

Research Update:

French Public Sector Lender Agence France Locale 'A+/A-1' Ratings Affirmed; Outlook Stable

November 28, 2025

Overview

- We assess Agence France Locale's (AFL) sector risk as low because the group's operating entity lends only to other French local and regional governments (LRGs), under an institutional framework that we view as supportive and predictable for LRGs.
- We note sovereign risks and political volatility amid deteriorating funding conditions, but we believe AFL maintains strong liquidity and broad and diversified access to capital markets.
- We therefore affirmed our 'A+/A-1' long- and short-term ratings on AFL. The outlook remains stable.
- AFL's stand-alone credit profile remains 'aa-', and we assess that its growing presence in the competitive market for French LRG financing will continue to support its capitalization.

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Rating Action

On Nov. 28, 2025, S&P Global Ratings affirmed its 'A+/A-1' long- and short-term issuer credit ratings on France-based public-sector funding agency Agence France Locale (AFL). The outlook on the long-term rating is stable. At the same time, we affirmed our 'BBB+' issue rating on AFL's additional Tier 1 notes.

Outlook

The stable outlook on AFL mirrors that on France.

Downside scenario

We would lower our ratings on AFL following a similar rating action on France.

Upside scenario

We would raise our ratings on AFL if we took the same action on France.

Rationale

Our ratings on AFL are constrained by its still-limited size and market share in a highly competitive environment. While strong competition constrains growth and AFL's public policy role, we expect the bank will continue to grow in line with its objective of becoming a well-established player in the French LRG funding market. That said, AFL has enhanced its business position through active lending growth, new member acquisitions, and an effective pricing strategy.

The bank's prudent management operates in a stable, low-risk sector. The French state's 2025 budget measures will result in lower tax revenues and state transfers and, despite uncertainty related to the 2026 budget, French LRGs will likely continue supporting fiscal consolidation. Modest growth and national consolidation measures will negatively impact the sector's budgetary performance, but we expect French LRGs will maintain strong credit quality. AFL's conservative risk management and low-risk lending underpin its financial strength.

We anticipate AFL will maintain strong capitalization despite increasing lending. The bank has consistently achieved its membership and lending growth targets. We believe increased diversification, capital injections from new joiners, and enhanced earnings generation will offset the negative impact of the growing lending book on our capitalization assessment.

Sector risk profile: Despite persistent budgetary pressures, French LRG sector risks are low

AFL's role is to provide affordable long-term funding to French LRGs. The AFL group consists of two entities, allowing operations to be separated and independent from LRG members. The parent company is AFL-ST, a specialised credit institution fully owned by LRG members who, when joining AFL, must sign a joint guarantee scheme making them liable up to their amount of long-term debt borrowed through AFL. Its operating subsidiary AFL, which is 99.9% owned by AFL-ST, also provides a guarantee to its investors and carries out lending and funding operations. In our view, the legislation that created AFL does not imply any support from the French central government for AFL's credit standing. AFL is not a state public agency, and the law explicitly states that the entity will fund itself mainly through debt issuance, excluding any direct revenue from the central government or any guarantee provided by the central government.

We view AFL's overall sector risk profile as strong, as the bank operates exclusively in the stable, low-risk French public sector. Supporting its mandate, AFL was recognized in 2021 by the French regulator as a public development credit institution. Its public-sector mandate is to provide funding solely to its members--French LRGs. Consequently, AFL's loan book is exposed only to the French LRG sector, whose key strengths reflect France's resilient economy and favorable institutional framework (see "Institutional Framework Assessment: French Regions Benefit From Adequate Funding To Cover Responsibilities," published July 29, 2024; "French Cities, Intercities, And Municipal Syndicates Benefit From A Largely Stable Fiscal Framework," published April 10, 2024; and "French Departments Remain Vulnerable To Economic Cycles," published April 22, 2025).

We believe the LRG sector will remain resilient despite economic headwinds and budgetary constraints. In its 2026 state budget law, the government imposed major budgetary efforts on local authorities by doubling the reserve mechanism and limiting VAT growth, negatively impacting their tax revenues. We note French LRGs' prudent fiscal management and financial flexibility to preserve budgetary performance and limit substantial debt increases. Debt as a

percentage of sector revenue increased to 76% in 2024, from 75% in 2023, but remains below the 84% peak reached in 2016. We expect debt to rise in line with budgetary pressures but remain below peak levels despite substantial investment program needs.

Individual credit profile: AFL's growing business position will support robust capitalization

We expect AFL will continue expanding its footprint in the French LRG funding market as part of its public policy mandate. Founded in 2013 and operational since 2015, AFL is a moderate-sized player that provides low-cost, long-term funding to the French LRG sector by pooling bond issues and creating liquidity in bond markets.

Compared with Nordic peers, which typically capture over 40% market share in their respective sectors, AFL's market share is small, as the bank operates in a very fragmented landscape with more than 35,000 French LRGs and intense competition, with local and regional governments able to choose from a diverse range of lenders. AFL faces competition from major national commercial banks--BPCE, Crédit Mutuel, and Crédit Agricole--alongside public-sector institutions such as Caisse des Dépôts et Consignations, SFIL, and La Banque Postale.

AFL is maintaining positive momentum in its portfolio expansion, with 269 new LRGs joining its shareholder base in 2024--a 52% increase in new memberships from the previous year--and a further 87 LRGs joining in the first six months of 2025. This brings the bank's total membership to 1,131 as of June 30, 2025, all benefiting from its public-sector mandate to provide affordable long-term funding. We expect AFL will continue attracting members and gradually increase its market share. Moreover, we assume AFL's customer base will remain stable given very stringent exit rules, but we also expect it will need time to consolidate its position and become indispensable to LRG funding.

AFL's risk and financial management is prudent, and it proactively manages regulatory requirements. AFL reported no nonperforming exposures as of year-end 2024. Management has longstanding expertise and experience in the LRG sector and its funding. AFL's internal risk management policies are enhanced by compliance with the French Monetary and Financial Code's regulatory rules, given its status as a financial company. Moreover, as a specialized credit provider AFL is a fully regulated financial institution supervised by the French banking regulator, Autorité de contrôle prudentiel et de résolution (ACPR), and therefore must abide by solvency and liquidity regulatory ratios, among others. The bank's liquidity is solid, underpinned by prudent management policies and a comprehensive treasury portfolio. Risk management policies and practices reflect the organization's low risk appetite. AFL's management is experienced and tracks progress through regular meetings with senior staff.

We expect AFL will maintain very strong capitalization despite increasing its lending. In 2024, it captured about 10% of French LRGs' annual credit inflows (excluding market issuances) at the national level, up from only 7.4% in 2022, becoming the third-largest national lender in the LRG financing segment. In the first half of 2025, AFL granted €728 million in loans, compared with €619 million in the first half of 2024. We expect the bank's 2025 loan production will remain solid after reaching €2.0 billion in 2024, compared with €1.9 billion of financing disbursed in 2023 and €1.4 billion in 2022. It will likely meet its target of about €2.8 billion in annual disbursements by year-end 2029, supported by steady growth in members and strong investment activity by French LRGs, which drives their borrowing needs.

We view AFL's capital position as structurally robust, in a context of sustained loan growth. We believe the bank has a sufficient buffer in its S&P Global Ratings-adjusted risk-adjusted capital (RAC) to absorb increased lending. Diversification, capital injections from its growing member

base, and enhanced earnings will mitigate the impact of rapid lending growth on capitalization. AFL's RAC ratio remained very strong at 36.1% at end-2024 before adjustments, from 43.2% in the previous year, despite additional lending outpacing total adjusted capital growth. After factoring in our adjustment for single-name concentration in underlying borrowers, AFL's 2024 RAC ratio was a very strong 17.5% (17.9% previously). We expect increased diversification, capital injections from new joiners, and enhanced earnings generation will offset any negative effects of the growing lending book on our RAC ratio. The loan book continues diversifying; the bank's 10 largest borrowers now represent less than 25% of total exposure as of Dec. 31, 2024, down from 38% at year-end 2019 and above 50% in 2017.

ACPR's decision, on June 21, 2024, to lower the credit risk weighting of AFL's exposures to French LRGs to 0% from 20% meant a steep increase in the bank's solvency ratio. AFL's common equity Tier 1 capital adequacy ratio stood at 56.5% at June 30, 2025, and 62.75% at Dec. 30, 2024, well above the minimum regulatory requirement of 11.75%. That said, we see limited room for AFL to pursue more aggressive growth than currently planned, as the bank's 2.43% leverage ratio at June 30, 2025, which excludes AT1 instruments, is close to the 2.25% internal limit and the 1.7% legal cap.

AFL has established debt programs and is a regular benchmark issuer with a diversified funding profile in terms of geographies, maturities, currencies, and investor types. In the first half of 2025, it raised €1.3 billion in the bond market, compared with €1.4 billion in the first half of 2024 and a record €2.4 billion in 2024. The pricing of AFL's issuances has remained attractive at a spread of 15 basis points (bps) above the OAT curve, compared to 32 bps in 2024 and 49 bps in 2023--positioning it just above that of French government-owned agencies such as the Agence Française de Développement. This improvement is notably attributed to the HQLA Level 1 classification granted in June 2024 to debt securities issued by AFL, an upgrade that enhanced AFL's position in the debt market. As of June 30, 2025, exposure to French LRGs with 0% risk weight was in line with the minimum threshold of 90% for AFL's issued debt to qualify as HQLA 1.

AFL benefits from favorable funding access through a set of reliable and diversified channels, with limited maturity mismatches. Its asset and liability management policy limits to 18 months the difference between the average maturity of assets and liabilities, temporarily extended to 24 months for a maximum of six months. It has no notable refinancing risk, with most funding being long term. The cumulative maturing assets cover 1.4x cumulative maturing liabilities for the next 12 months and support its robust funding profile.

AFL maintains a very strong liquidity position. Its dependence on wholesale market funding is mitigated by prudent liquidity policies and a comprehensive treasury portfolio. As of Dec. 30, 2024, the bank's 12-month liquidity ratio was 1.2x after including undrawn loan commitments. This indicates that AFL would be able to cover all committed lending and liabilities for at least one year, even under extremely stressed market conditions and without access to capital markets.

AFL's total liquidity reserve stood at €2.1 billion as of June 30, 2025, of which 27% was cash. The noncash liquidity portfolio is invested in liquid fixed-income securities (80% being HQLA level 1 or 2) issued by governments, states, regional governments, multilateral development banks, and financial institutions. Positively, AFL has access to the French central bank's automated interface for pledging credit claims (ECMS). This enables AFL to repurchase LRGs' claims at the central bank and benefit from central bank funding of up to €3.6 billion as of Dec. 31, 2024.

We do not foresee significant additional risks other than those captured in our RAC calculations and funding and liquidity metrics because AFL hedges risk through derivatives. However, this hedging creates counterparty exposures to financial institutions, especially to the clearinghouse LCH Clearnet, although these are entirely and mutually collateralized. In addition, there are a few

exceptions regarding interest-rate risk, with a limited pocket of fixed-rate assets managed within the limits of the economic value of equity.

Issue Ratings--Subordination Risk Analysis

We rate AFL's additional Tier 1 notes 'BBB+'. AFL operates under Article 7 of the Capital Requirements Regulation derogation, where prudential supervision occurs only at the consolidated group level (AFL-ST) rather than at the AFL level. Consequently, AFL's AT1, despite meeting typical AT1 characteristics, is not currently recognized by the French regulator as regulatory capital on a consolidated basis.

We understand that AFL is in ongoing discussions with the regulator and intends to obtain supervision at the operating company level within one year, which could lead to regulatory recognition of the instrument. For this reason, the proposed notes feature an unusual call option by international standards, which offers AFL the option to redeem the instrument if the regulator does not recognize the instrument as regulatory capital once supervision is in place at the operating company level.

We derive the three-notch difference between the 'BBB+' issue rating on the AT1 notes and our 'A+' issuer credit rating on AFL as follows:

- One notch for the notes' contractual subordination.
- One notch for the risk of nonpayment of coupons at the full discretion of the issuer.
- One notch because the notes' documentation contains a contractual write-down clause.

In accordance with our criteria for hybrid capital instruments (see "General Criteria: Hybrid Capital: Methodology And Assumptions," Oct. 13, 2025), we do not apply further notching for Tier 1 regulatory capital status. We would deduct an additional notch linked to coupon deferral risk if the instrument is recognized by the regulator.

Because the regulator will not immediately include the issuance when calculating regulatory capital ratios for the consolidated group, we currently do not assign any equity content. If the regulator approves the notes for inclusion in the bank's regulatory Tier 1 capital, we could change our view of the equity content of the AT1 instrument, considering the instrument meets the conditions for intermediate equity content. These conditions include the notes being perpetual, with a first call date at seven years from issuance. In addition, the notes do not contain a coupon step-up and would be able to absorb losses or conserve cash, if needed, through write-down and discretionary coupon cancellation, without causing the bank to default.

Selected Indicators

Key Statistics

Agence France Locale -- Selected Indicators

	--Year ended Dec. 31--				
(Mil. €)	2024	2023	2022	2021	2020
Business position					
Total adjusted assets	10914	9373	8009	6996	5728
Customer loans (gross)	8248	6577	4691	4431	3832

Agence France Locale -- Selected Indicators

	--Year ended Dec. 31--				
Growth in loans	25.4	40.2	5.9	15.6	21.2
Operating Revenues	23.9	23.2	17.6	14	13.8
Net Income after extraordinary	5.4	5.7	2.8	1.7	2.3
Capital and risk position					
Total liabilities	10619	9167	7824	6819	5580
Total adjusted capital	296	217	185	171	142
RAC ratio before adjustments (%)	36.1	43.2	39.4	44.6	42.8
RAC ratio after adjustments (%)*	17.5	17.9	N/A	N/A	N/A
Gross nonperforming assets/gross loans	0	0	0.1	0.1	0.1
Funding and liquidity§ (x)					
Liquidity ratio with loan disbursement (1 year)	1.2	1.2	N/A	N/A	N/A
Liquidity ratio without loan disbursement (1 year)	1.7	1.6	N/A	N/A	N/A
Funding ratio (1 year)	>1	>1	N/A	N/A	N/A

*RAC ratios after adjustments are not available for 2020-2022 as we changed the Criteria.

§Funding and liquidity ratios for 2020-2022 are not available as we changed the Criteria.

Funding ratio is without loan disbursements. RAC--Risk-adjusted capital. N/A--Not available.

Rating Component Scores

Issuer credit rating	A+/Stable/A-1
Sector risk profile	Strong
Individual credit profile:	
Business position	Moderate
Management and governance	Adequate
Capital adequacy	Very strong
Funding and liquidity	Strong
Anchor	aa-
Overriding factors and caps	0
Holistic analysis	0
Stand-alone credit profile	aa-
Extraordinary support	0

Related Criteria

- [General Criteria: Hybrid Capital: Methodology And Assumptions](#), Oct. 13, 2025
- [Criteria | Governments | International Public Finance: Methodology For Rating Non-U.S. Public-Sector Funding Agencies](#), July 26, 2024
- [Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology](#), April 30, 2024

- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [General Criteria: Methodology For Linking Long-Term And Short-Term Ratings](#), April 7, 2017
- [General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [France Ratings Lowered To 'A+/A-1' From 'AA-/A-1+' On Heightened Risks To Budgetary Consolidation; Outlook Stable](#), Oct. 17, 2025
- [Institutional Framework Assessment: French Departments And Departmental Syndicates](#), April 22, 2025
- [Agence France Locale's Proposed Additional Tier 1 Capital Notes Rated 'A-'](#), Dec. 2, 2024
- [French Public Sector Lender Agence France Locale 'AA-/A-1+' Ratings Affirmed; Outlook Stable](#), Nov. 4, 2024
- [Institutional Framework Assessment: French Regions](#), July 29, 2024
- [Institutional Framework Assessment: French Cities, Intercities, And Municipal Syndicates](#), April 10, 2024

Ratings List

Ratings List

Ratings Affirmed

Agence France Locale

Issuer Credit Rating	A+/Stable/A-1
Senior Unsecured	A+
Junior Subordinated	BBB+
Commercial Paper	A-1

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