The results for the six months to June 30, 2021 confirm AFL's profitability. For the third consecutive half-year, AFL's banking activities generated a profit against a backdrop of growth in membership

To mark today's publication of its half-yearly report, AFL stresses the continuation and success of its development:

- Net banking income up at €8,406 thousand
- Gross operating income of €2,239 thousand
- Net profit after cost of risk of €1,770 thousand
- Common Equity Tier 1 ratio of 17.66%

These results confirm the trend dating back to 2020, which saw the bank deliver its first profit.

The first-half results were characterized by an exceptional rate of new memberships (42 in the first half of 2021, compared with 17 in the same period last year), with the noteworthy membership of the Grand Est and Bourgogne-Franche-Comté regional authorities making a substantial contribution to AFL's capital.

The results show that AFL's success is also driven by its commitment to green finance and support for local authorities in their responsible policies.

Key figures (AFL individual financial statements in IFRS):

Outstanding credit on the balance sheet
€3,945 million

Net interest margin
€6,357 thousand

Net banking income
€8,406 thousand

Operating expenses and depreciation
€6,167 thousand

Gross operating income
€2,239 thousand

Net profit
€1,770 thousand

Common Equity Tier 1 ratio
17.66%

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As of June 30, 2021, AFL, which is now in its seventh year of operations, had exceeded the goals of its 2017-2021 strategic plan on three levels:

- The total amount of capital pledged was €233 million, compared with a target of €200 million by 31 December 2021;
- Outstanding loans totaled nearly €4 billion, the level targeted for December 31, 2021 in the strategic plan, bearing in mind that most loan production will be focused on the second half in 2021;
- Gross operating income was positive for the third consecutive half-year at €2,239 thousand, and net profit for the second consecutive half-year at €1,770 thousand.

Two new capital increases were made during the first half of 2021:

- 42 new local authorities of all categories (i.e. nearly three times more than over the same period last year) have joined AFL Group. Spanning the entire country, they include 2 regional authorities, 7 joint municipal authorities and 1 territorial public entity, and bring the total number of shareholder members to 453 as of June 30, 2021. The membership of the Grand Est and Bourgogne-Franche-Comté regional authorities in the first half contributed significantly to the growth of capital pledged.

- As of June 30, 2021, AFL's paid-up capital, which was up 26% year-on-year and 13% compared with December 31, 2020, amounted to €190.5 million, and that of its parent company, AFL-ST, to €199.7 million.

AFL's attractiveness is undisputable: as of June 30, 2021, 45% of the French population resided in one of the local communities belonging to AFL, whose total outstanding debt accounts for nearly 20% of the outstanding debt of all French local authorities combined[1].

[1] Source: Observatoire des finances et de la gestion publique locales (OFGL); outstanding debt of member local authorities/total outstanding debt of French local authorities

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Member local authorities of AFL Group by category at June 30, 2021[2]

Figures in € thousands	Number	Committed capital	Paid-up	Voting rights
Region	5	49,422	24,634	12.34%
Department	11	33,903	30,071	15.06%
Municipality	338	51,708	49,287	24.68%
FEPCI (groupings of municipalities)	99	98,283	95,693	47.92%
including Metropolitan areas	*12*	*68,315*	*68,315*	*34.21%*
Territorial public entities	*6*	*6,077*	*4,807*	*2.41%*
Urban communities	*5*	*3,546*	*3,494*	*1.75%*
Suburban communities	*23*	*7,842*	*7,083*	*3.55%*
Municipality communities	*40*	*1,606*	*1,448*	*0.73%*
Joint municipal authorities	*13*	*10,896*	*10,546*	*5.28%*
TOTAL	453	233,316	199,685	100%

Broadening of the shareholder base

The General Meetings of AFL on May 6, 2021 and AFL-ST on May 27, 2021 amended the two companies' Articles of Association to include in the scope of the new local authorities eligible to join AFL Group all entities authorized by law, namely local authorities, groupings thereof and local public entities, in accordance with Article L. 1611-3-2 of the French General Local Authorities Code resulting from the law of December 27, 2019.

It will be up to the Board of Directors of AFL-ST to define the terms, conditions and timetable for the gradual entry of new categories of members, without having to refer the matter to the Annual General Meeting of Shareholders to make successive amendments to the Articles of Association.

Production of credits

During the first half of 2021, in an environment marked by the end of the health crisis and a gradual resumption of economic activity, the amount of medium- and long-term loans granted by AFL continued to grow to €289 million, compared with €248 million during the first half of 2020:

- In addition to medium- and long-term loans, €118 million in cash lines were granted;
- AFL's cumulative medium- and long-term loan production amounts to €4,643 million since the start of its operations in 2015;
- As of June 30, 2021, outstanding loans on the balance sheet amounted to €3,945 million.

[2] For the purposes of this classification, French Polynesia is classified as a region and Saint-Pierre and Miquelon as a department.

Corporate social responsibility

On July 22, 2021, AFL issued its first annual disclosure report on the allocation and impact of the funds raised in its July 2020 sustainable bond issue. The report indicates that 61% of the funds were allocated to investment expenditure aimed at developing access to essential and basic social services, 8% to the energy and ecological transition and 31% to sustainable infrastructure, community development and regional cohesion.

Survey of the financial health of local authorities

In June 2021, AFL published the second edition of its survey of the financial health of local authorities. It looks at change in financial ratings between 2014 and 2020, and incorporates the impact of the health crisis on local authorities' individual financial positions. The 2021 survey concludes that local authorities are financially sound and resilient, although with significant disparities, after a decade marked by institutional developments and the reduction in central government aid, in addition to the health crisis.

AFL continued its bond issues during the period, raising €956 million on the bond market

- On January 14, 2021, AFL completed a new €500 million benchmark issue with a 10-year maturity on excellent terms. The new benchmark issue, the seventh since AFL was founded, was a great success, with demand totaling more than €2.2 billion from nearly 90 investors. The securities were placed with a margin of 31 basis points above the French government bond curve (*Obligations Assimilables du Trésor* – OAT).
- The issue was topped up on June 18, 2021 by a further €250 million at 23 basis points above the OAT curve, bringing the total amount issued to €750 million.
- Lastly, several private placements were made during the first half of 2021: a USD100 million private placement with a 2-year maturity, two private placements of AUD50 million with a 10.5-year maturity and AUD110 million with a 15-year maturity, and a private placement of €20 million with a 10.5-year maturity.

In total, as of June 30, 2021, AFL had raised €956 million, representing 64% of its borrowing program for 2021, with resources whose characteristics combine good balance sheet backing with competitive terms. The weighted average spread of issues made during the first half was 26.5 basis points vs the OAT curve on a weighted average maturity of 9.7 years, an improvement on the spread of 27.6 basis points on a weighted average maturity of 7.5 years in the first half of 2020.

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During the first half of the year, AFL's ratings were confirmed at Aa3 by Moody's and AA- by Standard & Poor's:

At June 30, 2021, 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+
Last Credit Opinion Date	06/27/2021	05/21/2021

AFL's very high ratings from both Moody's and Standard & Poor's enables it to pursue its mission to provide local shareholders with loans in the best possible conditions.

The soundness of AFL's financial structure is underscored by the equity ratios, on a consolidated basis:

- Solvency ratio: 17.66%.
- Leverage ratio (CRR 2), calculated using the methodology applicable to public development banks: 7.09%.
- Bank leverage ratio (CRR): 2.62%.

AFL Group has a robust financial structure, with IFRS equity capital amounting to €182.9 million as of June 30, 2021, compared with €160 million as of December 31, 2020. In view of the quality of the Group's exposures, the Basel III capital adequacy ratio based on the standard method (Common Equity Tier 1) was 17.66%, compared with 15.13% as of December 31, 2020. This substantial improvement in the capital adequacy ratio, the result of the two capital increases carried out in the first half, is nevertheless expected to weaken in the second half with the expected increase in loan production.

As of June 30, 2021, the consolidated leverage ratio, calculated in accordance with the methodology applicable to public development banks, was 7.09%, compared with 8.63% as of December 31, 2020. The reduction is attributable to a significant increase in the liquidity reserve linked to the pre-financing from the first half of 2021, in accordance with AFL's liquidity policy, of a €750 million bond falling due on March 20, 2022. The bank leverage ratio was 2.62% as of June 30, 2021, compared with 2.83% as of December 31, 2020.

In addition to its sound capitalization, AFL enjoys a very comfortable liquidity position of €2,316 million, allowing it to continue its operations for more than 12 months without having to call on the capital markets or the TRiCP system, for which AFL is eligible. As of June 30, 2021, the LCR was 812%, compared with 525% as of December 31, 2020, and the NSFR was 210%, compared with 183% as of December 31, 2020.

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AFL Group outlook

Since the onset of the Covid-19 crisis, the essential role played by the concerted action of central banks, national governments and the European Union has enabled the rapid restoration of confidence among economic agents, the normal functioning of markets and the recovery of economic activity with strong growth rates in the first half of 2021.

Against this backdrop, AFL has been able to maintain the pace of its development under good conditions, and above all to allow for the regular arrival of new local authority shareholders, as AFL Group's main objective continues to be to attract new local authorities and, since 2020, all groupings of local authorities and local public entities, as members.

In its seventh year of activity, AFL, a public development bank dedicated to French local authorities, remains fully committed to its role as a key player in financing these authorities, regardless of changes in the environment and economic conditions, since it is based on a tried and tested business model.

In this environment, the size and structure of AFL's balance sheet is expected to continue to grow rapidly, assuming the continuation of a rate of new memberships similar to that observed in the past, which should result in an additional capital increase by the end of 2021, a swift increase in loan production, particularly in the year's closing months, and, if necessary, a few calls on the market, predominantly in the form of private placements.

Significant events since the balance sheet date

On September 27, 2021, the AFL-ST Board of Directors initiated a 30th capital increase in a total nominal amount of €6,192,600, which would allow 25 new communities to become members, bringing the total number of members to 478. At the same time, AFL opened its 30th capital increase in a total nominal amount of €5,800,000.

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AFL Group consolidated income under IFRS

The first half of 2021 marked a further increase in net banking income, in line with AFL Group's development path in accordance with the objectives of the 2017-2021 strategic plan. The net banking income generated by the activity amounted to €8,423 thousand. It corresponds to an interest margin of €6,378 thousand, capital gains on the sale of portfolio securities at fair value through equity of €608 thousand, capital gains on the sale of loans of €1,381 thousand net of the balance on the termination of hedging swaps and commissions, and a positive hedge valuation adjustment of €44 thousand.

These results are up compared with those of the first half of 2020, which included NBI of €6,109 thousand reflecting a net interest margin of €6,299 thousand, capital gains on the sale of securities of €83 thousand, commission income of €8 thousand and a negative hedge valuation adjustment of €281 thousand.

The interest margin of €6,378 thousand in the six months to June 30, 2021 has undergone a significant change in its composition with the trend towards negative interest rates and in particular the fall in 3-month Euribor, against which most of AFL's exposure is swapped. As such, the yield on part of the loans became negative during the first half due to the continued decline of 3-month Euribor into negative territory, leading to a contraction in income related to the loan portfolio to €1,987 thousand adjusted for hedges, compared with €3,741 thousand in the first half of 2020. However, this contraction is only apparent, as outstanding loans continue to increase with a steady credit margin compared with the average cost of debt. This contraction should be seen in the light of the sharp increase in income from balance sheet debt swapped against 3-month Euribor, which amounted to €8,692 thousand in the six months to June 30, 2021, compared with €4,138 thousand in the first half of 2020, after taking into account interest on hedges. Lower interest rates have accordingly resulted in a reversal of flows, transforming expenses into income and income into expenses.

Income related to the management of the liquidity reserve now constitutes interest expense in the amount of €4,301 thousand, compared with €1,581 thousand as of June 30, 2020. This deterioration is attributable to the increase in the amount of the liquidity reserve and, above all, the continued decline in 3-month Euribor, against which its remuneration is indexed, compared with the first half of 2020.

During the first half of 2021, active management of the liquidity reserve portfolio generated €2,027 thousand in income on sales of securities at fair value through equity, and €1,417 thousand in expenses on the termination of interest rate hedging instruments on the securities sold, i.e. a net gain on disposals of €600 thousand. There were also €8 thousand in capital gains on the sale of securities at amortized cost.

The sale of loans during the period also generated capital gains of €2,146 thousand, less the cost of terminating hedging swaps (€597 thousand) and sales commissions (€168 thousand), i.e. a total net amount of €1,381 thousand.

The net result of hedge accounting was -€1,979 thousand. It comprises two items: first, expenses related to the termination of interest rate hedges linked to the sale of securities and loans mentioned above in the amounts of -€1,426 thousand and -€597 thousand respectively, i.e. a total of -€2,023 thousand, and second, an amount of €44 thousand representing, for the instruments still in the portfolio at the closing date, the sum of the fair value differences between the hedged items and their hedging instruments.

In the six months to June 30, 2021, general operating expenses represented €5,755 thousand, compared with €4,971 thousand in the first half of 2020. They include €2,873 thousand in personnel costs, compared with €2,607 thousand in the first half of the previous year. General operating expenses also include administrative expenses, which amounted to €2,882 thousand, compared with €2,364 thousand in the first half of 2020. This increase is partly the result of a three-year catch-up of fixed wages in relation to inflation, the provisioning of the first payment of the incentive scheme, an increase in IT expenses and the increase in taxes from €575 thousand for the first half of 2020 to €652 thousand for the first half of 2021, mainly due to the increase in contributions to regulatory authorities.

Depreciation expense amounted to €413 thousand in the six months to June 30, 2021, compared with €838 thousand in the first half of 2020, a reduction of €425 thousand. Bear in mind that AFL finished depreciating all of the investment required for its creation, particularly information systems, in 2020. In addition to the depreciation of investment expenditure incurred annually by AFL Group on its information systems, depreciation expense also includes that related to the purchase of AFL's headquarters and work carried out for their renovation.

The cost of risk relating to ex-ante impairment for expected credit losses (ECL) on financial assets under IFRS 9 represented an expense of €273 thousand in the first half of 2021, compared with an expense of €455 thousand in the first half of 2020. This improvement is attributable chiefly to the change in the assumptions used to construct macroeconomic scenarios by asset class in order to take into account the context of the end of the crisis. The stock of depreciation amounted to €1,055 thousand as of June 30, 2021.

After allocation of the cost of risk resulting from the application of IFRS 9, operating income for the six months to June 30, 2021 was €1,982 thousand, up sharply on the €155 thousand loss for the six months to June 30, 2020. Lastly, after taking into account deferred taxes on temporary differences, the net profit was €1,769 thousand, compared with a loss of €24 thousand for the first half of 2020.

Income statement as at June 30, 2021 (in € million, consolidated IFRS)

(€ '000s)	30/06/2021	30/06/2020	31/12/2020
Interest and similar income	16 396	43 813	89 931
Interest and similar expenses	(10 019)	(37 514)	(78 101)
Fee & Commission Income	87	75	186
Fee & Commission Expense	(244)	(67)	(264)
Net gains (losses) on financial instruments at fair value through profit or loss	(1 978)	(623)	(6 804)
Net gains or losses on financial instruments at fair value through other comprehensive income	2 027	425	5 596
Net gains and losses on derecognition of financial assets at amortised cost	2 154		3 244
Income on other activities			
Expenses on other activities			
NET BANKING INCOME	**8 423**	**6 109**	**13 789**
Operating expenses	(5 755)	(4 971)	(9 809)
Net depreciation, amortisation and impairments of tangible and intangible assets	(413)	(838)	(1 464)
GROSS OPERATING INCOME	**2 255**	**300**	**2 515**
Cost of risk	(273)	(455)	(355)
OPERATING INCOME	**1 982**	**(155)**	**2 160**
Net gains and losses on other assets		(21)	(21)
INCOME BEFORE TAX	**1 982**	**(176)**	**2 140**
Income tax	(213)	152	156
NET INCOME	**1 769**	**(24)**	**2 296**
Non-controlling interests			
NET INCOME GROUP SHARE	**1 769**	**(24)**	**2 296**
Basic earnings per share (in EUR)	0,89	(0,02)	1,30
Diluted earnings per share (in EUR)	0,89	(0,02)	1,30

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Balance sheet as at June 30, 2021 (in € million, consolidated IFRS)

Assets as at June 30, 2021

(€ '000s)	30/06/2021	31/12/2020	31/12/2019
Cash, central banks	1 134 267	601 746	165 604
Financial assets at fair value through profit or loss	15 828	20 000	15 962
Hedging derivative instruments	166 550	211 916	130 957
Financial assets at fair value through other comprehensive income	788 406	614 697	535 900
Securities at amortized cost	193 351	171 174	139 718
Loans and receivables due from credit institutions and similar items at amortized cost	223 639	249 002	190 830
Loans and receivables due from customers at amortized cost	3 932 525	3 831 563	3 160 500
Reevaluation adjustment on interest rate risk-hedged portfolios	12 701	26 697	14 284
Current tax assets	16	34	42
Deferred tax assets	5 283	5 422	5 654
Accruals and other assets	841	515	380
Intangible assets	2 695	2 305	2 097
Property, plant and equipment	2 752	2 658	2 633
Goodwill			
TOTAL ASSETS	**6 478 855**	**5 737 728**	**4 364 561**

Liabilities as at June 30, 2021

(€ '000s)	30/06/2021	31/12/2020	31/12/2019
Central banks	202	142	26
Financial liabilities at fair value through profit or loss	15 792	20 182	15 476
Hedging derivative instruments	221 325	251 365	173 597
Due to credit institutions	6 052 310	5 295 982	4 036 974
Due to banks	1 416	8 271	4 236
Debt securities	0		
Revaluation adjustment on interest rate hedged portfolios	0		
Current tax liabilities	0		
Deferred tax liabilities	264	248	18
Accruals and other liabilities	4 422	3 325	2 465
Provisions	243	245	278
Equity	**182 882**	**157 968**	**131 490**
Equity, Group share	**182 882**	**157 968**	**131 490**
Share capital and reserves	199 685	176 664	154 460
Consolidated reserves	(19 108)	(21 404)	(20 218)
Reevaluation reserve			
Gains and losses recognised directly in equity	535	412	(1 566)
Profit (loss) for the period	1 769	2 296	(1 186)
Non-controlling interests			
TOTAL LIABILITIES	**6 478 855**	**5 737 728**	**4 364 561**

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The AFL Management Board approved the AFL half-yearly financial statements on September 13, 2021. The AFL Supervisory Board meeting of September 27, 2021, reviewed and approved the AFL half-yearly financial statements.
The Board of Directors of AFL-ST (Société Territoriale), at its meeting of September 27, 2021, approved AFL Group's half-yearly consolidated financial statements.

The limited review procedures on the condensed half-yearly parent company and consolidated financial statements for the period from January 1, 2021 to June 30, 2021 were carried out by the Statutory Auditors and the reports are available here: *http://www.agence-france-locale.fr/lafl-publie-ses-resultats-semestriels-un-resultat-positif-pour-le-troisieme-semestre-consecutif*

This press release contains 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.

AFL Group's financial information for the first half of the year consists of this press release and the financial report available on the website: *http://www.agence-france-locale.fr/lafl-publie-ses-resultats-semestriels-un-resultat-positif-pour-le-troisieme-semestre-consecutif*

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 protects us from the dangers of the complexity and richness of its governance, and from abuses related to conflicts of interest. Its fundamental objective is to offer local authorities access to resources under the best conditions and with complete transparency. The principles of solidarity and equity guide us. 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 means to optimize public spending, not as an end in itself. Through AFL, we support a local environment committed to addressing social, economic and environmental challenges. The 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*

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