

Annual results 2023: Record business generates solid results and confirms the attractiveness of the AFL model

At 31 December 2023, the AFL Group reported a sharp improvement in results:

- The best one-year gross operating income recorded by the AFL Group since its creation (+81% v. 2022);
- Consolidated net income more than doubled relative to 2022;
- Net interest margin up 55% relative to 2022;
- A sharp rise in new loans to €1.907 billion;
- A record number of new members, bringing the total number of local authority members to 776.

Consolidated results in key figures at 31/12/2023 (IFRS Standard):

Member local authorities: **776** (+177 local authorities v. 31/12/2022)

Pledged capital: **293.6** million euros (+21.4 million v. 31/12/2022)

Loan production: **1.9** billion euros (+35% v. 31/12/2022)

Funds raised in the market: **2.1** billion euros (+40% v. 31/12/2022)

Interest margin: **€24.267 million** (+55% v. 31/12/2022)

Gross operating income: **€7.620 million** (+81% v. 31/12/2022)

Net income after tax: **€5.739 million** (+108% v. 31/12/2022)

Cost/income ratio: **67.4%** (v. 76.1% on 31/12/2022)

Solvency ratio: **13.23%** (v. an internal limit of 12.5%)

Ten years at the service of local authority financing

“Ten years after the adoption of the law of 26 July 2013 authorising local authorities to create their own bank, AFL has demonstrated that a model based on fairness and transparency and which places local authorities at the heart of its operations is resilient and solid. As a lasting response to the ongoing attempts by certain players to reintroduce structured products, AFL has demonstrated its ability to meet the needs of local authorities, particularly in terms of financing of transitions”, says Sacha Briand, Chairman of AFL’s Supervisory Board.



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A record increase in lending activity and in the number of local authority adhesions

Record loan origination in 2023

In 2023 alone, AFL granted **1.9 billion euros of loans** to its member authorities, an unprecedented level. This trend falls within a context of increased borrowing by local authorities, driven by massive investment in the ecological transition.

In this context, AFL offered competitive lending conditions, witnessing its market share ¹ maintained at **55%** among its member local authorities and at **8%** at national level, making AFL the 3rd largest bank lender to local authorities over the year (*Source: Finance Active*). AFL was selected in **85%** of the tenders in which it participated in 2023.

Key facts:

1.9 billion euros

The volume of loans granted by AFL in 2023.

85%

The proportion of consultations in which AFL was selected, representing 55% of the volume requested by member local authorities.

Almost 200 new local authority members

Buoyed by this lending dynamic and the strengthening of its reputation, AFL registered **177 new local authority members** through 4 capital increases, thereby bringing its total membership to **776** at 31 December 2023.

Growth was particularly strong among departments: no fewer than 5 voted to join in 2023: Ille-et-Vilaine, Landes, Yvelines, Maine-et-Loire and Gironde².

We also note the adhesion of Eurométropole de Metz, 3 urban communities (Grand Reims, Caen la Mer and Grand Paris Seine & Oise), the Etablissement Public Territorial de Bassin Seine Grands Lacs, as well as 9 agglomeration communities, 12 communities of municipalities, 13 unions and 133 municipalities.

This represents an additional capital commitment of **21.4 million euros**, voted for the year 2023, bringing the total to **293.6 million euros**.

Key facts:

776

The number of local authority members at 31/12/2023

293.6 million euros

The total amount of capital pledged by member local authorities, i.e. 21.4 million euros in 2023 alone.

Efficient refinancing characterised by the diversification of issues

¹ Estimated origination on the basis of consultations received

² Three of them: Département des Yvelines, Département de Maine et Loire and Département de Gironde will not join the AFL until 2024, due to the dates on which the initial capital contribution was paid.

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In 2023, AFL raised **2.1 billion euros** in the bond market with a weighted average maturity of **8.5 years**:

- Two syndicated bond issues: an issue of **750 million euros** with a 7-year maturity and an issue of **500 million euros** with a 15-year maturity;
- Two top-ups to a bond issue in sterling, maturing in June 2025;
- Several private placements denominated in euros, including, for the first time, private placements with an option for the AFL to redeem before maturity (termed “*callable*”).
- Private placements of sustainable bonds for an amount of **215 million euros**.

Key facts:

2.1 billion euros

The amount raised in the medium and long term by AFL in 2023.

The weighted average spread on these issues was **49 basis points** over the *Obligations Assimilables du Trésor* (OAT) curve, with an increase relative to the previous financial year (Average of 41 basis points over OAT in 2022). This deterioration concerns the entire French and European public sector and is notably explained by the end of the ECB’s securities purchase programmes.

Strong growth in financial results in 2023

Results at an historic high

At 31 December 2023, the AFL Group reported sharply increased revenues:

- **Net banking income (NBI)** amounted to **€23.355 million** (against €17.608 million on 31/12/2022), **i.e. a 33% increase**.
- **The net interest margin** of the AFL Group **rose by 55%** to reach **€24.267 million** (against €15.651 million on 31/12/2022), driven by the lending business, the stabilisation of margins and the rise in interest rates.
- **Gross operating profit increased by 81%** relative to 2022, reaching an unprecedented level of **€7.620 million** (against €4.206 million on 31/12/2022).
- **Excluding non-recurring items** (excluding income from capital gains on disposals of securities and hedge accounting), gross operating income was **€8.656 million**, (against €2.357 million on 31/12/2022).
- **General operating expenses** for the period represented **€15.734 million** at 31 December 2023 (against €13.403 million at 31/12/2022), bearing witness to the balance between rigorous budget management and support for the ramp-up (IT investments, staff costs, etc.).

Positive for the fourth consecutive year, **net income** for the financial year 2023 **more than doubled relative to 2022 to reach €5.739 million** (against €2.775 million at 31/12/2022) confirming the strong resilience of the AFL model in a fluctuating economic and financial environment.

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A falling cost of risk

AFL's cost of risk is intrinsically limited due to its model as a public development credit institution, the company's prudent management and the excellent solvency of local authorities.

On 31 December 2023, AFL made a **reversal of provisions** for ex-ante impairment for expected losses on financial assets under IFRS 9, for an amount of **€117,000**, against a net provision of **€404,000** for the previous financial year.

This reversal of provisions in the financial year 2023 reflects a favourable change in the weighting of the underlying macroeconomic scenarios, to take account of a stabilisation in the geostrategic and macroeconomic environment, and the very high quality of the loan portfolio.

Operating income after cost of risk amounted to **€7.738 million** (against €3.801 million at 31 December 2022), i.e. double the amount. This income, which contributed to a sharp improvement in the **cost/income ratio** for 2023 to **67.4%**, against 76.1% for the financial year 2022, will reinforce the equity base of the AFL Group. Relative to the amount of outstanding loans, operating expenses represented **20 basis points**, demonstrating the efficiency and agility of the model.

A solid financial structure which permits balanced growth

The AFL Group has a very robust financial structure:

- **The CET1 solvency ratio** (consolidated) stands at **13.23%**, with an internal limit of 12.5% and then 13% from 31 March 2024 onwards.
- **The leverage ratio (CRR2)**, calculated using the methodology applicable to public development credit institutions, was **8.86%** (for a regulatory limit of 3%);
- **The LCR ratio** stood at **541%** above the regulatory limit of 100%;
- **The 12-month internal liquidity ratio**, NCCR, amounted to **80%** at 31 December 2023, corresponding to a liquidity reserve of €1.976 billion at 31/12/2023. This will allow AFL to meet all its needs for almost 12 months without having to turn to the market.

This solidity was once again recognised by the rating agencies, by Standard & Poor's on 24 May 2023 and Moody's on 1 June 2023, which reaffirmed AFL's long-term and short-term financial ratings:

AFL credit rating at 31 December 2022

	Moody's	Standard & Poor's
Long-term rating	Aa3	AA-

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Outlook	Stable	Stable
Short-term rating	P-1	A-1+

A resilient model in a context of market tension

“In 2023, local authorities operated in a tense environment (war on Europe’s borders, the Israeli-Palestinian conflict, inflation, changes in monetary policy, etc.), which caused a rise in interest rates. The imperatives of the ecological transition are nevertheless generating major investment at local level. In this context, the AFL Group has demonstrated its ability to fulfil its raison d’être by pursuing its issuing and lending activities under the best possible conditions in order to best meet the needs of local authorities”, says Yves Millardet, Chairman of AFL’s Executive Board.

A climate and sustainable finance roadmap at the heart of the model, the deployment of which will accelerate in 2023

As a public development credit institution, AFL aims to fulfil its public policy mission in the general interest and is therefore a suitable tool for local authorities for financing energy and climate change. AFL is deploying a climate and sustainable finance roadmap structured according to the recommendations of the TCFD (Task Force on Climate Related Financial Disclosures).

Strengthening governance on ESG issues

- **At the level of AFL-ST:** in 2023, work focused on enhancing governance with a view to clarifying roles and responsibilities in terms of CSR. The role of the Board of Directors is central: it determines the CSR strategy, which is **submitted every three years** to the General Meeting of Shareholders.
- **At the level of AFL:** the Strategy Committee has become the **Strategy and Responsible Commitments Committee**, confirming the role of the Supervisory Board in defining the climate and sustainable finance roadmap and overseeing its deployment.
- **Lastly, internally:** a **CSR Climate and Sustainable Finance Committee** has been created to steer the climate and sustainable finance roadmap. Meeting quarterly, it brings together members of the Executive Board and employees from all the departments.

A roadmap with reinforced implementation

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Pursuing its desire to provide member local authorities with the best possible support in financing transitions, AFL has sought to make its commitments clearer through a number of achievements:

- **The publication of new studies** for the benefit of local authorities: financing the energy renovation of buildings, the financial health barometer, a study on small towns, etc.;
- The publication of a **charter of ethics**;
- The realisation of its first **carbon audit**;
- The realisation of a **mapping of environmental risks**;
- The voluntary publication of a **Professional Equality Index** even though the AFL is not obliged to do so due to its size (score of **87/100** within the national average)

Giving life to AFL's raison d'être

"Embodying responsible finance to meet the present and future needs of residents. This is AFL's raison d'être, which is becoming more and more meaningful every day through AFL's support for local authorities in financing transitions, as well as through its internal commitments." states Marie Ducamin, Chairwoman of AFL-ST's Board of Directors.

Post-closing events and outlook

- AFL-ST's Board of Directors initiated its **39th capital increase**, which was concluded on 19 March 2024. **61 new local authorities** joined AFL on this occasion and the total amount of promised capital is **12 million euros**.
- AFL's ambition is to **pass the 1,000 member mark** by end-2024. With the **€3 billion** refinancing programme, including at least €500 million in sustainable bond issues, AFL aims to give itself the capacity to support the needs of its member local authorities in terms of financing transitions at the best price.

On 13 March 2024, AFL's Management Board approved AFL's annual accounts for 2023. On 27 March 2024, AFL's Supervisory Board approved AFL's annual financial statements.

On 27 March 2024, the Board of Directors of AFL-ST, Société Territoriale, approved the financial statements of its parent company, Société Territoriale and the consolidated financial statements of the AFL Group.

The audit procedures on the annual and consolidated financial statements, relating to the period from 1 January 2023 to 31 December 2023, were conducted by the statutory auditors, whose reports are available at the following address:

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

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This press release contains certain forward-looking statements. Although AFL Group believes that these statements are based on reasonable assumptions on the date of publication of this press release, they are by their nature subject to risks and uncertainties, relating to geopolitical tensions and changes in macroeconomic forecasts and monetary policies, which could cause actual figures to differ from those indicated or implied in these statements.

AFL Group's financial information for 2023 consists of this press release, as well as the report available on the website: <https://www.agence-france-locale.fr/actualite/annual-results-2023-record-business-generates-solid-results/>



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