

# AFL Group annual results 2022: a record year

Following the meetings of the Supervisory Board of Agence France Locale and the Board of Directors of Agence France Locale – Société Territoriale, held on March 27, 2023, Sacha Briand, Chairman of the Supervisory Board of AFL and Yves Millardet, Chairman of the Executive Board, congratulate themselves on “a record year in terms of new memberships and loan provision”.

AFL Group<sup>1</sup> announces solid results with substantial growth:

- Consolidated net income after cost of risk: €2.8 million
- Operating income doubled year-on-year
- Cost/income ratio up more than 10% to 76.1%
- Stable solvency ratio at over 15.5%
- Increase in pledged capital to €272 million
- Further rise in lending to €1.4 billion

## AFL Group in numbers at December 31, 2022 (consolidated IFRS)

Member local authorities: **599** (+21%<sup>2</sup>)

Pledged capital: **€272 million** (+12%)

Funds raised on markets: **€1,495 million** (stable)

Permanent employees: **35** (+3)

Net interest income: **€15,651 thousand** (+23%)

Gross operating income: **€4,206 thousand** (+125%)

Net income: **€2,775 thousand** (+60%)

Solvency ratio: **15.57%** (-16 bps)

<sup>1</sup> AFL Group is composed of Agence France Locale (AFL), a specialised credit institution and Agence France Locale – Société Territoriale (AFL-ST), the holding company that owns AFL.

<sup>2</sup> Change compared to 2021



### Media contact

Lucille Simon – Head of Communication  
[lucille.simon@afl-banque.fr](mailto:lucille.simon@afl-banque.fr) – +33 (0)4 69 84 81 04



### Investor contacts

Romain Netter – Executive Director - Medium and Long-Term Funding  
[romain.netter@afl-banque.fr](mailto:romain.netter@afl-banque.fr)

## Development trend continues

### *Record rise in membership*

2022 was a record year for new members, with 103 new local authorities investing in the AFL Group, raising total membership to 599. The 103 new shareholders include the Nouvelle Aquitaine region, Haute Garonne department, 6 suburban communities, 6 municipality communities, 12 unions and 77 municipalities of varying sizes, from all parts of France.

The recruitment of these new investors again shows the powerful appeal of a bank exclusively dedicated to funding local authorities.

### *Loan production at highs*

In 2022, AFL's lending grew 12% compared to 2021, to €1.4 billion, giving it an estimated market share of 52% of its members' funding needs. This underlines how the Group has quickly become one of the leading financial partners for its new local authority shareholders.

AFL continues to grow market share in a balanced way, without eroding the financial solidity of the bank.

### *Efficient refinancing with a focus on sustainable issues*

AFL borrowed €1.5 billion in 2022, on excellent terms at an average margin of 41 basis points above the OAT (French Treasury bonds) and with a weighted average maturity of 7.5 years.

Regarding issuance during the year, AFL successfully issued €500 million of 7-year sustainable bonds, continuing its strategy of refinancing through assets that contribute to meeting the United Nations sustainable development goals (SDGs).

## Solid financial results in a complex environment

Lending to local authorities, AFL Group's core business, generated strong revenue growth driving a 23% year-on-year rise in net interest income (€15,651 thousand compared to €12,753 thousand at December 31, 2021).

For the first time since its foundation, AFL Group's operating income exceeded €4 million at €4,206 thousand, compared to €1,869 thousand at December 31, 2021.

Stripping out gains on the disposal of securities and the proceeds of hedge accounting, operating income excluding non-recurring items was €2,371 thousand, compared to €633 thousand at December 31, 2021.

This confirms that Group earnings remain on a trajectory of rapid, solid and consistent growth, once exceptional items are excluded.

Operating expenses that rose 10.5% to €13,403 thousand, compared to €12,121 thousand at December 31, 2021 bear witness to rigorous management in support of a bank in ramp up period and include an additional contribution of 449K€ to the Single Resolution Fund.

Cost of risk was limited to €404 thousand (advance impairment provisions taken on expected losses on financial assets due to IFRS adjustments). However, it increased due to unfavourable effects of the geopolitical and economic environment on the weighting of the economic scenarios that underlie the provisioning model, plus the automatic effect of the increase in AFL's balance sheet.



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[romain.netter@afl-banque.fr](mailto:romain.netter@afl-banque.fr)

Net income after cost of risk was €2,775 thousand, compared to €1,733 thousand at December 31, 2021, up 60%. These revenues, which contribute to a strong improvement in the cost income ratio for 2022 to 76.6%, compared to 86.6% for the 2021 financial year, will strengthen the equity of the AFL Group.

## A model that is resilient to profound geopolitical and economic transformations and tailored to the issues affecting local authorities

Russia's invasion of Ukraine on February 24, 2022, has a major impact on the economic and financial environment in Europe and across the globe. Coming on the heels of the Covid-19 pandemic, this war on the EU's doorstep has had many and deep repercussions – on political, social, economic and financial fronts – including stoking inflationary pressures that have rippled out through the global economy, prompting central banks to make profound changes to their monetary policy.

As French local authorities seek the right responses to climate change, this new environment is driving them into multiple radical transitions: including economic transition to address the rise in energy prices, energy transition to adapt their regions, and demographic, social and digital transitions.

In this environment, where AFL plays a major role in supporting its member local authorities, it can count on a strengthened financial structure, as shown by its capital and liquidity ratios at December 31, 2022:

- The CET1 solvency ratio (consolidated at Group level) is 15.57%, compared to 15.73% at December 31, 2021;
- The leverage ratio (under CRR2), based on the methodology applicable to public development credit institutions, was 7.81%, compared to 7.28% at December 31, 2021;
- The LCR ratio was 500%, compared to 923% at December 31, 2021, well above regulatory requirements as a result of a highly conservative financial policy, which means AFL has ample liquidity to meet all its needs over an extended period without having to call on the markets.

This financial solidity was again acknowledged by rating agencies Standard & Poor's and Moody's.

### AFL credit rating at December 31, 2022

	Moody's	Standard & Poor's
Long-term rating	Aa3	AA-
Outlook	Stable	Stable
Short-term rating	P-1	A-1+



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It should be emphasised that interest rates on assets and liabilities are hedged to the Euribor 3-month index. NPV sensitivity, at December 31, 2022, was 0% to a parallel +100 basis point rise in the yield curve and 0.23% to a -100 basis point fall in the yield curve.

AFL's business has a low cost of risk due to the nature of its business model as a public development bank, to its prudent management and to the excellent solvency of local authorities: at December 31, 2022, cost of risk was €404 thousand with provisions of €1,281 thousand, that is, a provisioning rate of 1.7 basis points of outstanding loans.

As a vehicle for responsible local authority funding, AFL is pursuing its development by helping its members meet their funding needs. It again increased the volume of new loans during the year, making it one of the leading bank lenders to local authorities. The 599 local authority shareholders of AFL Group together represent 22.5% of total debt in the French local public sector.

## Subsequent events and outlook

- On March 14, 2023, the Group closed its 35<sup>th</sup> capital increase bringing in 19 new local authorities as members, including Communauté d'Agglomération du Cotentin and the Communauté d'Agglomération de Quimper Bretagne Occidentale. This took the total number of shareholder members to 618 and AFL-ST's share capital to €220,746,500.
- Since the start of the year, AFL has raised €1.07 billion on excellent terms at an average margin of 54 basis points above the OAT (French Treasury bonds) and a weighted average maturity of 6 years. These issues included a new euro-denominated syndicated bond of €750 million with a 7-year maturity.
- The current banking crisis seems to be affecting financial institutions that are not rate-hedged and whose liabilities include a high portion of demand deposits. Note that AFL's balance sheet is hedged against interest rate risk and its liabilities include no demand deposits.

*The AFL Management Board signed off AFL's 2022 financial statements on March 13, 2023. The AFL Supervisory Board reviewed and approved AFL's financial statements on March 27, 2023.*

*The Board of Directors of AFL-ST, the Société Territoriale (parent company), met on March 27, 2023, and approved the annual financial statements of the Société Territoriale, and the consolidated financial statements of the AFL Group.*

*The Statutory Auditors audited the annual and consolidated financial statements for the period from January 1, 2022 to December 31, 2022, and their reports are available at:*

*<http://www.agence-france-locale.fr>*

*This press release contains certain forward-looking statements. Although AFL Group believes that these statements are based on reasonable assumptions as of the date of this press release, these are inherently subject to risks and uncertainties, relating in particular to the impacts of the ongoing war in Ukraine, high inflationary pressures affecting western economies and the vigorous monetary policy measures taken by central banks since the end of the first half of 2022, which may cause actual results to differ from those indicated or implied in these statements.*



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AFL Group's financial information for 2022 consists of this press release and the report available on the website:

<http://www.agence-france-locale.fr>

### About Agence France Locale

*“« Embody responsible finance and empower local authorities to respond to the present and future needs of their inhabitants.”*

“By creating the first bank that we wholly own and manage, we, the French local authorities, have taken a strong political step toward decentralization. Our institution, Agence France Locale, is not a financial institution like the others. Created by and for local authorities, it acts in a local context to strengthen our freedom, our ability to develop projects and our responsibility as public actors. Its culture of prudence safeguards us against the potential dangers posed by the complexity and depth of its governance and conflicts of interest. Its fundamental objective is to offer local authorities access to resources on the best terms and with complete transparency. We are guided by the principles of solidarity and equity. Convinced that we will go further together, we wanted an agile institution that would appeal to all authorities, from the largest regions to the smallest towns. We see profit as a way to optimize public spending, not an end in itself. Through AFL, we support a local environment committed to addressing social, economic and environmental challenges. AFL strengthens our power to act, to carry out projects locally, for today and tomorrow, for the good of the people who live there. We are proud to have a bank that expresses growth as we see it, ever more responsible and sustainable. We are Agence France Locale.”

For further information see [www.agence-france-locale.fr](http://www.agence-france-locale.fr)



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