AGENCE FRANCE LOCALE

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PRESS RELEASE • APRIL 10, 2018

2017 RESULTS AND ACTIVITIES OF THE AGENCE FRANCE LOCALE GROUP: AFL CONTINUES TO GROW

The Board of Directors of Agence France Locale – Société Territoriale, met under the chairmanship of Jacques Pélissard on March 30, 2018 and approved the Group's audited consolidated financial statements for fiscal year 2017. The results confirm the growth of the Group's bank.

In 2017, AFL's credit commitments increased by 63% to close to €1.7 billion, driven by the continued expansion of the shareholding base. In 2017, AFL posted a positive gross operating income. Through three new capital increases, Agence France Locale stepped up the adoption of its model by a larger number of French local authorities.

In 2017, gross operating income was positive at €156 thousand due to the increase in net banking income (NBI) and good control of operating expenses.

According to Olivier Landel, Managing Director of Agence France Locale - Société Territoriale, "AFL reached breakeven in 2017. This success is first and foremost attributable to French local authorities which demonstrate, through AFL, the quality of their management, their professionalism and their diverse talents. The local authorities that have supported us since the beginning and those that have joined us along the way can be proud to have created and managed a fully-fledged bank with a light structure dedicated to their financing." For Yves Millardet, Chairman of the Executive Board of Agence France Locale, "The bank's operational teams are proud to have brought such a wonderful project to life. The forthcoming years will be dedicated to welcoming new members with the objective of offering all French local authorities - whether small or big, rural or urban - the financing benefits and security that AFL today offers to its 250 members. AFL is on track to meet the targets set out in its 2021 plan, namely capital pledges totaling €200 million and outstanding loans of €4 billion."

The AFL Group's main objective is to maintain a high rate of membership by new local authorities in order to support the continued increase in outstanding loans, in line with the 2017-2021 strategic plan.

Hence, it is expected that the size and structure of the AFL Group's balance sheet will continue to change rapidly, as was the case in the last three years, with, firstly, continued loan production and, secondly, new capital increases in 2018.

For the first quarter of fiscal year 2018, the AFL Group has already carried out a capital increase, which saw the number of shareholders increase to 249 and the share capital of Société Territoriale increase to €142 million. This new operation once again shows that adoption of Agence France Locale's model by local authorities remains dynamic.

The 2021 plan thus moves forward on a solid footing.

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The loan portfolio reached close to €1.7 billion at December 31, 2017

- New credit commitments with member local authorities for the year 2017 stood at €722.5 million compared with €545.5 million for fiscal year 2016.
- Total credit commitments made since the AFL Group started its operations stood at €1,669.6 million.
- The launch at the end of 2016 of loans with progressive cash outflows and cash loans has met with growing success.
- A strong momentum was created, particularly with large local authorities.

Through three new capital increases, Agence France Locale stepped up the adoption of its model by a larger number of French local authorities

- Member shareholders of the AFL Group represent 15% of the total stock of outstanding debt of French local authorities.
- Capital increases in 2017 resulted in membership by 50 new shareholders for a total of 223 local authorities and a total capital commitment of €143 million[1] for a Group paid-up capital of €138.5 million.
- The new members represent all types of local authorities.

In 2017, gross operating income was positive at €156 thousand due to the increase in NBI and good control of operating expenses.

- NBI increased by €10.7 million driven by lending activities, refinancing on the markets with attractive terms and the results of the liquidity reserve management.
- Operating expenses remained stable at €9.1 million, excluding exceptional items.

A robust balance sheet

- Tier 1 Common Equity ratio: 24% on consolidated basis[2]
- Leverage ratio: 4.17% on consolidated basis
- Liquidity Coverage Ratio (LCR): 844.4%
- Net Stable Funding Ratio (NSFR): 188.8%

[1] At the date of publication of this press release, following the Group's 15th capital increase, which ended on February 14, 2018, capital pledged stands at €156.4 million and paid-up share capital at €142 million for a total of 249 member local authorities including the membership of 26 new local authorities.
[2] As regards prudential requirements, Agence France Locale is monitored for the use of equity capital on a consolidated basis.

2017 Highlights

Increase in membership

The AFL Group closed its third year of activity on a successful note, with an increase in the number of local authority shareholders to 223 for a committed capital of €143 million and paid-up capital of €138.5 million[3]. The number of new members increased in all categories of local authorities.

At December 31, 2017

Figures in € thousands	Number	Committed capital	Paid-up capital	Voting powers
Region	2	13,239	13,239	9.32%
Department	7	15,796	15,760	11.10%
Municipality	158	38,344	36,179	25.48%
EPCI (groupings of municipalities)	56	75,623	73,322	51.64%
including Metropolis	*10*	*62,986*	*61,322*	*43.19%*
Local Public Institutions	*4*	*2,537*	*2,537*	*1.79%*
Urban communities	*5*	*4,136*	*3,874*	*2.73%*
Suburban communities	*14*	*4,927*	*4,638*	*3.27%*
Municipality communities	*23*	*1,037*	*950*	*0.67%*
TOTAL	**223**	**143,002**	**138,500**	**100%**

Product portfolio and lending activities

In fiscal year 2017, AFL, the specialised credit institution, owned by Agence France Locale - Société Territoriale, stepped up the deployment of its long-term loans with progressive cash outflows as well as cash loans. The number of loans signed stood at 160, of which 23 for long-term loans with progressive cash outflows and 18 for cash loans.

Credit commitments made during fiscal year 2017 totaled €722 million for total outstanding loans signed of €1,669.6 million compared with €1,026.0 million at December 31, 2016, which represents a 63% increase in the AFL Group's commitments.

The resulting outstanding loans at December 31, 2017, in accordance with IFRS, was €1,430.8 million of loans made available and €238.8 million of financing commitments.

Market activities

AFL carried out a number of funding operations on the bond market during fiscal year 2017 and started the issue of euro commercial paper on the money market.

The bond issues were made up of:

- a €250 million tap in January 2017 of the 2023 Eurobond series of €500 million;
- a 2-year private placement of US$100 million;
- a new benchmark 7-year fixed-rate euro-denominated issue of €500 million in May 2017; and

[3] At the date of publication of this press release and following the AFL Group's 15th capital increase, which ended on February 14, 2018, capital pledged stands at €156.4 million and paid-up share capital at €142 million for a total of 249 member local authorities including the membership of 26 new local authorities.

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- a tap to this issue of €250 million in November 2017.

These issues reinforced AFL's creditworthiness on capital markets and aligned the size of the three benchmark issues at €750 million each, thus increasing the liquidity of the notes.

These issues also allowed AFL to raise funds from a large number of investors and with very good terms, thus ensuring the continued competitiveness of the financing offer to member local authorities.

The ECP program drawdowns mainly in US dollars, offer AFL the opportunity to diversity its funds, with very attractive terms after exchange rate hedging.

Significant events since the balance sheet date

At the balance sheet date, the AFL Group had carried out a capital increase which ended on February 14, 2018, with €13.4 million of additional committed capital for a total of €156.4 million and paid-up capital of €142 million. This new operation once again shows that adoption of Agence France Locale's model by local authorities remains dynamic.

AFL carried out, for the first time and with very good terms, 10-year and 15-year bond issues for €25 million and €100 million respectively, in the form of private placements.

The Group's results (in accordance with IFRS standards)

At December 31, 2017, the NBI generated by the business reached €10,722 thousand compared with €9,254 thousand at December 31, 2016. It mainly corresponds to an interest margin of €6,552 thousand which increased sharply compared to €4,705 thousand recorded in the previous year, and net capital gains on investment securities disposals of €4,494 thousand and a negative revaluation of hedging relationships of -€303 thousand.

The interest margin of €6,552 thousand originates from the three following items:

- firstly, income related to the loan portfolio at €6,310 thousand, once restated for their hedges, which increased significantly compared with income of €4,747 thousand at December 31, 2016;
- secondly, income related to the management of the liquidity reserve, negative of -€2,696 thousand, due to interest rates deeply anchored in negative territory; and
- lastly, the debt interest charge, which for the reasons specified previously, represents a source of income standing at €3,132 thousand, once the income from its hedging is taken into account.

Capital gains on available for sales securities, for €4,051 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 €443 thousand generating net overall capital gains of €4,494 thousand for the period.

At December 31, 2017, general operating expenses represented €8,653 thousand against €9,503 thousand at December 31, 2016. Personnel expenses accounted for €4,835 thousand of this figure, up compared with those of the previous year, which stood at €4,384 thousand. General operating expenses also include administrative expenses, which were down to €3,817 thousand compared with €5,119 thousand at December 31, 2016, after transfer of expenses to fixed assets. Once restated for a provision for risks and charges of €488 thousand which was recognized in 2016 and reversed in fiscal year 2017, administrative expenses declined compared with the previous year. This decline is mainly due to the reduction in fees for information systems and lesser recourse to external service providers.

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After depreciation, amortization and provisions, amounting to €914 thousand compared with €1,855 thousand at December 31, 2016, operating income came into positive territory for the first time, and on an annual basis, at €156 thousand at the year-end compared with -€2,105 thousand for the previous year.

The changes brought about by the 2018 Finance Act to the corporate tax rate and the application of the liability method led to the recognition of a deferred tax liability of €577 thousand, thus reducing prior tax losses activated and amounting to €5,052 thousand at December 31, 2017 compared with €5,796 thousand at December 31, 2016. Tax losses recognized over the period did not give rise to the activation of any deferred tax assets.

The fiscal year 2017 closed with a negative net income of -€423 thousand compared with -€3,352 thousand for the previous year.

AFL rating

At December 31, 2017, AFL's credit ratings were as follows:

	Moody's
Long-term ratings	Aa3
Outlook	Stable
Short-term ratings	P-1
Updated on	November 8, 2017

Balance sheet and financial structure of the Agence France Locale Group

The AFL Group has a sound financial structure: prudential equity capital increased by €23.5 million to €114.1 million compared with €90.7 million at December 31, 2016. The risk-weighted assets, which reflect the quality of the AFL Group's assets, stood at €475.9 million, broken down as follows:

- Credit risk: €459.4 million;
- Operational risk: €12.9 million;
- CVA risk: €4.3 million.

As a result, the Basel III solvency ratio based on the standardized method (Common Equity Tier 1) reached 24% on a consolidated basis. With regard to the prudential equity capital requirements set at 9.281% and the internal limit of 12.5%, the Group thus has a comfortable margin to continue with the rapid expansion of its lending activities while maintaining a robust financial structure.

According to the 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 4.17%

In addition to this significant capitalization level, the liquidity position is very comfortable, reflecting the AFL Group's good resilience to a liquidity shock, as shown by the high LCR and NSFR ratios which, on December 31, 2017, stood at 844% and 189%.

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The outlook for the Agence France Locale Group

The AFL Group's main objective is to maintain a high rate of membership by new local authorities in order to support the continued increase in outstanding loans, in line with the 2017-2021 strategic plan.

Hence, it is expected that the size and structure of the AFL Group's balance sheet will continue to change rapidly, as was the case in the last three years, with, firstly, continued loan production and, secondly, new capital increases in 2018.

2017 consolidated income statement (€ millions)

(€ thousands)	Notes	12/31/2017	12/31/2016
Interest and similar income	12	38,342	19,625
Interest and similar expenses	12	(31,789)	(14,920)
Commissions (income)	13	73	1
Commissions (expense)	13	(95)	(61)
Net gains (losses) on financial instruments at fair value through profit or loss	14	141	(1,177)
Net gains (losses) on available-for-sale financial assets	15	4,051	5,786
Income on other activities			
Expenses on other activities			
NET BANKING INCOME		**10,722**	**9,254**
General operating expenses	16	(8,653)	(9,503)
Net depreciation, amortization and impairments of tangible and intangible assets	8	(1,914)	(1,855)
GROSS OPERATING INCOME		**156**	**(2,105)**
Cost of risk			
OPERATING INCOME		**156**	**(2,105)**
Net gains and losses on other assets			
PRE-TAX INCOME		**156**	**(2,105)**
Income tax	6	(579)	(1,247)
NET INCOME		**(423)**	**(3,352)**
Non-controlling interests			
NET INCOME GROUP SHARE		**(423)**	**(3,352)**
Basic earnings per share (EUR)		(0.31)	(2.89)
Diluted earnings per share (EUR)		(0.31)	(2.89)

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2017 Balance sheet

Assets at December 31, 2017

(€ thousands)	Notes	12/31/2017	12/31/2016
Cash, central banks and note-issuing authorities	4	420,351	57,929
Financial assets at fair value through profit or loss	1	13,711	6,505
Hedging derivative instruments	2	15,629	16,777
Available-for-sale financial assets	3	363,554	357,646
Loans and receivables due from credit institutions	4	213,433	25,054
Loans and advances to customers	5	1,430,829	892,227
Revaluation adjustment on interest rate hedged portfolios			1,091
Held-to-maturity financial assets			
Current tax assets		25	
Deferred tax assets	6	5,330	5,909
Accruals and other assets	7	68,657	21,312
Intangible assets	8	4,689	6,004
Property, plant and equipment	8	471	550
Goodwill			
TOTAL ASSETS		**2,536,678**	**1,391,003**

Liabilities at December 31, 2017

(€ thousands)	Notes	12/31/2017	12/31/2016
Central banks		368	
Financial liabilities at fair value through profit or loss	1	14,267	6,504
Hedging derivative instruments	2	61,841	20,448
Due to credit institutions			
Due to customers			
Debt securities	9	2,335,802	1,259,073
Revaluation adjustment on interest rate hedged portfolios		963	
Current tax liabilities			
Deferred tax liabilities	6	278	113
Accruals and other liabilities	10	2,172	5,841
Provisions	11	19	506
Equity		**120,968**	**98,518**
Equity, Group share		**120,968**	**98,517**
Share capital and reserves		138,500	115,891
Consolidated reserves		(17,665)	(14,314)
Revaluation reserve			
Gains and losses recognized directly in equity		557	291
Profit (loss) for the period		(423)	(3,352)
Non-controlling interests			**1**
TOTAL LIABILITIES		**2,536,678**	**1,391,003**

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Breakdown of RWA at December 31, 2017

Breakdown of weighted exposures	Agence France Locale -ST Consolidated - IFRS
Weighted exposures for credit, counterparty and dilution risk and free delivery exposures	458,816,283
Standardized Approach (SA)	458,816,283
Categories of risk exposure under the Standardized Approach, excluding securitization positions	458,816,283
Central governments or central banks	-
Regional or local governments	333,654,283
Public sector entities	-
Multilateral development banks	-
International organizations	-
Institutions	124,687,876
Exposures at default	-
Secured bonds	-
Receivables due from institutions and companies subject to a short-term credit valuation	-
Other items	474,123
SA securitization positions	-
Total amount of exposure to DVP risk	-
Total amount of exposure to position, foreign exchange and commodity risk	-
Total amount of exposure to operational risk	12,739,821
Basic Indicator Approach (BIA) of operational risk	12,739,821
Total amount of exposure to credit valuation adjustment risk	4,315,459
Standardized Method	4,315,459
Total amount of exposure to major risks contained in the trading book	-
Amount of exposure to other risks	-
Total amount of risk exposure	475,871,563
CET1 ratio	24.00%
T1 equity ratio	24.00%
Total equity capital ratio	24.00%

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Leverage ratio at December 31, 2017

Breakdown of the measurement of exposure in respect of Leverage (€)	Agence France Locale -ST Consolidated - IFRS	
Secured bonds	-	
Exposures deemed sovereign	676,484,471	25%
Central governments or central banks	571,300,980	21%
Regional governments and local authorities deemed sovereign borrowers	72,972,515	3%
Multilateral development banks and international organizations deemed sovereign borrowers	32,210,976	1%
Public sector entities deemed sovereign borrowers	-	0%
Exposures to regional governments, multilateral development banks, international organizations and public sector entities NOT deemed sovereign borrowers	1,668,271,416	61%
Regional governments and local authorities NOT deemed sovereign borrowers	1,668,271,416	61%
of which: items on balance-sheet	1,429,488,069	52%
of which: items not on balance-sheet	238,783,347	9%
Multilateral development banks NOT deemed sovereign borrowers	-	0%
Public sector entities NOT deemed sovereign borrowers	-	0%
Institutions	295,716,487	11%
Derivatives: Market value	53,827,305	2%
Derivatives: Increase for valuation method at market price	70,999,330	3%
Exposures at default	-	
Other exposures (e.g. equity capital and assets not corresponding to loan obligations), of which	473,063	0%
Securitization exposures	-	
Assets deducted from Tier 1 equity capital - in transitional period	- 24,825,358	-1%
Total amount of the measurement of exposure in respect of Leverage (€)	2,740,946,715	100%
Total amount of equity capital requirements (€)	82,228,401	100%
Prudential equity capital at 12/31/2017 (€)	114,231,525	139%
Leverage ratio	4.17%	

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ABOUT THE AGENCE FRANCE LOCALE GROUP

- The AFL Group is organized around a dual structure composed firstly of the Agence France Locale - Société Territoriale (the parent company with the status of financial company, called Société Territoriale) and, secondly, the Agence France Locale (AFL, the subsidiary, a specialized lending institution).
- The AFL Group is a specialized credit institution dedicated to financing the investments of local authorities. These local authorities are its exclusive shareholders through Société Territoriale, its majority shareholder at more than 99.9%. Like the local government financing agencies in Northern Europe, which have been established for several decades, the AFL Group is designed to be a key player in the financing of local investments.
- The objective of the AFL group is to facilitate access by French local authorities to capital markets, by pooling their requirements, so as to offer them attractive and transparent financing conditions.
- Agence France Locale manages its banking activities in a highly dematerialized manner, thereby containing its operating costs on a long-term basis.
- More information on www.agence-france-locale.fr

The Statutory Auditors have audited the company and the consolidated financial statements. Certification reports will be submitted after completion of the other necessary procedures.

The financial information of the Agence France Locale Group for fiscal year 2017 includes this press release, together with the annual report available on the website www.agence-france-locale.fr

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