FitchRatings

Public Finance
Government-Related Entities
France

Agence France Locale S. A.

Fitch Ratings equalises Agence France Locale S. A.'s (AFL) ratings with the highest possible credit profile of its supporting government under its Government-Related Entities (GRE) Rating Criteria. The supporting government consists of French local and regional government (LRG) members, which collectively guarantee at least 75% of AFL's debt.

This 75% threshold, qualifying for the single factor leading to rating equalisation, is met with a highest possible credit profile of 'AA-'. The rating currently corresponds to the sovereign rating (AA-/Negative), which caps the ratings of all French LRGs.

The Negative Outlook reflects that AFL's ratings would be downgraded if the highest credit profile of its members is downgraded to 'A+', which would occur if France were downgraded by one notch. However, there is no direct linkage between AFL's rating and that of the French sovereign.

Key Rating Drivers

Support Score Assessment at 'Very Likely': We consider that extraordinary support from the supporting government to AFL would be 'Very Likely', if needed, reflecting a score of 32.5 out of 60 points under our GRE criteria. However, AFL's support score does not drive its ratings as the financial guarantee remains the sole basis of its rating equalisation.

Responsibility to Support: Fitch does not envisage any LRG member exerting sufficient influence on AFL's policy and strategy. AFL is independent from Agence France Locale – Société Territoriale (AFL-ST), ensuring that its decisions cannot be influenced by members of AFL-ST. We therefore consider the decision-making power that the supporting government has over AFL as limited.

AFL consistently has received commitments to support from its member LRGs through direct guarantees. AFL has also benefitted from capital injections that have helped it to grow and pursue its policy mission while maintaining its financial profile.

Incentives to Support: Fitch believes an AFL default would result in grave political repercussions for its guarantors as it would have a reputational effect. AFL is an important and expanding provider of LRG financing, so a default would have a direct, immediate impact on the sector.

However, some French banks could be substitutes for AFL, if needed. Fitch considers that a default by AFL would have a large impact on its guarantors' credit standing and on their borrowing capacity. It would also lessen the value of guarantees provided by French LRGs to other sectors.

Fitch does not assign a Standalone Credit Profile (SCP) to AFL, as it considers the ratings of policy banks to be driven by other factors, which for AFL is the guarantee.

Criteria Variation: Fitch applies two criteria variations as part of this review. 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 LRG members with a credit profile of 'AA-' for the rating equalisation to reflect that all members 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 we use in lieu of the Issuer Default Rating (IDR) of the supporting government as required by the criteria.

Ratings

Foreign Currency

Long-Term IDR	AA-
Short-Term IDR	F1+

Local Currency

Long-Term IDR	AA-
Short-Term IDR	F1+

Outlooks

Long-Term Foreign-Currency IDR	Negative
Long-Term Local-Currency IDR	Negative

Debt Ratings

Senior Unsecured Debt - Long-Term Rating	AA-
Senior Unsecured Debt - Short-Term Rating	F1+

Issuer Profile Summary

AFL is a local government funding agency, created in 2013 by and for French LRGs. AFL raises funds on capital markets to provide financing for LRGs' investment programmes.

Financial Data Summary

(EURm)	2023	2024
Interest revenue	336	458
Net interest income	24	24
Net profit (loss)	6	6
Total assets	9,375	10,916
Total debt	8,396	10,030
Net interest income/ earning assets (%)	0.3	0.2

Source: Fitch Ratings, Agence France Locale S. A.

Applicable Criteria

Government-Related Entities Rating Criteria (July 2024)

Public Policy Revenue-Supported Entities Rating Criteria (January 2024)

Related Research

French Agencies' Ratings Are Driven by the Sovereign (December 2024)

Supranationals, Subnationals and Agencies Handbook (September 2024)

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Rating Synopsis

France Rating Derivation

Summary		**Government LT IDR**	**GRE LT IDR**
Government LT IDR	AA-		
GRE Standalone Credit Profile (SCP)	No SCP	AAA	AAA
Support category	Very likely	AA+	AA+
Notching expression	-	AA	AA
Single equalisation factor	Yes	AA-	AA-
GRE LT IDR	AA-	A+	A+
		A	A
GRE Key Risk Factors and Support Score		A-	A-
Responsibility to support	12.5	BBB+	BBB+
Decision making and oversight	N/A	BBB	BBB
Precedents of support	Very Strong	BBB-	BBB-
Incentives to support	20	BB+	BB+
Preservation of government policy role	Strong	BB	BB
Contagion risk	Strong	BB-	BB-
Support score	32.5 (max 60)	B+	B+
		B	B
Stylized Notching Guideline Table		B-	B-
Support score	**Notching expression**	CCC+	CCC+
>=45	Equalised	CCC	CCC
35-42.5	Top down - 1	CCC-	CCC-
30-32.5	Top down - 2	CC	CC
20-25	Top down - 3	C	C
<=15	Not ratable	RD	RD
Note: Refer to the GRE criteria for further details		D	D

LT IDR – Long-Term Issuer Default Rating; GRE – Government-related entity
Source: Fitch Ratings

AFL's support score does not currently drive its ratings as the financial guarantee remains the sole basis of its rating equalisation. 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) exceeds 150%, well above the 75% required for solely leading to rating equalisation under its GRE criteria.

Rating Sensitivities

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

AFL's Outlook could be revised to Stable if France's Outlook is revised to Stable, all else being equal, as the sovereign's ratings currently cap French LRGs' ratings.

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

AFL's ratings could be downgraded in the event of a material weakening of its guarantee mechanism, or if its guaranteed debt from guarantors with a credit profile of 'AA-' represents less than 75% of AFL's financial debt (excluding their own commitments to AFL). However, Fitch views the latter as unlikely as this share is currently at more than 150%.

AFL's ratings could also 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.

Issuer Profile

AFL was created in 2013 by and for French LRGs. It is a local government funding agency, which raises resources on capital markets to finance LRGs' investment programmes. AFL's goal is to diversify and optimise French LRG's financing options and costs. It is especially useful for small LRGs that have limited or no access to financial markets and rely on commercial banks. This structure aims to allow operations to be separated and independent from the member LRGs.

AFL had 1,045 members as of December 2024, which account for more than a quarter of French LRGs' total debt. Members are both AFL shareholders and guarantors, and include five metropolitan regions (out of a total of 13 in France), 17 departments (out of 101), some large metropolises or other intermunicipal groupings, and both small and large cities. Small cities are the most numerous of all members, but account for a fairly low amount of total debt, due to their significantly lower financing needs.

About 13% of annual borrowing from French LRGs is through AFL and this share has expanded rapidly recently. AFL is ranked third in LRG financing, behind the Caisse des Depots et Consignations (CDC, AA-/Negative) group including La Banque Postale (A/Negative), and Groupe BPCE (A/Stable).

The French state is not an AFL shareholder but allowed its creation on 26 July 2013 through law 2013-672 on the regulation and separation of banking activities. AFL's operations officially began with its first bond issuance and subsequent credit provided to French LRGs in 2015, following the approval by the French banking regulator (ACPR).

Dual Guarantee System

AFL's debt benefits from a joint explicit and irrevocable first-demand guarantee from each member LRG. The amount of this guarantee is equal to the outstanding debt each LRG has drawn from AFL and legally cannot exceed that amount. This guarantee is a key driver in our analysis. Creditors could directly call the guarantee of any member LRG of AFL in case of default.

AFL's debt is also guaranteed by AFL-ST for the benefit of the issuer's creditors up to EUR20 billion. This amount is set by the board and has increased in line with growth of AFL's Euro Medium Term Note (EMTN) programme. However, for the avoidance of doubt, this does not mean member LRGs guarantee AFL's debt more than their outstanding level of debt with AFL.

The second guarantee is more technical. It can be called either by creditors, or by AFL's board if it anticipates that AFL will not be able to provide a payment linked to guaranteed bonds or that a payment on guaranteed bonds will lead AFL to breach its regulatory ratios. In this case, AFL-ST would then activate its guarantee mechanism to bridge the time it takes for the member LRGs to provide their own guarantees. As such, we view the guarantee of the member LRGs as being the backbone of this system.

AFL's guarantor base is fragmented, with no single member LRG having a guarantee greater than 3.1% of AFL's total exposure. This fragmentation is increasing, as the shareholder base does. The guarantee call could thus be spread among its members relative to the ceiling of their guarantee, ensuring that no single LRG has to cover a significant portion of the burden on its own.

Since its creation, AFL has not had to call on any of its guarantors.

Support Rating Factors

Summary

Responsibility to support		Incentives to support			
Decision making and oversight	**Precedents of support**	**Preservation of government policy role**	**Contagion risk**	**Support score**	**Support category**
N/A	Very Strong	Strong	Strong	32.5 (max 60)	Very Likely

Source: Fitch Ratings

Decision Making and Oversight

Fitch sees limited decision-making power the supporting government has over AFL, resulting in no contribution to support from this factor. AFL is a limited liability company, 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 composed of local politicians. We do not see any single LRG member exerting enough influence on AFL's policy and strategy. AFL also maintains its independence from AFL-ST, ensuring that its decisions cannot be influenced by AFL-ST members.

AFL has a stable shareholder base. To become a shareholder, an LRG has to submit itself to a financial review by AFL, which grades it from '1' to '7'. Only those LRGs with a grade of below '6' are eligible to become shareholders. Each new shareholder commits to a minimum 10-year lock-up period. Should a member LRG request to leave AFL, it must first fully repay its loans and find a new shareholder that has been approved by the board to acquire its shares.

The ACPR supervises AFL, which as a limited liability company issuing debt on public markets, is required to publish a financial report at least every six months. These are published in both French GAAP and IFRS and are publicly available. AFL's statutes require the existence of a supervisory board, which comprises 14 members, most of whom are specialised in banking, finance and risk supervision.

Precedents of Support

AFL has consistently received commitments of support from its members via direct guarantees. Each LRG member is required to provide a guarantee on AFL's debt up to the amount of their respective 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 its size, as assessed by AFL. These capital injections have enabled AFL to grow and pursue its policy mission while maintaining its financial profile.

Support to AFL from its members is not subject to EU competition law limitations, as this is an "in-house" system, meaning members support their own financing. However, support from an external entity (such as the state, or non-member LRGs) could be subject to these restrictions, as AFL operates in LRG financing, which is a competitive market also provided by private banks.

Preservation of Government Policy Role

We believe an AFL default would result in grave political repercussions for its guarantors. AFL is an important and growing participant in the financing of French LRGs, so a default would directly and immediately affect the sector. However, other banks could replace AFL, limiting this assessment to 'Strong'. In 2024, AFL was the third-largest party in LRG financing, behind CDC group (including LBP) and BPCE.

Contagion Risk

AFL is a large and regular GRE issuer on national and international markets. It issues an average of EUR2 billion a year, in line with its loan portfolio growth. An AFL default would affect 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, in Fitch's view, a default would not disrupt its members' access to financing in the long term, limiting this assessment to 'Strong'.

AFL has a EUR20 billion multicurrency EMTN programme, which is used to issue both public bonds and opportunistic private placements. AFL also has a EUR2 billion Euro commercial paper (ECP) programme, as well as a dedicated Sustainable Bonds Programme, with which it aims to issue at least one sustainability bond every two years. This sustainability programme has become more important for AFL, as French LRGs' investments are increasingly oriented towards green projects.

Other Support Factors Considerations

We analyse AFL's portfolio by assessing the creditworthiness of the LRGs it lends to (the member LRGs), as these are also the guarantors of AFL's financial debt. We consider AFL's supporting government to be the member LRGs that have the highest possible credit profile, which collectively add up to a financial debt-guaranteed threshold of at least 75%. This threshold qualifies AFL for the single factor leading to equalisation.

To determine which LRGs can be considered as the supporting government, we have individually assessed the credit and risk profiles of all member LRGs guaranteeing AFL, based on our LRG rating criteria. Using this analysis, we look at the share of AFL's debt that is provided by the 'supporting government'.

When calculating AFL's financial debt, we remove the debt of the supporting government, because all AFL members guarantee an amount of debt equal to that which they have contracted with AFL. This guarantee comes on top of the debt they already have to repay to AFL; we consider that these LRGs would not guarantee their own debt. We also consider that the debt they repay to AFL is 'senior' to their guarantee: if they do not repay AFL, these LRGs would be in default and would be unable to pay their guarantee.

This analysis gives us a share of guarantee above 150% from the supporting government.

Operating Performance

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 growing, profitability. However, its financial performance has continuously improved over the past five years, driven by the rapid growth of its loan portfolio. Interest revenue continued to grow in 2024 to EUR458 million (EUR336 million in 2023) but was constrained by growing interest expenditure to EUR434 million, leading to a stable net interest margin of EUR24 million.

AFL has strong and stable asset quality, low risk appetite and stable access to wholesale financing. 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 and should continue to reduce progressively. Its regulatory capital ratios have benefitted strongly from the reduction of the risk-weighting applied to LRGs in 2024 to zero from 20% previously. This has led AFL to report high solvency ratios (common equity Tier 1 ratio of 61.3% at end 2024), well in excess of requirements.

AFL's capital base remains small, which could leave the bank vulnerable to large unexpected losses in the event of financial stress. The regulatory leverage ratio of 11.3% is sound, but benefits from the exclusion of lending to local authorities and AFL remains constrained by its banking leverage ratio of 2.7% (when including the recently issued additional Tier 1 notes), which considers its total credit exposure. AFL has benefitted from regular capital injections from LRG members to support its rapid growth, which is evidence of ordinary support.

Interest Income Summary, 2024

	(EURm)	% of interest revenue
Interest from customers	299	66
Interest from banks	56	12
Interest from securities	47	10
Other interest revenue	56	12
Interest revenue	**458**	**100**
Interest expenditure	-434	-
Net interest income	**24**	-
Net interest margin (%)	0.2%	

Source: Fitch Ratings, Fitch Solutions, Agence France Locale S. A.

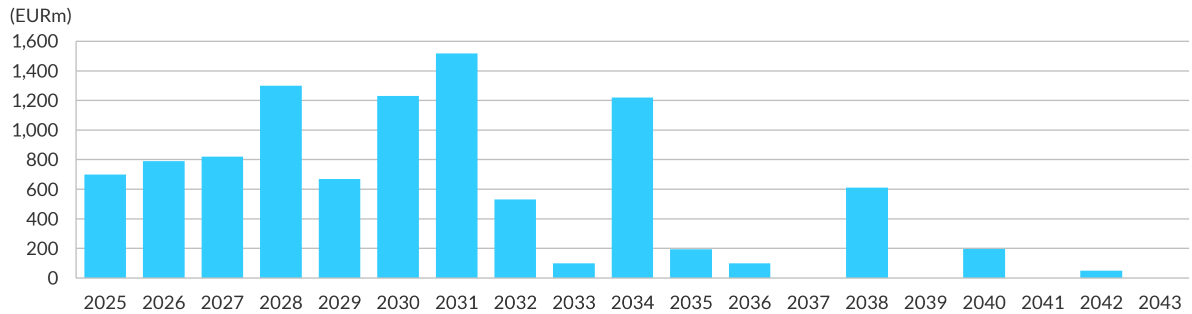
Debt and Liquidity Analysis

AFL has a good access to capital markets through its EUR20 billion EMTN programme and its EUR2 billion ECP programme. It issues on average EUR2 billion of medium- and long-term bonds a year. These issues are mainly in euros, but AFL has already issued in other currencies such as pound sterling and Swiss francs, based on market opportunities. AFL also has a sustainability bonds framework with an objective to issue at least one sustainability bond every two years.

The debt amortisation profile displays some peak repayments, mostly linked to one-off large benchmark issuances. These are largely covered by AFL's strong liquidity buffer of about EUR2 billion, of which EUR486 million was cash held at the central bank at end-2024. Other than for a couple of years, AFL aims to maintain a smooth debt maturity profile to prevent concentration and refinancing risk. AFL also has access to central bank refinancing operations by pledging loans to local authorities or its securities portfolio, which constitute the bulk of AFL's balance sheet, providing it access to a large and stable source of refinancing in case its access to wholesale markets weakens.

Off-balance-sheet risks are limited, with only EUR69 million of guarantees provided and EUR540 million of financing commitments, which almost exclusively represents loan agreements signed with LRGs and for which the funds are about to be issued.

Principal Debt Repayment in Nominal Value (as of end-2024)



Source: Fitch Ratings, Agence France Locale S. A.

Debt Analysis

(EURm)	End-2024	% of total debt
Capital and liquidity ratios		
Basel III solvency ratio	63%	-
Public development institution leverage ratio	11.25%	-
Liquidity coverage ratio	447%	-
Debt composition		
Total debt	10,030	-
Issued debt	8,536	85.1
Short term debt	825	8.2
Debt in foreign currency	1,100	11.0
Debt at floating interest rate	0	0.0
Apparent cost of debt (%)	4.3	-
Weighted average life of debt (years)	6.4	-

Source: Fitch Ratings, Fitch Solutions, Agence France Locale S. A.

Short-Term Rating Derivation

AFL's Short-Term IDR of 'F1+' is the only option for a Long-Term IDR of 'AA-'.

Debt Ratings

We assign ratings of 'AA-/F1+' to the senior unsecured debt issued under AFL's EUR20 billion EMTN and EUR2 billion ECP programmes.

Peer Analysis

Peer Comparison

	Supporting Government	GRE Score (new criteria)	Support Category	SCP	IDR	Outlook	Rating approach
Agence France Locale S.A.	LRGs with the highest possible credit profile that allows us to meet the equalisation threshold	32.5	Very Likely	n.a.	AA-	Negative	Equalisation (single factor)
New Zealand Local Government Funding Agency Limited (LGFA)	New Zealand	55	Virtually Certain	n.a.	AA+	Stable	Equalisation
AMCO – Asset Management Company S.p.A.	Italy	45	Virtually Certain	b+	BBB	Positive	Equalisation
Caisse des Depots et Consignations	France	60	Virtually Certain	n.a.	AA-	Negative	Equalisation
EPIC Bpifrance	France	50	Virtually Certain	n.a.	AA-	Negative	Equalisation
Agence Francaise de Developpement	France	50	Virtually Certain	n.a.	AA-	Negative	Equalisation

Source: Fitch Ratings

AFL is a unique entity in France. It has a similar rating to other GREs, such as CDC, EPIC Bpifrance and Agence Francaise de Developpement. However, the latter's ratings are equalised with the sovereign due to their high GRE score, while AFL's equalisation is driven by its debt being more than 75%-guaranteed by its supporting government.

AFL's national funding agency model has global precedents, such as Kommuninvest in Sweden, Kommunekredit in Denmark and Munifin in Finland. LGFA uses this model as well in New Zealand to finance councils, but is equalised with the sovereign due to its higher GRE score reflecting our view that the New Zealand government effectively controls the agency.

AMCO is a government-owned Italian asset manager and is the reference company for state-led bailouts of distressed banks. Its ratings are also equalised with the sovereign due to its higher GRE score and despite its ‘b+’ SCP.

Other international entities conduct comparable activities but with different structures, such as BNG Bank N.V. (AAA/Stable) in the Netherlands or Municipal Finance Authority of British Columbia (AAA/Stable) in Canada.

Criteria Variation

Fitch applies two criteria variations.

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 LRG members with a credit profile of ‘AA-’ for the rating equalisation to reflect that all members are committed to support AFL through the guarantee mechanism. No member LRG own a share of 25% or more of AFL.

We have considered the credit profile assessments of the member LRGs with a ‘AA-’ credit profile, which we use in lieu of the IDR of the supporting government as required by the criteria.

ESG Considerations

Fitch does not provide ESG relevance scores for AFL.

In cases where Fitch does not provide ESG relevance scores in connection with the credit rating of a transaction, programme, instrument or issuer, Fitch will disclose any ESG factor that is a key rating driver in the key rating drivers section of the relevant rating action commentary. For more information on Fitch’s ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products

Appendix A: Financial Data

Agence France Locale S. A.

(EURm)	2020	2021	2022	2023	2024
Income statement					
Interest revenue	26	34	51	336	458
Interest expenditure	-14	-22	-35	-312	-434
Net interest income	12	13	16	24	24
Net fees and commissions	0	0	0	0	0
Other operating income	0	0	0	0	0
Personal expenses	-5	-6	-6	-7	-7
Other operating expenses	-6	-6	-7	-8	-9
Net gains and losses on securities and trading	2	1	2	-1	0
Net operating income (loss)	3	2	4	8	8
Provisions	0	0	0	0	0
Other non-operating items	0	0	0	0	0
Transfers and grants from public sector	0	0	0	0	0
Taxation	0	0	-1	-2	-2
Net profit (loss)-	2	2	3	6	6
Balance sheet					
Assets					
Cash and cash equivalents	602	1,176	1,134	975	486
Liquid securities	873	909	1,648	1,310	1,446
Deposits with banks	0	0	0	0	0
Loans	4,079	4,699	4,961	6,752	8,498
Other earning assets	0	0	0	0	0
Long-term Investments	167	206	257	329	465
Fixed assets	1	1	1	1	11
Intangible assets	2	3	2	2	2
Other long-term assets	6	6	8	6	9
Total assets	5,730	6,999	8,012	9,375	10,916
Liabilities and equity					
Customer deposits	0	0	0	0	0
Deposits from banks	0	0	0	0	0
Short-term borrowing	222	958	1,215	1,209	825
Other short-term liabilities	252	225	974	671	520
Debt maturing after one year	5,083	5,619	5,476	7,186	9,205
Other long-term funding	0	0	0	0	0
Other provisions and reserves	0	0	0	0	0
Other long-term liabilities	24	16	159	100	69
Share capital	168	197	208	222	241
Reserves and retained earnings	-19	-16	-20	-14	55
Equity and reserves	150	180	187	208	297
Total liabilities and equity	5,730	6,999	8,012	9,375	10,916
Memo:					
Guarantees and other contingent liabilities	458	632	810	893	614

Source: Fitch Ratings, Fitch Solutions, Agence France Locale S. A.

Appendix B: Financial Ratios

Agence France Locale S. A.

(%)	2020	2021	2022	2023	2024
Performance					
Interest revenue on loans/loans	0.5	0.6	0.9	4.8	5.3
Interest expense/borrowings and deposits	0.3	0.3	0.5	3.7	4.3
Net interest income/earning assets	0.2	0.2	0.2	0.3	0.2
Net operating income/net interest income and other operating revenue	22.0	14.4	26.1	31.1	32.5
Net operating income/equity and reserves	1.7	1.0	2.2	3.6	2.7
Net operating income/total assets	0.1	0.0	0.1	0.1	0.1
Credit portfolio					
Growth of total assets	31.5	22.2	14.5	17.0	16.4
Growth of loans	21.7	15.2	5.6	36.1	25.9
Impaired loans/total loans	0.0	0.0	0.0	0.0	0.0
Reserves for impaired loans/impaired loans	-	-	-	-	-
Loan impairment charges/loans	0.0	0.0	0.0	0.0	0.0
Debt and liquidity					
Liquid assets/total assets	25.7	29.8	34.7	24.4	17.7
Total deposits and debt/total assets	92.6	94.0	83.5	89.6	91.9
Liquid assets/short-term deposits and borrowing	665.9	217.5	229.0	189.0	234.0
Capitalisation					
Equity and reserves/total assets	2.6	2.6	2.3	2.2	2.7

Source: Fitch Ratings, Fitch Solutions, Agence France Locale S. A.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.