AGENCE FRANCE LOCALE
La banque des collectivités

Press Release

October, 14 2019

THE RESULTS FOR THE 1ST HALF OF 2019 CONFIRM THE SUCCESS OF THE AFL MODEL

AFL published its half-yearly report today. The results at June 30, 2019 confirm the continued growth of the bank for local authorities, which had a gross operating loss of €1,097,000 and net banking income of €4,936,000.

As at June 30, 2019, AFL entered its fifth year of operation, demonstrating the quality of its business model. AFL has successfully implemented the following three major objectives:

- strengthening of its equity capital when new local authorities purchase a stake in the share capital of Société Territoriale;
- a steady diversified increase in credit production for member local authorities; and
- continued diversification of the AFL investor base in capital markets.

In the first half of 2019, there were two new capital increases.

- In the 19th and 20th capital increases, 18 new local authorities of all categories and from all geographic areas joined the AFL Group, bringing the total number of shareholders to 310 at June 30, 2019 and thus contributing to the expansion of the model throughout France.
- The new local authority shareholders include the Occitanie Region, the Suburban Community of La Rochelle, the Suburban Community of Saumur Val de Loire, the City of Rosny-sous-Bois, the City of Viry-Châtillon, the City of Pré Saint-Gervais and the Municipality Communities of Le Guillestrois, Le Queyras and the Levroux region.
- As of June 30, AFL-ST's paid-up capital totaled €151.9 million and the committed capital €177.8 million.

At June 30, 2019, total outstanding loans amounted to €2,753 million.

- The production of medium- and long-term loans in the first half of the year totaled €166.3 million, compared with €116.9 million in the first half of 2018, for 99 loan agreements with a diverse population of local authorities, bringing to 620 the total medium- and long-term loan agreements granted since AFL began to operate.
- Since the start of AFL's operations, the total production has amounted to €2,606 million compared with €2,440 million as of December 31, 2018. In addition to the purchases of loans entered into by AFL Group member local authorities with other credit institutions, the outstanding loans entered into for AFL's customers at June 30, 2019 stood at €2,753 million, of which €2,502 million was made available and €251 million consisted of financing commitments, compared with €2,230 million and €366 million respectively as of December 31, 2018.

In the first half of the year, AFL raised €634 million on the bond market under very good conditions.

- Three fundraising operations were carried out in the first half of the year: a 2-year private placement of USD 100 million, a 7-year public issue of €500 million at a margin of 32 basis points above the French government bond (OAT) curve, and a 15-year private placement of SEK 500 million at an equivalent margin of 26 basis points above the OAT curve.

- These issues were very well received by investors, helping to strengthen the diversification of the types and geographical origins of AFL investors.
- AFL is pursuing a borrowing strategy comprising two complementary approaches: the regular issue of euro-denominated benchmark transactions and the issue of private placements in euros or foreign currencies as the opportunity arises with the objective to optimize the maturity and cost of the debt portfolio and consequently the cost of funds lent to borrowing local authorities.

Since May 20, 2019, AFL has been rated by both Standard & Poor's and Moody's.

- Like the local authority financing agencies in Northern Europe, AFL now has a double rating that reinforces its credibility with investors and highlights the progress made since it began banking operations in April 2015.
- AFL's very high ratings from both Standard & Poor's and Moody's will make it possible to sustainably pursue the mission entrusted to it, namely to provide shareholder local authorities with loans under the best conditions.

The continued rapid increase in outstanding loans and control of expenses reduced AFL's negative gross operating income before exceptional items, resulting in a negative gross operating income of €1,097,000 under IFRS and a negative net profit of €1,030,000 after the cost of risk under IFRS 9 is taken into account.

- The NBI totaled €4,936,000 compared to €5,277,000 in the first half of 2018, which experienced capital gains from the sale of securities in the liquidity reserve of €1,305,000, whereas this figure was €409,000 at June 30, 2019.
- The net interest margin increased in relation to outstanding loans to €4,639,000 compared with €3,879,000 at June 30, 2018, covering 94% of the Company's current operating expenses.
- The operating expenses are under control, at €4,887,000 compared with €4,673,000 in the first half of 2018.

The strength of AFL's financial structure is bolstered by the capital ratios, which are reported on a consolidated basis.

- Solvency ratio: 17.74%
- Leverage ratio calculated using the methodology applicable to development banks: 7.88%

As at June 30, 2019, AFL's credit ratings were as follows:

	Moody's	Standard & Poor's
Long-term rating	Aa3	AA-
Outlook	Stable	Stable
Short-term rating	P-1	A-1+
Date of most recent credit opinion	March 20, 2019	May 20, 2019 (Grant date)

AFL Group outlook

The steady growth in membership during the first half of the financial year was a very positive contribution to the achievement of the objectives of the 2017-2021 strategic plan.

As a result, it is expected that the size and structure of the AFL Group's balance sheet will continue to change rapidly, with continued loan production and new capital increases in the second half of the 2019 financial year and throughout 2020.

AFL Group consolidated income under IFRS

In the first half of 2019, the NBI generated by business totaled €4,956,000. This corresponds mainly to a margin of interest of €4,663,000, up from €3,903,000 in the first half of the previous financial year, net gains on disposals of investment securities of €409,000, commission expenses of €14,000 and a loss on negative hedge relationships of €103,000.

The interest margin of €4,663,000 originates from three items:

- the income related to the loan portfolio at €4,153,000, restated for hedges;
- the revenues related to the management of the liquidity reserve, a loss of €1,162,000, due to interest rates deeply anchored in negative territory; and
- the interest expense from debt, which, for the reasons mentioned above, represents a source of income amounting to €1,672,000, once the income from hedging taken into account.

In the first half of the year, the portfolio management of the liquidity reserve generated €2,874,000 in profit from the disposal of investment securities and €2,466,000 in losses from the cancellation of interest rate hedging instruments for securities sold, for a net amount of capital gains from disposals of €409,000, which breaks down into €138,000 in capital losses from disposals and €547,000 in capital gains from disposals.

Net income from hedge accounting consists of two elements: the cancellation of interest rate hedges related to the securities disposals mentioned above, for -€2,466,000, and an amount of -€103,000, which represents, for instruments still in the portfolio on the date of closure, the sum of the variations from fair value of hedging instruments and the underlying hedged items. Among these variations, +€528,000 relates to differences in valuation on instruments classified as macro-hedges and -€631,000 relates to valuation differences of instruments classified as micro-hedges. There remain unrealized valuation differences between the hedging instruments and the underlying hedged items, one of whose components comes from an accounting practice that leads to an asymmetry in the valuation of hedging instruments collateralized daily and discounted on the basis of an EONIA curve, and of hedged items discounted on the basis of a Euribor curve, which, under IFRS, leads to the recognition of a hedging inefficiency that is recorded in the income statement. It should be noted, however, that this is a latent result.

As at June 30, 2019, general operating expenses represented €4,871,000, compared to €4,689,000 at June 30, 2018. Of this, €2,497,000 is for personnel costs, compared with the first half of the previous financial year, when they were €2,465,000. General operating expenses, also including administrative charges, amounted to €2,374,000, compared to €2,224,000 as at June 30, 2018.

After depreciation and amortization of €1,180,000 compared to €975,000 at June 30, 2018, an increase of €129,000 in additional provisions for the amortization of rights to use for premises occupied by AFL with the application of IFRS 16, €21,000 for the amortization of new premises acquired by Société Territoriale at the end of the previous financial year and €54,000 for new investments in AFL's information system infrastructure, the operating profit at June 30, 2019 totaled -€1,095,000 compared to -€368,000 in the first half of the previous financial year.

After attribution of the cost of risk related to IFRS 9, the operating loss at June 30, 2019 amounted to €1,102,000 compared to a loss of €601,000 in the first half of the previous financial year. Finally, after the activation of positive deferred tax assets of €74,000 related to the IFRS adjustments, the first half of the 2019 financial year showed a net loss of €1,027,000 compared to a loss of €767,000 for the first half of the previous financial year, a period that, as stated above, was characterized by non-recurring capital gains from the disposal of securities of €1,305,000.

AFL Group balance sheet and financial structure

The consolidated balance sheet at June 30, 2019 totaled €4.10 billion compared to €3.19 billion at December 31, 2018, reflecting the steady increase in assets, and outstanding loans in particular.

The AFL Group has a robust financial structure with equity capital of €129,500 at June 30, 2019 compared with €124,500 at December 31, 2018, for share capital of €151.9 million. Given the quality of the Group's exposures, the Basel III solvency ratio based on the standard method (Common Equity Tier 1) was 17.74% and the leverage ratio 7.88%.

In addition, a very comfortable liquidity position allows AFL Group to pursue its operational activities and withstand a liquidity shock. As of June 30, 2019, the LCR ratio was 2,890% and the NSFR ratio 190%.

2019 consolidated income statement (€ thousands, consolidated IFRS)

(€ '000s)	30/06/2019	30/06/2018	31/12/2018
Interest and similar income	37 030	28 076	64 387
Interest and similar expenses	(32 367)	(24 173)	(56 534)
Fee & Commission Income	35	134	289
Fee & Commission Expense	(49)	(60)	(127)
Net gains (losses) on financial instruments at fair value through profit or loss	(2 567)	1 346	868
Net gains or losses on financial instruments at fair value through other comprehensive income	2 874	(26)	863
Income on other activities			
Expenses on other activities			
NET BANKING INCOME	**4 956**	**5 297**	**9 745**
Operating expenses	(4 871)	(4 689)	(9 054)
Net depreciation, amortisation and impairments of tangible and intangible assets	(1 180)	(975)	(1 995)
GROSS OPERATING INCOME	**(1 095)**	**(368)**	**(1 304)**
Cost of risk	(7)	(234)	(191)
OPERATING INCOME	**(1 102)**	**(601)**	**(1 495)**
Net gains and losses on other assets			
INCOME BEFORE TAX	**(1 102)**	**(601)**	**(1 495)**
Income tax	74	(166)	(209)
NET INCOME	**(1 027)**	**(767)**	**(1 705)**
Non-controlling interests			
NET INCOME GROUP SHARE	**(1 027)**	**(767)**	**(1 705)**
Basic earnings per share (in EUR)	(0,68)	(0,53)	(1,17)
Diluted earnings per share (in EUR)	(0,68)	(0,53)	(1,17)

Balance sheet as at June 30, 2019 (€ thousands, consolidated IFRS)

Assets as at June 30, 2019

(€ '000s)	**30/06/2019**	**31/12/2018**
Cash, central banks	413 476	121 650
Financial assets at fair value through profit or loss	28 586	26 299
Hedging derivative instruments	118 321	44 661
Financial assets at fair value through other comprehensive income	661 649	502 487
Securities at amortized cost	153 364	179 501
Loans and receivables due from credit institutions and similar items at amortized cost	193 876	111 217
Loans and receivables due from customers at amortized cost	2 502 043	2 229 911
Reevaluation adjustment on interest rate risk-hedged portfolios	15 737	1 873
Current tax assets	42	43
Deferred tax assets	5 792	5 691
Accruals and other assets	623	349
Intangible assets	2 789	3 290
Property, plant and equipment	3 441	2 514
Goodwill		
TOTAL ASSETS	**4 099 740**	**3 229 487**

Liabilities as at June 30, 2019

(€ '000s)	30/06/2019	31/12/2018
Central banks	115	755
Financial liabilities at fair value through profit or loss	28 746	26 747
Hedging derivative instruments	180 370	78 300
Due to credit institutions		
Due to banks	5	9
Debt securities	3 756 713	2 996 909
Revaluation adjustment on interest rate hedged portfolios		
Current tax liabilities		
Deferred tax liabilities		
Accruals and other liabilities	4 177	2 260
Provisions	85	23
Equity	**129 528**	**124 485**
Equity, Group share	**129 528**	**124 485**
Share capital and reserves	151 906	145 905
Consolidated reserves	(20 218)	(18 305)
Reevaluation reserve		
Gains and losses recognised directly in equity	(1 132)	(1 411)
Profit (loss) for the period	(1 027)	(1 705)
Non-controlling interests		
TOTAL LIABILITIES	**4 099 740**	**3 229 487**

On this basis, the AFL Management Board approved the AFL half-yearly financial statements on September 4, 2019. The AFL Supervisory Board met on September 19, 2019 under the chairmanship of Richard Brumm and favorably reviewed the AFL half-yearly financial statements. The Statutory Auditors conducted a limited review of those statements.

The AFL-ST (Société Territoriale) Board of Directors met on September 20, 2019 under the chairmanship of Jacques Pélissard and approved the Group's half-yearly consolidated financial statements. The Statutory Auditors conducted a limited review of those statements.

This press release may contain certain forward-looking statements. While the Company believes that these statements are based upon reasonable assumptions as of the date of this press release, they are inherently subject to risks and uncertainties that could cause actual results to differ from those shown or implied by such statements.

AFL Group's financial information for the first half of 2019 consists of this press release, as supplemented by the financial report available on the website www.agence-france-locale.fr

About Agence France Locale

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

Created in 2013 at the initiative of associations of elected officials and pioneering local authorities on the model of the Nordic financing agencies, it was approved in 2015 by the Autorité de Contrôle Prudentiel et de Résolution (French Prudential Supervision and Resolution Authority - ACPR), the French banking overseer. Its mission is to facilitate access by local authorities to financing by leveraging their credit quality to raise funds from investors on attractive terms. AFL lend to all types of local authorities: municipalities of all sizes, grouping of municipalities, metropolis, Departments or Regions,

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

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