AGENCE FRANCE LOCALE
La banque des collectivités

Press release
April 30, 2019

THE 2018 RESULTS AND ACTIVITIES OF AGENCE FRANCE LOCALE GROUP ONCE AGAIN DEMONSTRATE THE ATTRACTIVENESS OF ITS BUSINESS MODEL

At the end of the Board of Directors meeting of Agence France Locale - Société Territoriale on April 2, 2019, which took place under the chairmanship of Jacques Pélissard, AFL Group published its annual report for 2018.

The results as of December 31, 2018 confirm that the continued growth of the local authority bank is driven by further expansion in lending activity and a steady pace of new local authority memberships. Gross operating income amounted to -€1,304 thousand for net banking income of €9,745 thousand.

For Olivier Landel, Chief Executive Officer of Agence France Locale – Société Territoriale

"The year 2018 reflects further growth by AFL Group, with a 55% increase in its commitment volumes compared to 2017 and 69 new local authorities as Group members. The year ended with a gross operating income significantly better than what appears in the AFL business plan. Created under the aegis of associations of local elected officials, AFL Group now has a significant number of local authorities with a representative mix of regions, departments and a very diverse municipal block of large and small municipalities and groupings of municipalities. AFL is the bank for all local authorities, small and large, urban and rural, in metropolitan France and overseas. The business model of a flexibly structured, customer-owned bank shows its effectiveness every day as new members join. Against a backdrop of growing uncertainties in the financial markets, the security and autonomy that comes from pooling access to funds through AFL Group is a real benefit for all local authorities."

At December 31, 2018, AFL Group completed its fourth year of operation, exceeding the objectives it had set, thus continuing the implementation of its 2017-2021 strategic plans at three levels:

- Continued reinforcement of equity capital with new local authorities, who become members by purchasing a stake in the capital of Société Territoriale;
- A steady diversified increase in credit production for member local authorities;
- Continued diversification of the AFL investor base in capital markets.

As a result, the size and structure of the AFL Group's balance sheet should continue to evolve rapidly, as has been the case over the past four years.

AFL Group completed a capital increase during the first quarter of 2019, bringing the number of shareholders to 302 and the share capital of Société Territoriale to €149.6 million.

These features highlight the confidence of local authorities in the model that has been developed.

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Four new capital increases were made during 2018:

- 69 local authorities of all categories throughout the country joined AFL Group, bringing the total number of shareholders to 292 and contributing to a rapid and balanced spread of the model throughout the country;
- As of December 31, 2018, the AFL Group's paid-up capital totaled €145.9 million and the committed capital, €163.5 million.

AFL Group local authority members by category as of December 31, 2018

Figures in € thousands	Number	Committed capital	Paid-up	Voting powers
Region	2	13,239	13,239	9.07%
Department	8	25,630	16,796	11.51%
Municipality	214	45,402	39,961	27.39%
EPCI (groupings of municipalities)	68	79,226	75,909	52.03%
Including Metropolis	*12*	*64,007*	*63,367*	43.43%
Territorial public entities	*4*	*4,292*	*2,872*	1.97%
Urban communities	*5*	*3,414*	*3,414*	2.34%
Suburban communities	*18*	*6,302*	*5,183*	3.55%
Municipality communities	*29*	*1,163*	*1,074*	0.74%
Total	**292**	**163,496**	**145,905**	**100%**

Total outstanding loans amounted to €2,596 million as of December 31, 2018, compared to €1,670 million as of December 31, 2017:

- Medium- and long-term credit production for the year amounted to €831.4 million for 166 loan agreements;
- Since AFL Group began operations, total production of medium- and long-term loans has increased to €2,439.6 million as of December 31, 2018, compared to €1,608.3 million as of December 31, 2017;
- New credit commitments with member local authorities stood at €1,053.2 million for 2018, compared to €722.5 million for 2017;
- AFL Group's outstanding loans, including the AFL's purchases of loans from other credit institutions as of December 31, 2018, stood at €2,595.6 million, of which €2,229.9 million was made available and €365.6 million in financing commitments, compared with €1,430.8 million and €238.8 million respectively as of December 31, 2017.

AFL Group raised €625 million on the bond market through long-term issues in 2018:

- At the beginning of the 2018 financial year, two 10- and 15-year issues were launched in the form of private placements for amounts, respectively, of €25 million and €100 million, at a margin of 25 basis points above the curve of French government bonds (OATs);
- On June 12, 2018, a public issue of €500 million with a maturity of ten years was conducted at a margin of 30 basis points above the OAT curve;

- These three issues were well received by investors, once again demonstrating their confidence in the AFL Group model, its development trajectory since April 2015 and, more broadly, the credit quality of the French local authorities sector.

The increase in outstanding loans and control of expenses gave AFL Group negative gross operating income of €1,304 thousand under IFRS and a net loss of €1,705K after consideration of the cost of risk under IFRS 9 and deferred tax assets:

- Net banking income for financial year 2018 stood at €9,745 thousand, compared to €10,722 thousand in 2017, characterized by non-recurring capital gains on the sale of securities of €4,494 thousand;
- The net interest margin increased in relation to outstanding loans to €7,853 thousand, compared to €6,301 thousand as of December 31, 2017;
- Operating expenses were controlled at €9,054 thousand, compared to €8,653 thousand in 2017, a year that had been characterized by a reversal of provisions for risks and expenses of €488 thousand.

Significant events since the balance sheet date

At the balance sheet date, AFL Group carried out a capital increase that ended on February 27, 2019, which resulted in an additional €13.9 million in committed capital for a total of €177.3 million and paid-up capital of €149.6 million. This capital increase, the nineteenth since the creation of AFL Group, during which the Occitanie region joined Société Territoriale, reinforced the achievement of the AFL Group's deployment goals for the territory for 2019.

AFL Group consolidated income under IFRS

2018 marks another significant increase in AFL Group's results, in line with the Group's growth trajectory in its 2017-2021 strategic plans. This increase in income reflects the good revenue generation momentum from the AFL Group's lending activity since 2015 (when it began operations), which is measured in particular by the increase in the portfolio of outstanding loans granted to local authorities.

At the end of 2018, net banking income generated by the activity amounted to €9,745 thousand, compared to €10,722 thousand as of December 31, 2017, a year that had been characterized by non-recurring capital gains on the sale of securities of €4,494 thousand. Net banking income for 2018 mainly corresponds to an interest margin of €7,853 thousand, an increase of 20% compared to the €6,552 made last year, net capital gains on the sale of investment securities of €1,636 thousand, commission income of €162 thousand and net income from hedge accounting of -€4 thousand.

The interest margin of €7,853 thousand originates from three items:

- Firstly, income related to the loan portfolio at €7,667 thousand, once restated for their hedges, which increased significantly compared with income of €6,552 thousand at December 31, 2017;
- Secondly, income related to the management of the liquidity reserve, of -€3,332 thousand, compared to -€2,702 as of December 31, 2017, due to interest rates deeply anchored in negative territory; and
- Finally, interest charges on debt and the cost of collateral, which for the reasons indicated above, represent a source of income of €3,518 thousand once the income from its hedging has been taken into account, compared to €2,953 thousand as of December 31, 2017.

Capital gains on securities at fair value through other comprehensive income, for €863 thousand, relate to the management of the liquidity reserve portfolio over the period. These sales led concurrently to the cancellation of interest rate hedges for €773 thousand, generating net overall capital gains of €1,636 thousand for the period.

Net income from hedge accounting was -€4,000. This represents the sum of the fair-value differences of hedged items and their hedging. Of these differences, -€269 thousand relates to valuation differential charges for instruments classified as macro-hedges and €265 thousand relates to proceeds from valuations of instruments classified as micro-hedges. There are still unrealized differences in valuations between the hedged items and the hedging instruments, one of whose components comes from a market practice that results in the admission of a valuation mismatch between hedging instruments collateralized daily and discounted on an Eonia curve and instruments discounted on a Euribor curve. According to IFRS, this causes a hedge ineffectiveness to be recognized in the income statement. It should be noted, however, that this is an unrealized result.

At December 31, 2018, general operating expenses were €9,054 thousand against €8,653 thousand the previous year. These expenses amounted to €4,799 thousand in personnel costs compared to €4,835 thousand in 2017. General operating expenses also include administrative expenses, which amounted to €4,255 thousand versus €3,831 thousand as of December 31, 2017. It should be noted that administrative expenses for 2017 included a reversal of provision for risks and charges of €488 thousand. Excluding this exceptional item, administrative expenses are stable from one year to the next.

At the end of the financial year, depreciation and amortization amounted to €1,995 thousand compared to €1,914 thousand as of December 31, 2017, an increase of 4.2% corresponding to AFL's continued investment in the infrastructure of its information system.

The financial year ended December 31, 2018 had a gross operating loss of €1,304 thousand compared to €156 thousand as of December 31, 2017, a year which, as indicated above, was marked by capital gains on the sale of securities of a non-recurring amount of €4,494 thousand.

The first application of IFRS 9 and its new provisioning model led to the recognition of €191 thousand in impairments over the financial year resulting almost exclusively from the increase in the securities portfolio, even though no credit risk occurred over the period.

Tax losses recognized over the year did not give rise to the activation of any deferred taxes.

After accounting for a deferred tax expense of €209 thousand, the year ended December 31, 2018 ended with net income of -€1,705 thousand, compared to €423 thousand in the previous financial year.

At December 31, 2018, the net interest margin covered 87% of AFL Group's current operating expenses, excluding depreciation.

AFL Group balance sheet and financial structure

AFL Group has a sound financial structure: prudential capital was €115.6 million at December 31, 2018, which corresponds to a Basel III solvency ratio, on a consolidated basis, based on the standard method (Common Equity Tier 1 – CET1) of 18.89% for a regulatory limit of 9.878% and an internal limit of 12.5%. The AFL Group thus has a comfortable margin to continue the rapid growth of its credit activities while maintaining a robust financial structure.

Risk-weighted assets, which reflect the quality of the AFL Group's assets, stood at €612.1 million, broken down as follows:

- Credit risk : €593.8 million
- Operational risk : €18.2 million
- Credit valuation adjustment (CVA) risk : €0.1 million

According to AFL Group, the impact of the first-time application of IFRS 9 on the CET1 ratio is not considered to be significant at January 1, the effective date of the standard.

The leverage ratio stood at 3.28%.

In addition, a very comfortable liquidity position allows AFL Group to pursue its operational activities and withstand a liquidity shock. As of December 31, 2018, the LCR ratio was 627% and the NSFR ratio 166%.

AFL rating as of December 31, 2018

AFL Group, via AFL, has a high rating:

	Moody's
Long-term rating	Aa3
Outlook	Stable
Short-term rating	P-1
Updated	March 20, 2019

AFL Group outlook

The AFL Group's main objective is to maintain a steady rate of new memberships by local authorities in order to facilitate the creation of an outstanding loan whose revenue covers the Group's expenses, in line with the 2017-2021 strategic plans.

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Income statement as of December 31, 2018 (consolidated IFRS)

(€ thousands)	12/31/2018	12/31/2017
Interest and similar income	64,387	38,342
Interest and similar expenses	(56,534)	(31,789)
Commissions (income)	289	73
Commissions (expense)	(127)	(95)
Net gains (losses) on financial instrument at fair value through profit or loss	868	141
Net gains (losses) on financial instruments at fair value through equity	863	4,051
Income on other activities		
Expenses on other activities		
net banking income	**9,745**	**10,722**
General operating expenses	(9,054)	(8,653)
Net depreciation, amortization and impairments of tangible and intangible assets	(1,995)	(1,914)
GROSS OPERATING INCOME	**(1,304)**	**156**
Cost of risk	(191)	
OPERATING INCOME	**(1,495)**	**156**
Net gains and losses on other assets		
PRETAX INCOME	**(1,495)**	**156**
Income tax	(209)	(579)
NET INCOME	**(1,705)**	**(423)**
Non-controlling interests		
NET INCOME GROUP SHARE	**(1,705)**	**(423)**

Balance sheet as at 31 December 2018 (consolidated IFRS)

Assets at December 31, 2018

(€ thousands)	**12/31/2018**	**12/31/2017**
Funds and central banks	121,650	420,351
Financial assets at fair value through profit or loss	26,299	13,711
Hedging derivative instruments	44,661	15,629
Financial assets at fair value through equity	502,487	
Available-for-sale financial assets		363,554
Securities at amortized cost	179,501	
Loans and receivables due from credit institutions at amortized cost	111,217	213,433
Loans and advances to customers at amortized cost	2,229,911	1,430,829
Revaluation adjustment on interest rate hedged portfolios	1,873	
Held-to-maturity financial assets		
Held-to-maturity financial assets	43	25
Current tax assets	5,691	5,330
Deferred tax assets Accruals and other assets	349	68,657
Leases and rentals with option to purchase		
Operating lease		
Intangible assets	3,290	4,689
Property, plant and equipment	2,514	471
Goodwill		
TOTAL ASSETS	**3,229,487**	**2,536,678**

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Liabilities at December 31, 2018

(€ thousands)	**12/31/2018**	**12/31/2017**
Central banks	755	368
Financial liabilities at fair value through profit or loss	26,747	14,267
Hedging derivative instruments	78,300	61,841
Debt securities	2,996,909	2,335,802
Due to credit institutions and similar institutions	9	
Due to customers		
Revaluation adjustment on interest rate hedged portfolios		963
Current tax liabilities		
Deferred tax liabilities		278
Accruals and other liabilities	2,260	2,172
Provisions	23	19
Subordinated debt		**0**
Equity	**124,485**	**120,968**
Equity, Group share	**124,485**	**120,968**
Share capital and reserves	145,905	138,500
Consolidated reserves	(18,305)	(17,665)
Revaluation reserve		
Gains and losses recognized directly in equity	(1,411)	557
results for the year	(1,705)	(423)
Non-controlling interests		
Total Liabilities	**3,229,487**	**2,536,678**

The AFL Management Board approved the AFL annual financial statements on March 13, 2019. The AFL Supervisory Board which met under the chairmanship of Jacques Pélissard on April 2, 2019 reviewed and approved AFL's annual financial statements.
The Board of Directors of AFL-ST (Société Territoriale) which met under the chairmanship of Jacques Pélissard on April 2, 2019, approved the financial statements of the parent company (Société Territoriale) and the consolidated financial statements of the Group.
The auditing procedures for the annual and consolidated financial statements were conducted by the Statutory Auditors. The audit reports for the certification of the financial statements have been issued.

This press release may contain certain forward-looking statements. Although the AFL Group believes that these statements are based on reasonable assumptions as of the date of this press release, they are inherently subject to risks and uncertainties that may cause actual results to differ from those indicated or implied in these statements.

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The financial information of AFL Group for financial year 2018 is composed of this press release, as supplemented by the financial report available at www.agence-france-locale.fr

About Agence France

Agence France Locale is the unique French bank 100% owned by local authorities and dedicated to their financing.

Created in 2013 by associations of elected representatives and pioneering local authorities based on the Scandinavian LGFA (local government financing agencies) model, AFL was granted a banking license in 2015 by the ACPR, the French prudential supervisory authority. Its mission is to facilitate the access by local authorities to capital markets, relying on their credit quality to offer them attractive financing conditions. AFL lends to its shareholders: municipalities of all sizes, groupings of municipalities, territorial public entities, regions and departments from mainland and overseas.

Find more information: http://www.agence-france-locale.fr/overview-agency

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