Creditreform Bank Rating

Agence Française de Développement (Group)

Long-Term Issuer Rating: AA
Outlook: stable

Short-Term Rating: L1

Preferred Sen. Unsec. Debt: AA
Non-Preferred Sen. Unsec. Debt: -
Tier 2 Capital: -
AT1 Capital: -

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Rating Action:

Creditreform Rating affirms the long-term issuer rating of Agence Française de Développement (Group) at 'AA' (Outlook: stable)

Creditreform Rating (CRA) has affirmed Agence Française de Développement's long-term issuer rating at 'AA' and the short-term rating at 'L1'. The rating outlook is stable.

However, adjustments in our rating methodology for bank capital and debt instruments occurred because of legislative alterations in the European Union. As a result, CRA reclassifies its rating of senior unsecured debt to preferred senior unsecured debt and affirms it at 'AA'.

Please find a complete list of rating actions regarding the bank and its affected subsidiaries at the end of this rating update. In addition, we refer to the more detailed report of the Group from 31 August 2018 on our homepage.

Key Rating Drivers

CRA has affirmed the rating of Agence Française de Développement and its bank capital and debt instruments as a result of its periodic updating process for the following reasons:

- High probability of support by the French Republic (Sovereign Rating by CRA: 'AA')
- EPIC status; inapplicability of potential insolvency and bankruptcy procedures
- Low NPL ratio
- Sufficient capitalization, stable funding base

Rating Rationale

Agence Française de Développement's (in the following: AFD) credit rating affirmation was driven by the bank's unchanged dual status as financial company and EPIC as well as its unchanged role to carry out financial operations, which contribute to the implementation of the French State's development aid policy. We assume a high probability of support by the French Republic in case of distress, due to the ultimate responsibility for AFD's solvency (Law 80-539), and as such assign the bank the Sovereign Rating of the French Republic ('AA' / stable).

Profitability

AFD's net profit declined massively compared to the previous year, primarily through financial instruments volatility and due to the adoption of new accounting standards (IFRS9).

The net interest income remained approximately unchanged amidst an increase of both interest income as well as expense. Net fee income rose strongly by over 15%, the main driver being an increase in commissions for monitoring and investment. Trading income declined due to the change to IFRS9 and negative market developments. As in the years prior, AFD received subsidies from the French State to reduce financing cost or lending costs for the borrower and amounted to almost €200m.

Personnel expense rose sharply by almost 11% over the previous year. However, the average workforce of AFD also increased by about 11% as well. Overall, the operating expense only increased slightly over the previous year.

Due to the decrease in operating income, the pre-impairment operating profit fell sharply by about 40%. Increased cost of risk in comparison to the previous year decreased the resulting pre-tax profit further, resulting in a value that was almost 57% below that of the previous year. Attributable net profit to the owners of the parent company was €115m, almost two-thirds down on the previous year's value of €313m. Without the state subsidies, AFD would have posted a loss in 2019. Income ratios suffered consequently, the cost income ratio jumped 12 percentage points from 55% to 67%.

Asset Situation and Asset Quality

The balance sheet of AFD lengthened by almost €3bn.

The increased stems mainly from an increase in lending. Net loans to customers (ex banks) reached almost €26.5bn. Financial assets totaled €42bn.

Due to the geography and inherent risk in AFD's areas of operations, the RWA-ratio remains very high with over 91% of total assets. NPL (doubtful outstandings), on the other hand, remain low at 1.7% of net loans to customers.

Refinancing and Capital Quality

To finance the lending activities, AFD made 21 bond issues in 2018, of which five where public placements, as well as nine tap issues totaling €6.5bn €. Total outstanding debt was about €32bn as of year end 2018.

Liquidity

Traditional liquidity measures are non-applicable for AFD due to it's dual status as financial company and EPIC, and as such not being subject to ECB supervision. As such, liquidity ratios such as LCR need not be met anymore. However, AFD complies with the LCR without having to do so.

Outlook

We consider the outlook of AFD's long-term issuer rating and its bank capital and debt instruments as stable.

In addition, we assume a stable political and economic environment in AFD's markets of operations.

Scenario Analysis

The rating remains sensitive to the rating of the French Republic. An up- or downgrade of the French Republic would likely result in an up- or downgrade of the rating of AFD. The rating of preferred senior unsecured debt would behave similarly due to our rating methodology.

As such, in a best-case scenario where the finances of the French Republic improve, the sovereign rating may receive an upgrade. Likewise, in a worst-case scenario, the sovereign rating of the French Republic may decrease and with it the rating of AFD.

CRA's rating actions at a glance

Agence Française de Développement (Group):

- Long-Term Issuer Rating affirmed at 'AA', stable outlook
- Short-term rating affirmed at 'L1'
- Senior unsecured debt reclassified to preferred senior unsecured debt and affirmed at 'AA'

Ratings Detail

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **AA / stable / L1**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred senior unsecured debt (PSU): **AA**
Non-preferred senior unsecured debt (NPS): **-**
Tier 2 (T2): **-**
Additional Tier 1 (AT1): **-**

Ratings Detail and History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 1: Rating History

Bank Issuer Rating	Rating Date	Result
LT / Outlook / Short-Term (Initial)	31.08.2018	AA / stable / L1
Rating Update	09.12.2019	AA / stable / L1
Bank Capital and Debt Instruments	**Rating Date**	**Result**
Senior Unsecured / T2 / AT1 (Initial)	31.08.2018	AA / - / -
PSU / NPS / T2 / AT1	09.12.2019	AA / - / - / -

Appendix

Figure 2: Group income statement | Source: eValueRate / CRA

Income Statement	2015	2016	2017	%	2018
Income (€000)					
Net Interest Income	305.905	311.696	352.795	-1,7	346.760
Net Fee & Commission Income	69.943	75.415	85.918	+15,1	98.930
Net Insurance Income	-	-	-	-	-
Net Trading Income	18.556	142.810	125.014	< -100	-37.397
Equity Accounted Results	9.704	7.838	4.596	-1,8	4.515
Dividends from Equity Instruments	-	-	-	-	-
Other Income	227.281	219.298	229.794	+7,3	246.600
Operating Income	**631.389**	**757.057**	**798.117**	**-17,4**	**659.408**
Expenses (€000)					
Depreciation and Amortisation	15.737	16.980	20.490	+10,1	22.564
Personnel Expense	192.812	209.433	235.483	+10,7	260.752
Tech & Communications Expense	-	-	-	-	-
Marketing and Promotion Expense	-	-	-	-	-
Other Provisions	21.517	9.580	9.852	-	-
Other Expense	104.548	131.601	172.579	-8,5	157.995
Operating Expense	**334.614**	**367.594**	**438.404**	**+0,7**	**441.311**
Operating Profit & Impairment (€000)					
Pre-impairment Operating Profit	**296.775**	**389.463**	**359.713**	**-39,4**	**218.097**
Asset Writedowns	97.640	97.911	12.279	> +100	67.270
Net Income (€000)					
Non-Recurring Income	-	-	-	-	-
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	**199.135**	**291.552**	**347.434**	**-56,6**	**150.827**
Income Tax Expense	16.044	25.474	15.075	-12,3	13.227
Discontinued Operations	-	-	-	-	-
Net Profit (€000)	**183.091**	**266.078**	**332.359**	**-58,6**	**137.600**
Attributable to minority interest (non-controlling interest)	10.217	19.878	19.554	+14,4	22.374
Attributable to owners of the parent	172.874	246.200	312.805	-63,2	115.225

Figure 3: Group key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2015	2016	2017	%	2018
Cost Income Ratio (CIR)	53,00	48,56	54,93	+12,00	66,93
Cost Income Ratio ex. Trading (CIRex)	54,60	59,84	65,13	-1,80	63,33
Return on Assets (ROA)	0,51	0,70	0,83	-0,51	0,32
Return on Equity (ROE)	5,72	4,57	5,34	-3,12	2,22
Return on Assets before Taxes (ROAbT)	0,56	0,77	0,87	-0,52	0,35
Return on Equity before Taxes (ROEbT)	6,22	5,01	5,58	-3,15	2,43
Net Interest Margin (NIM)	0,93	1,24	1,23	-0,49	0,74
Pre-Impairment Operating Profit / Assets	0,83	1,03	0,90	-0,39	0,51
Cost of Funds (COF)	3,81	3,75	3,25	+0,15	3,40
Change in %- Points					

Figure 4: Development of assets | Source: eValueRate / CRA

Assets (€000)	2015	2016	2017	%	2018
Cash and Balances with Central Banks	30.448	173.209	1.016.778	+37,6	1.399.405
Net Loans to Banks	7.482.931	6.834.178	6.416.714	+11,0	7.122.024
Net Loans to Customers	21.859.010	24.219.887	24.860.806	+6,5	26.485.764
Total Securities	2.739.854	2.853.644	4.812.815	+3,4	4.978.264
Total Derivative Assets	2.712.891	2.508.977	1.827.805	+10,8	2.025.840
Other Financial Assets	-	-	-	-	-1
Financial Assets	**34.825.134**	**36.589.895**	**38.934.918**	**+7,9**	**42.011.296**
Equity Accounted Investments	160.139	165.982	146.156	+2,7	150.105
Other Investments	-	-	-	-	-
Insurance Assets	-	-	-	-	-
Non-current Assets & Discontinued Ops	-	-	-	-	-
Tangible and Intangible Assets	216.194	218.925	226.012	+3,6	234.081
Tax Assets	21.967	23.079	18.305	+12,1	20.518
Total Other Assets	610.810	751.497	599.443	-24,5	452.409
Total Assets	**35.834.244**	**37.749.378**	**39.924.834**	**+7,4**	**42.868.409**

Figure 5: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2015	2016	2017	%	2018
Net Loans/ Assets	61,00	64,16	62,27	-0,49	61,78
Risk-weighted Assets/ Assets	93,30	92,30	96,60	-5,40	91,20
NPLs*/ Net Loans to Customers	2,08	2,02	1,61	+0,09	1,70
Reserves/ NPLs*	64,26	62,81	77,21	-2,14	75,07
Reserves/ Net Loans	1,34	1,27	1,24	+0,03	1,27
Net Write-offs/ Net Loans	0,45	0,40	0,05	+0,20	0,25

Change in %- Points

* NPLs are represented from 2018 onwards by Stage 3 Loans.

Figure 6: Development of refinancing and capital adequacy | Source: eValueRate / CRA

Liabilities (€000)	2015	2016	2017	%	2018
Total Deposits from Banks	1.327	4.506	17.136	-31,3	11.779
Total Deposits from Customers	1.954	1.937	2.187	-22,7	1.690
Total Debt	27.877.081	27.369.445	29.613.863	+9,0	32.293.282
Derivative Liabilities	2.038.004	2.146.218	1.323.478	-3,3	1.279.499
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	-	-	-	-	-
Total Financial Liabilities	**29.918.366**	**29.522.106**	**30.956.664**	**+8,5**	**33.586.250**
Insurance Liabilities	-	-	-	-	-
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	8.590	7.168	8.455	-16,0	7.099
Provisions	736.626	801.344	921.496	+8,7	1.001.700
Total Other Liabilities	1.968.963	1.602.579	1.811.741	+14,6	2.076.824
Total Liabilities	**32.632.545**	**31.933.197**	**33.698.356**	**+8,8**	**36.671.873**
Total Equity	**3.201.699**	**5.816.181**	**6.226.478**	**-0,5**	**6.196.536**
Total Liabilities and Equity	**35.834.244**	**37.749.378**	**39.924.834**	**+7,4**	**42.868.409**

Figure 7: Development of capital ratios | Source: eValueRate / CRA

Capital Ratios (%)	2015	2016	2017	%	2018
Total Equity/ Total Assets	8,93	15,41	15,60	-1,14	14,45
Leverage Ratio	7,10	13,67	-	-	-
Phased-in: Common Equity Tier 1 Ratio (CET1)	-	-	14,57	+1,12	15,69
Phased-in: Tier 1 Ratio (CET1 + AT1)	-	-	16,44	+1,40	17,84
Phased-in: Total Capital Ratio (CET1 + AT1 + T2)	16,72	16,82	16,44	+1,93	18,37
Change in %- Points					

Figure 8: Development of liquidity | Source: eValueRate / CRA

Not applicable

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating.

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA. Subject to a peer group analysis were 53 competing institutes.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for bank ratings, the methodology for government related banks as well as the methodology for the rating of bank capital and unsecured debt instruments in conjunction with Creditreform`s basic document “Rating Criteria and Definitions”.

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document “Rating Criteria and Definitions" is published on the following homepage:

www.creditreform-rating.de/de/regulatory-requirements/.

On 09 December 2019, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Agence Française de Développement (Group), and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy “Rating Committee,” all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate

2. Annual Report and interim reports

3. Investors relations information and other publications

4. Website of the rated bank

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

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