AGENCE FRANCE LOCALE | La banque des collectivités

Press release
March 31, 2020

2019 RESULTS AND ACTIVITY OF AGENCE FRANCE LOCALE GROUP UNDERLINE THE ROBUSTNESS AND APPEAL OF ITS MODEL

Following the Supervisory Board meetings of Agence France Locale and the Board Meeting of Agence France Locale - Société Territoriale held on March 26, 2020, which took place under the chairmanship of Jacques Pélissard, AFL Group published its annual report for 2019.

The results as of December 31, 2019 confirm that the continued growth of the local authority bank is driven by further expansion in credit activity and a steady pace of new local authority memberships. Gross operating income amounted to -€503 thousand for net banking income of €11,106 thousand.

Jacques Pélissard, Chairman of the Board of Directors of Agence France Locale – Société territoriale, and Vice- Chairman of the Supervisory Board of Agence France Locale, underlines "the relevance of the AFL model which enables it to support and guide the local authority members efficiently in driving local public investment." With regard to the extension of share ownership to the local authorities groupings and local public institutions, he specifies that the "Loi Engagement et Proximité [Commitment and Proximity Law] of December 27, 2019, represents further recognition of the ability of local authorities to organize themselves in an independent manner, through their own bank. We are delighted to see that this extension goes beyond the request made by the associations of elected representatives, with regard to the major role played by the groupings and local public institutions concerning local public investment."

For Yves Millardet, Chairman of the Executive Board of Agence France Locale and Olivier Landel, Chief Executive Officer of Agence France Locale – Société Territoriale : "although 2020 has started with an unprecedented global health crisis and the scale of its impact on the AFL Group remains hard to call, 2019 was another year of rapid growth for our business. It was synonymous with a rise of almost 34% in growth of our outstanding loans signed versus 2018, a year that had already seen a significant increase in our credit activity. We signed up 60 more local authorities as members, won over by the efficiency of the business model, taking our total membership to 352. Gross operating profit 2019 finished the year well above the business plan forecast and in the second semester the business's core revenue covered virtually all operating expenses except for one-off costs related to the forthcoming move of AFL's head office. Created by associations of local elected representatives, the AFL Group has a significant, representative and growing number of local authorities including regions, departments and a highly diversified municipal block of large and small municipalities and inter-municipalities.

The bank for all local authorities, small and large, urban and rural, France and its overseas departments and regions, the AFL Group plays a major role in the funding of local authorities. This makes the Group one of the major players in the market thanks to a model which, in the space of a few years, has proven its efficiency. 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."

As of December 31, 2019, the AFL Group completed its fifth year of activity exceeding the objectives it had set itself and forging ahead with the implementation of its 2017-2021 strategic plan 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 consequence, the AFL Group should continue the rapid balance sheet growth of the last four years.

Four new capital increases were made during 2019:

- 60 local authorities of all categories and spread across the whole country have joined the AFL Group, increasing the rapid development of the model throughout France ;
- As of December 31, 2019, the AFL Group's paid-up capital totaled €154.5 million and the committed capital, €179.9 million.
- While all categories of local authority are represented among AFL Group members, the municipal block makes up a very large percentage.

AFL Group local authority members by category as of December 31, 2019

(€ thousands)	Number	Committed capital	Paid-up	Voting rights
Region	3	25,979	14,739	9.54%
Department	8	25,630	17,046	11.04%
Municipality	262	48,060	44,736	28.96%
EPCI (groupings of municipalities)	79	80,228	77,939	50.46%
Including Metropolis	*12*	*64,080*	*64,080*	*41.49%*
Territorial public entities	*4*	*4,292*	*3,227*	*2.09%*
Urban communities	*5*	*3,546*	*3,441*	*2.23%*
Suburban communities	*21*	*6,946*	*5,899*	*3.82%*
Municipality communities	*37*	*1 364*	*1,292*	*0.84%*
TOTAL	**352**	**179,897**	**154,460**	**100%**

Total outstanding loans amounted to €3,492 million as of December 31, 2019, compared to €2,597 million as of December 31, 2018:

- Medium- and long-term credit production for the year amounted to €978 million in 282 loan agreements;

- AFL Group's outstanding loans, including the AFL's purchases of loans from other credit institutions as of December 31, 2019, stood at €3,492.4 million, of which €3,174.8 million was made available and €317.7 million in financing commitments, compared with €2,231.8 million and €365.6 million respectively as of December 31, 2018.

AFL Group raised €957 million on the bond market through long-term issues in 2019:

- Issues during the year included several combining private placements in euros and other currencies, across a wide group of maturities, a new seven-year benchmark in euros and a tap of an existing issue.

- The 2019 borrowing program was placed at a weighted average margin of 31.5 basis points over the OAT curve and an average maturity of 8.1 years, maintaining a healthy match between the sources and applications of balance sheet funds while keeping a tight rein on interest expense.

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- During financial year 2019, AFL also welcomed a number of new investors in its private placements and public issues, contributing to the reinforcement of its reputation in capital markets.

The increase in outstanding loans and control of expenses still gave AFL Group negative gross operating income of €503 thousand under IFRS and a net loss of €1,186 thousand after cost of risk under IFRS 9, net losses on other assets and deferred tax assets:

- Net banking income for financial year 2019 stood at €11,106 thousand, compared to €9,745 thousand in 2018, characterized by non-recurring capital gains on the sale of securities of €1,637 thousand;
- The net interest margin increased in relation to outstanding loans to €10,123 thousand, compared to €7,853 thousand as of December 31, 2018;
- Operating expenses are controlled at €9,320 thousand versus €9,054 thousand for 2018.

Significant events since the balance sheet date

Since the beginning of the year, AFL has conducted three bond issues in the form of taps immediately fungible with existing notes. The first, an Australian dollar issue for the equivalent of €40.2 million to increase an existing 2030 issue, was placed at an issue margin of 19 basis points over the OAT. The other two, for €100 million and €60 million respectively, are 2026 and 2028 taps, both in euros, at issue margins of 27.3 and 26.3 basis points above the OAT curve, respectively.

A 23rd capital increase closed on March 13, 2020 having attracted eight new member authorities. It took the total number of members to 360, the share capital of AFL Group to €157.8 million and committed capital to €180.4 million. The €22.6 million difference corresponds to capital contribution undertakings by member authorities that will be paid up in the coming years.

AFL Group consolidated income under IFRS

2019 saw the AFL Group's results increase quickly once again in line with the 2017-2021 strategic plan, making the Group one of the main institutions for local authority loans in France.

At the end of 2019, net banking income generated by the activity amounted to €11,106 thousand, compared to €9,745 thousand as of December 31, 2018, a year that had been characterized by non-recurring capital gains on the sale of securities of €1,636 thousand.

Net banking income for 2019 mainly corresponds to an interest margin of €10,123 thousand, an increase of 29% compared to the €7,853 thousand made last year, net capital gains on the sale of investment securities of €500 thousand and net income from hedge accounting of €419 thousand.

The interest margin of €10,123 thousand originates from three items:

- First, income related to the loan portfolio of €8,127 thousand which, after hedging, was up 6% on the €7,667 thousand at December 31, 2018. This limited increase is explained by the continued downtrend in rates in 2019, while outstanding loans increased significantly.
- Secondly, the €2,731 thousand loss on management of the liquidity reserve, versus -€3,332 thousand at December 31, 2018, reflected the cost of carrying cash in a negative rate environment. That said, the reduction is a combination of improved profitability of liquidity reserve securities, a fall in average bank deposits over the year and improved returns on deposit accounts with the introduction of fixed-term deposits.
- Finally, the debt interest charge and cost of collateral generated income of €4,726 thousand after hedging, compared to €3,518 thousand at December 31, 2018. This significant increase reflects the

rise in outstanding AFL debt during the financial year, the lowering of the Euribor rate against which the whole AFL debt is indexed and optimized management of short-term debt, particularly with the reactivation of issues of negotiable debt securities in foreign currencies under the ECP program. This figure takes into account an increase in the interest on margin calls from -€296 thousand as of December 31, 2018 to -€397 thousand as of December 31, 2019.

Capital gains on securities at fair value through other comprehensive income, for €3,363 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 -€2,862 thousand, generating net overall capital gains of €500 thousand for the period.

Net income from hedge accounting was €419 thousand. This represents the sum of the fair-value differences of hedged items and their hedging. Of these differences, €431 thousand relates to valuation differential income for instruments classified as macro-hedges and -€12 thousand relates to expenses 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, 2019, general operating expenses were €9,320 thousand against €9,054 thousand the previous year. This included €4,863 thousand in personnel costs compared to €4,799 thousand in 2018. General operating expenses also include administrative expenses, which amounted to €4,457 thousand versus €4,255 thousand as of December 31, 2018. Note, though, that the administrative expenses for 2019 include the impact of eliminating lease payments by AFL following the introduction of IFRS 16 "Leases", which reduces general operating expenses by €337 thousand, and a €71 thousand provision for future refurbishment costs as AFL prepares to move out of its current head office at Tour Oxygène.

At end financial year, depreciation and amortization amounted to €2,289 thousand versus €1,995 thousand as of December 31, 2018, an increase of €294 thousand, which resulted mainly from the application of IFRS 16 with the incorporation of €258 thousand of additional amortization of right of use on premises occupied by the Group. After the end of the amortization of a first tranche of the IT system, AFL continued to invest in its IT infrastructure, with the construction of facilities management structures and work to develop the data pool.

The financial year ended December 31, 2019 had a gross operating loss of €503 thousand compared to -€1,304 thousand as of December 31, 2018, a year which, as indicated above, included non-recurring capital gains of €1,636 thousand on the sale of securities.

The cost of risk for impairment, relating to expected losses on financial assets, under IFRS 9 was a positive €5 thousand in 2019, reflecting a reversal of impairment provisions. Indeed, the increase in outstanding loans has not led to any rise in impairment as the loans are low risk. With regard to the liquidity reserve, the fall in outstanding securities, some of which had matured and been replaced by fixed-term deposits and central bank deposits, and a reduction of impairment, which are highly sensitive to asset duration. In consequence, despite AFL's tightening of the weightings in anticipation of a weakening economy, the lower risk and shorter maturity of assets has resulted in a slight increase in impairment as of December 31, 2019.

“Net gains or losses on other assets” was -€461 thousand and recorded the costs of AFL's forthcoming move from Tour Oxygène and the processing of the readjustment of the lease duration pursuant to IFRS 16.

Tax losses recognized over the year did not give rise to the activation of any deferred taxes. AFL also derecognized €5,051 thousand of deferred tax assets on its losses at December 31, 2015. Nevertheless, there are deferred tax liabilities in 2019 which originate exclusively from IFRS restatements in the year, corresponding to temporary differences between the tax value of the assets and their book value, amounting to -€227 thousand.

After accounting for a deferred tax expense of €227 thousand, the year ended December 31, 2019 ended with net income of -€1,186 thousand, compared to -€1,705 thousand in the previous financial year.

As of December 31, 2019, operating expenses excluding the non-recurring cost AFL's moving offices, scheduled for the first half of 2020, amounted to 114% of the net interest margin of the AFL Group. In the second half the cost-income ratio rose to 103%, underlining a positive trend of income generation for the Group.

AFL Group balance sheet and financial structure

AFL Group has a sound financial structure: prudential capital was €123.8 million at December 31, 2019, which corresponds to a Basel III solvency ratio, on a consolidated basis, based on the standard method (Common Equity Tier 1 – CET1) of 15.78% for a regulatory limit of 11.75% 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, subject to maintaining access to resources on satisfactory terms, in light of the pandémic

Consequently, with regard to the current financial crisis related to the Coronavirus pandemic, France's *Haut Conseil de stabilité financière* (High Council for Financial Stability) decided on March 18, 2020 to suspend until further notice the counter-cyclical equity cushion of 0.25% for France. It was changed to 0% on March 18, 2020.

Risk-weighted assets, which reflect the quality of the AFL Group's assets, stood at €784.2 million, broken down as follows:

- Credit risk : €760.4 million
- Operational risk : €19.7 million
- Credit valuation adjustment (CVA) risk : €4.1 million

In the event of AFL being eligible for the status of a public development credit institution, authorizing the deduction of development loans from the assets side of the balance sheet, AFL Group's leverage ratio was 11.98% as of December 31, 2019. Based on the current methodology applicable to credit institutions, the Group's leverage ratio at the same date was 2.78%.

The cash position of the AFL Group is very comfortable, as shown by the LCR and NSFR ratios of 432% and 186% respectively at December 31, 2019, enabling AFL Group to continue its operating activity in a period of high uncertainty.

AFL rating as of December 31, 2019

The highlights of the last financial year include the granting, on May 20, 2019, of a second rating for AFL, the Group's issuing entity, by Standard & Poor's. Now, like its Dutch and Scandinavian counterparts, AFL is highly and similarly rated by the two major rating agencies, Moody's Investors Service (Moody's) and S&P Global Ratings (Standard & Poor's). According to Standard & Poor's, the long term AA- rating and the short-term A-1+ rating, both with stable outlook, is based on the following items:

- The robust capitalization of the credit institution;
- The strong support of local authorities through the guarantee mechanism;
- Ample cash combined with excellent access to capital markets.

This dual rating which represents a major stage in the development of the Group, enables AFL to reaffirm the quality of its signature and in consequence its access to bonds and money markets, so helping ensure its member authorities can access resources on the best possible terms.

AFL's rating

	Moody's	Standard & Poor's
Long-term rating	Aa3	AA-
Outlook	Stable	Stable
Short-term rating	P-1	A-1+
Updated	Oct-01-19	May-20-19

AFL Group outlook

The AFL Group set itself the main objective of maintaining the rapid pace of new membership of local authorities. It is readying itself to welcome groupings of local and regional authorities and local public institutions, starting with unions, which, once the membership procedure has been put in place, will be able to join AFL Group pursuant to the provisions of the Law of December 27, 2019, the Commitment and Proximity Law, enlarging the scope of entities eligible for AFL Group membership.

This extension should allow AFL Group to continue growing its capital and support the development of its activity. Given the results obtained in 2019 and the very low credit risk of public debtors, the AFL Group should be able to achieve the goals set out in the 2017-2021 strategic plan and, in particular, reach breakeven as far as its financial statements are concerned in 2020, subject to the consequences that the pandemic might have for its activity and results which remain difficult to quantify.

The coronavirus pandemic which began wreaking havoc in March 2020 is having significant impacts on the global economic environment, with financial markets, in particular, being hard hit. With regard to its organization, AFL has put in place a crisis unit and taken measures to ensure the normal operations of the Company continue while limiting the risks of contagion for its teams, so it can continue to perform its duties in the best possible conditions.

With regard to the impacts of the pandemic on the activity and development of the AFL Group, the delay in holding the second round of the local elections and increased uncertainty could slow down membership of new local authorities and the granting of new loans. However, it is too soon to be able to measure the impact of these events on the annual production of loans, as these are traditionally concentrated at year end.

Against this backdrop, the current situation linked to the pandemic confirms the relevance of the AFL economic model. However, it also gives rise to some uncertainty, not so much with regard to access to liquidity but rather concerning the price of accessing this liquidity required for its activity. By way of a reminder, as at December 31, 2019, AFL had a liquidity reserve corresponding to a year's activity.

Consequently, the banking model dedicated to local authorities has come into its own in this situation of crisis; AFL is ready to support in an appropriate manner its members which will be involved in boosting public investment, contributing to the economic activity and social cohesion of our regions.

Income statement as of December 31, 2019 (in € thousands, consolidated IFRS)

(€ '000s)	31/12/2019	31/12/2018
Interest and similar income	77 870	64 387
Interest and similar expenses	(67 747)	(56 534)
Fee & Commission Income	178	289
Fee & Commission Expense	(112)	(127)
Net gains (losses) on financial instruments at fair value through profit or loss	(2 444)	868
Net gains or losses on financial instruments at fair value through other comprehensive income	3 363	863
Income on other activities		
Expenses on other activities		
NET BANKING INCOME	**11 106**	**9 745**
Operating expenses	(9 320)	(9 054)
Net depreciation, amortisation and impairments of tangible and intangible assets	(2 289)	(1 995)
GROSS OPERATING INCOME	**(503)**	**(1 304)**
Cost of risk	5	(191)
OPERATING INCOME	**(498)**	**(1 495)**
Net gains and losses on other assets	(461)	
INCOME BEFORE TAX	**(959)**	**(1 495)**
Income tax	(227)	(209)
NET INCOME	**(1 186)**	**(1 705)**
Non-controlling interests		
NET INCOME GROUP SHARE	**(1 186)**	**(1 705)**
Basic earnings per share (in EUR)	(0,77)	(1,17)
Diluted earnings per share (in EUR)	(0,77)	(1,17)

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Balance sheet as at December 31, 2019 (in € thousands, consolidated IFRS)

Assets at December 31, 2019

(€ '000s)	**31/12/2019**	**31/12/2018**
Cash, central banks	165 604	121 650
Financial assets at fair value through profit or loss	15 962	26 299
Hedging derivative instruments	130 957	44 661
Financial assets at fair value through other comprehensive income	535 900	502 487
Securities at amortized cost	139 718	179 501
Loans and receivables due from credit institutions and similar items at amortized cost	190 830	111 217
Loans and receivables due from customers at amortized cost	3 160 500	2 229 911
Revaluation adjustment on interest rate risk-hedged portfolios	14 284	1 873
Current tax assets	42	43
Deferred tax assets	5 654	5 691
Accruals and other assets	380	349
Intangible assets	2 097	3 290
Property, plant and equipment	2 633	2 514
Goodwill		
TOTAL ASSETS	**4 364 561**	**3 229 487**

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Liabilities at December 31, 2019

(€ '000s)	31/12/2019	31/12/2018
Central banks	26	755
Financial liabilities at fair value through profit or loss	15 476	26 747
Hedging derivative instruments	173 597	78 300
Debt securities	4 036 974	2 996 909
Due to credit institutions	4 236	9
Due to customers		
Revaluation adjustment on interest rate hedged portfolios		
Current tax liabilities		
Deferred tax liabilities	18	
Accruals and other liabilities	2 465	2 260
Provisions	278	23
Equity	**131 490**	**124 485**
Equity, Group share	**131 490**	**124 485**
Share capital and reserves	154 460	145 905
Consolidated reserves	(20 218)	(18 305)
Reevaluation reserve		
Gains and losses recognised directly in equity	(1 566)	(1 411)
Profit (loss) for the period	(1 186)	(1 705)
Non-controlling interests		
TOTAL LIABILITIES	**4 364 561**	**3 229 487**

The AFL Management Board approved the AFL annual financial statements for 2019 on March 11, 2020. The AFL Supervisory Board which met under the chairmanship of Richard Brumm on March26, 2020 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 March26, 2020, 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, relating, in particular, to the impacts of the pandemic which 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 2019 is composed of this press release, as supplemented by the financial report available at www.agence-france-locale.fr

A propos de l'Agence France Locale

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 Northern European 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.

Article 47 of French law 2019-1461 of December 27, 2019, known as the "Engagement and Proximity Law", modifies the provisions of Article 1611-3-2 of the French General Local Authorities Code (Code général des collectivités territoriales – CGCT), the AFL Group's founding text, and extends the possibility of subscribing for AFL-ST capital beyond the range of local authorities to all local authorities groupings and local public institutions. A decree will set the financial position and indebtedness criteria allowing new entities to become shareholders of the Group's parent company.

Plus d'information sur www.agence-france-locale.fr

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