these members.

AFL's ratings would be downgraded if the highest credit profile of its members is revised lower to 'A+'. This would notably be the case if France is downgraded by one notch as its ratings currently cap LRGs' ratings.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

AFL's ratings would be upgraded if the highest credit profile of its members is upgraded to 'AA' and if the members with a 'AA' credit profile are enough to guarantee at least 75% of AFL's debt, excluding their own commitments. This could be the case if France is upgraded by one notch and provided that the credit quality of the LRGs remains stable or improves.

ESG Considerations

Fitch does not provide ESG relevance scores for Agence France Locale S. A..

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PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

We equalise AFL's ratings with that of its "supporting government", a group made up of the French LRGs members of AFL with the highest possible credit profile, which collectively guarantee more than 75% of AFL's financial debt.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

| ENTITY / DEBT ⚡ | RATING ⚡ | | |
|----------------------------|-----------|---------------------------|------------|
| Agence France Locale S. A. | LT IDR | AA- Rating Outlook Stable | New Rating |
| | ST IDR | F1+ | New Rating |
| | LC LT IDR | AA- Rating Outlook Stable | New Rating |
| | LC ST IDR | F1+ | New Rating |
| senior unsecured | LT | AA- | New Rating |
| senior unsecured | ST | F1+ | New Rating |

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Antoine Magne

Senior Analyst

Primary Rating Analyst

+33 1 44 29 91 82
antoine.magne@fitchratings.com
Fitch Ratings Ireland Ltd
28 avenue Victor Hugo Paris 75116

Charlelie Lecanu
Associate Director
Secondary Rating Analyst
+34 93 323 8407
charlelie.lecanu@fitchratings.com

Nicolas Painvin
Managing Director
Committee Chairperson
+33 1 44 29 91 28
nicolas.painvin@fitchratings.com

MEDIA CONTACTS

Athos Larkou
London
+44 20 3530 1549
athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

[Public Policy Revenue-Supported Entities Rating Criteria \(pub. 12 Jan 2024\) \(including rating assumption sensitivity\)](#)

[Government-Related Entities Rating Criteria \(pub. 09 Jul 2024\)](#)

ADDITIONAL DISCLOSURES

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