AGENCE FRANCE LOCALE

Par et pour les collectivités

Financial Report

1 January to 30 June 2016

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I. MANAGEMENT REPORT

A. Reminder of the shareholding structure, economic model and rating of Agence France Locale

1. Shareholders of Agence France Locale

The creation of Agence France Locale was authorised by Law no. 2013-672 of 26 July 2013 on the separation and regulation of banking activities. Agence France Locale was incorporated on 22 October 2013, the date on which its articles of association were signed, and it subsequently obtained its banking licence on 12 January 2015.

The Agence France Locale Group has a dual structure made up of Agence France Locale – Société Territoriale (the parent company, which has the status of a holding company) on the one hand, and Agence France Locale (the subsidiary, a specialised credit institution) on the other hand. Together, these two companies make up the Agence France Locale Group. The reasons why its governance consists of two levels are to enable the operational activities of the lending institution (Agence France Locale) to be managed independently of the member authorities, and to make the stakeholders more accountable through check and balance mechanisms.

The Board of Management of Société Territoriale wanted the credit institution to be managed by recognised professionals from the banking sector, in strict accordance with the law which authorised the Group's creation.

Accordingly, the Board of Management of the Société Territoriale adopted a rule by which independent directors must make up the majority of the directors of the Supervisory Board of the credit institution. In so doing, the shareholders accept and recognise the importance of banking sector professionals being responsible for the day-to-day financial activities of the credit institution.

The main roles of the Holding company, which is the parent company of the group, are as follows:

- to represent the shareholders;
- to manage the guarantee mechanism;
- to appoint the members of the Supervisory Board of the credit institution; and
- to decide on the overarching strategic policies.

The main roles of Agence France Locale (the credit institution), over 99.99% of which is owned by the Holding company, are as follows:

- day-to-day operational management of financial activities;
- raising funds from the capital markets; and
- lending solely to member authorities which are shareholders.

2. Economic model of Agence France Locale

Agence France Locale is an instrument which finances the investments of French local authorities[1] and whose sole shareholders are the latter. Like the local government funding agencies of northern Europe[2], which were created several decades ago, Agence France Locale is an actor in the funding of local investments, while banking partners continue to be legitimate and necessary local government funding actors. The Agence France Locale model was very directly inspired by its Nordic counterparts, taking into account though the French regulatory environment. . More specifically, the Agence France Locale model draws heavily on the model of the Swedish and Finnish agencies which have been providing funding to the local authorities in their respective countries since the end of the 1980s. This model is based on the raising of funds through bond issues on the capital markets in order to grant vanilla loans to local authorities which are shareholders.

A system of guarantees payable on first demand strongly enhances this model. More specifically, this system is made up of a dual guarantee mechanism which is binding :

- on the one hand, member local authorities which are shareholders directly through "Member Guarantees", which enable any creditor of Agence France Locale to enforce a guarantee against shareholder local authorities directly. By law, and in accordance with the French Constitution, this guarantee is capped at the amounts of the loans taken out by each local authority from Agence France Locale. This means that a creditor can enforce the guarantee against several shareholder members if the amount of the debt owed to him warrants this. An authority whose guarantee has been enforced by a creditor must have recourse to theholding company, which must in turn enforce all of the other members' guarantees in proportion to the amount of the loans that they have taken out from Agence France Locale. This guarantee is therefore joint, several and limited;

- on the other hand, Agence France Locale – Société Territoriale through the "Société Territoriale Guarantee". Creditors can directly enforce the guarantee against the Société Territoriale, which will then be the creditor's only counterparty, contrary to the Member Guarantees mechanism which is described above. The Société Territoriale Guarantee is capped at an amount which is voted on each year by the Board of Management of the Société Territoriale. Its purpose is to cover all of Agence France Locale's liabilities towards its creditors.

This dual mechanism enables Agence France Locale's creditors to simultaneously have the option (i) to enforce guarantees against local authorities which are members of the group and that public entities which cannot become insolvent, and/or (ii) to be able to activate the Société Territoriale Guarantee, which offers the advantage of simplicity through the one-stop-shop that it offers.

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[1] Local authorities include territorial authorities within the meaning of article 72 of the Constitution, i.e. *régions, départements, communes,* overseas collectivities and the Metropolis of Lyon, as well as public inter-communal cooperation institutions with separate tax status and territorial public institutions.

[2] The local government funding agencies that are present in northern Europe are: BNG and NWB in the Netherlands, which were created in 1914 and 1954 respectively, Kommuninvest in Sweden, which was created in 1986, KBN in Norway, which was created in 1926, MuniFin in Finland, which was created in 1989/1993, and Kommunekredit in Denmark, which was created in 1899.

This guarantee system is inspired by Kommuninvest, the Swedish local government funding agency, for Member Guarantees and by Municipality Finance, the Finnish local government funding agency, for the Société Territoriale Guarantee.

It should also be noted that in accordance with its statutory provisions, both the “Société Territoriale Guarantee” and the “Member Guarantees” can be enforced on behalf of financial creditors by Agence France Locale – Société Territoriale at the specialised credit institution’s request. The purpose of this enforcement mechanism is to make it possible to invoke guarantees even before a default occurs, so as to limit the risk of payment defaults by Agence France Locale or prevent difficult financial situations.

In addition to this dual guarantee mechanism, Agence France Locale has implemented strict financial policies which draw heavily on the policies of certain supranational institutions or multilateral development banks.

Other than the credit risk posed by authorities, all of the financial risks borne by Agence France Locale (other credit risks, foreign exchange risk, interest rate risk and liquidity risk) are designed to be limited.

In terms of capital requirements, Agence France Locale aims to keep the ratios referred to below at levels which exceed the regulatory requirements:

- a “Common Equity Tier One” ratio of at least 12.5%;
- a leverage ratio in excess of 3.5%; and
- liquidity coverage ratios (LCRs) over 30 days and one year (NSFR) in excess of 150%.

3. Rating of bonds issued by Agence France Locale

Agence France Locale has a long-term rating of Aa3 from Moody’s with a stable outlook, like that of the French government.
Agence France Locale’s EMTN issuance programme is also rated Aa3 by Moody’s. Agence France Locale’s bonds thus have excellent credit quality rating. Finally, Agence France Locale’s short-term ECP issue programme has the best rating (P-1) from the same agency.

B. Major events during the first half of 2016 and post-close events

1. Amendment of the articles of association to facilitate the acquisition of shares by local authorities in the Agence France Locale Group.

On 20 January 2016, an Extraordinary General Meeting of Agence France Locale – Société Territoriale approved the option for local authorities which must pay a contribution to the capital in excess of EUR 3 million to spread out this payment over a maximum period of five years, and abolished the minimum limit for capital contributions, which had been EUR 3,000. This should enable a larger number of local authorities to join the Agence France Locale Group.
It is reiterated that the amount of a capital subscription is measured for each authority in proportion to its economic weighting, on the basis of its outstanding debts, or according to the amount of the actual operating revenues stated in its budget.

2. Several capital increases

Three capital increases took place during the first half of 2016, bringing the number of shareholders to 161 local authorities from 131 as at 31 December 2015. In particular, municipalities such as Gennevilliers, Livry Gargan and Brunoy in the Paris region and Bourg-Saint-Andéol in Ardèche joined. Several public inter-municipal cooperation entities also joined Agence France Locale during the period, such as the Urban Community of Arras and the Urban District Community of Annemasse. Finally, the local government of Saint-Pierre and Miquelon joined Agence France Locale, making it the first overseas local government to become a shareholder.

On these occasions, a number of authorities paid the second or final third of their capital contributions.

As at 30 June 2016, the subscribed capital of the Agence France Locale group amounted to EUR 115.2 million, as compared with EUR 77.4 million as at 31 December 2015.

In terms of outstanding debts, all shareholder members of the Agence France Locale Group accounted for approximately 13% of the total outstanding debts of French local authorities as at the date of this report.

3. Continued lending

Agence France Locale lent EUR 110.4 million to the member local authorities during the first half of 2016, a period which traditionally does not see a great deal of borrowing by local authorities. This meant that the total amount of credit allocated to clients as at 30 June 2016, expressed in accordance with French accounting standards, was EUR 580.1 million of loans granted and EUR 23.6 million of funding commitments, making a total of EUR 603.7 million of signed-off loans.

During the first half of 2016, it lent funds under 34 loan agreements which were entered into for an average term of 16.1 years at fixed or variable rates. During the period under review, Agence France Locale reached the milestone of its one hundredth loan and reached a new total of 124 loans.
On the date when this report was drawn up, the total amount lent by Agence France Locale since it began operating stood at EUR 647.6 million.

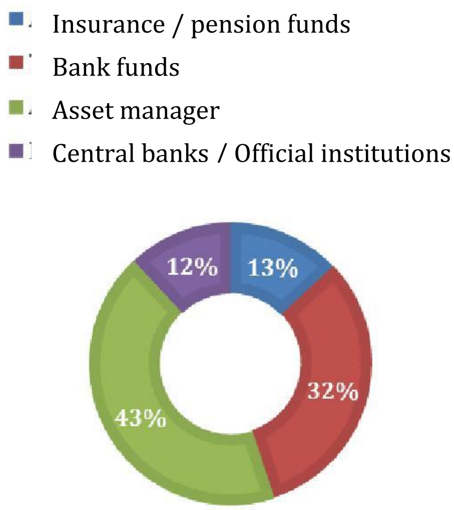
4. Second benchmark issue in euros

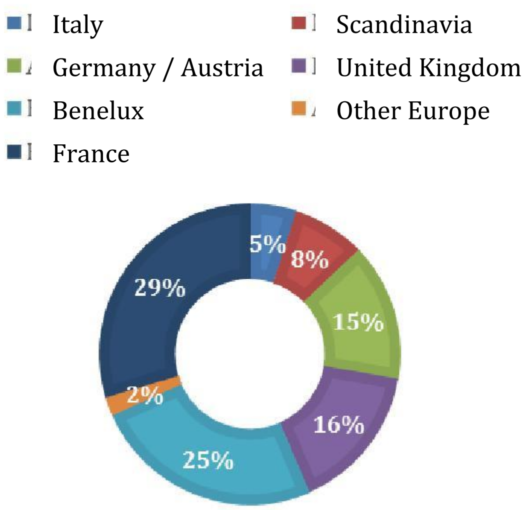
On 15 April 2016, the *Autorité des marchés financiers* (AMF), the French financial market authority], issued approval (approval no. 16-140 of 15 April 2016) for the base prospectus to update Agence France Locale's medium and long-term debt issuance programme and for the admission of debt securities for a maximum nominal amount of EUR 3 billion.

At the end of this update, Agence France Locale released its second benchmark issue in euros worth a total of EUR 500 million with a duration of 7 years and a coupon of 0.25%, corresponding to a margin of 31 basis points as compared with the yield curve of the French government (OATs).

This issue was very well received by the market, with subscriptions exceeding EUR 780 million and very diversified investment both in terms of categories of investigators and also geographically, as evidenced by the large number of French and international investors. In addition, the participation of new investors in this transaction demonstrates the quality and the creditworthiness of Agence France Locale in the capital markets.

Distribution of issue





It should be noted that with effect from 2 June 2016, bonds issued by Agence France Locale are eligible for the European Central Bank's Public Sector Purchase Programme (PSPP), which demonstrates that Agence France Locale is categorised as a public-sector financial institution with a public policy mandate. This helps Agence France Locale access to a wider investor base for which eligibility for the European Central Bank's Purchase Programme is a condition of investment.

5. AFL Day

Agence France Locale (AFL) held its first-ever annual day at Lyon Town Hall on 19 May 2016. The day, which was presided over by Gérard Collomb, Mayor and Senator of Lyon, President of the Metropolis of Lyon and co-president of the Advisory Council of Agence France Locale – Société Territoriale, was closed at the end of the General Meeting of Shareholders by Estelle Grelier, the State Secretary in charge of Local Authorities.

6. Mayors' Exhibition

Agence France Locale attended its second Mayors' Exhibition on 31 May, 1 and 2 June in Paris. Numerous meetings were held with the members and other local authorities.

7. European Local Government Funding Agencies Day

On 7 and 8 June 2016, the annual meeting of the European local government funding agencies was held for the first time on the premises of Agence France Locale in Lyon, which will participate fully in these meetings from now on. The meeting was attended by representatives of BNG, NWB, Kommunalbanken, Kommuninvest, Munifin, Kommunekredit and the UK Municipal Bond Agency. The meeting served as an opportunity for discussions which mainly focused on the changes in the regulatory framework that applies to lending institutions, more specifically their effects on local government funding agencies, thereby leading to the adoption of joint positions in order to raise the awareness of regulatory bodies.

8. Meetings of the Agence France Locale Group in the Metropolis of Lille

On 20 June 2016, the Metropolis of Lille hosted a meeting of all of the managing bodies of the Agence France Locale Group, including the Strategic Committee and the Supervisory Board of Agence France Locale and the Board of Management of Agence France Locale – Société Territoriale. A meeting with representatives of several municipalities of the Metropolis of Lille took place on the same day.

C. Profit/loss for the period

The rules concerning disclosures and accounting valuation methods are in accordance with current regulations.

The annual accounts have been drawn up in accordance with French standards, with no changes since the previous financial year and in accordance with the provisions of the French general accepted accounting principles for for lending institutions. Additional explanations are provided in the appendix to the accounts.

Agence France Locale has also voluntarily drawn up accounts in accordance with IFRS accounting standards for the period ended 30 June 2016. Comments on them are set out in this report.

Accounts in accordance with French accounting standards

At the end of the first six months of 2016, there was a net loss of €493,000 as compared with the loss of €6.687 million as at 30 June 2015. This figure incorporates an exceptional capital gain of €3,146,000 resulting from the sales of securities, initially classified as held to maturity investment and subsequently reclassified as available-for-sale securities after Agence France Locale decided to amend its use of capital policy in December 2015.

In accordance with the profit/loss disclosure practices that are followed by financial institutions, the income construction is presented below under the IFRS standards. The difference between the two sets of standards – French and IFRS – mainly relates to deferred tax debits, which are not recognised in the French standards, and the incorporation expenses that are amortised over 5 years under the French Standards.

Table for converting accounts drawn up under French standards to IFRS standards

Thousands of euros	**30 June 2016**
Net profit/loss – French standards	**-493**
Restatements as per IFRS standards	
Amortisation of of incorporation expenses (accounted fully in 2014, IFRS)	212
Cancellation of loss on available-for-sale securities	18
Ineffective hedging of financial instruments	-62
Deferred taxes	43
Other restatements	7
Net profit/loss as per IFRS standards	**-275**

Accounts as per IFRS standards

Over the first six months of 2016, the net banking income generated by activity was €5,035,000 as compared with -€677,000 as at 30 June 2015. It corresponds primarily to an interest margin of €2,109,000 over the six-month period, capital gains from the sales of available-for-sale securities of €3,281,000 and a negative net hedge accounting loss of -€293,000.

The exceptional capital gains of €3,146,000 come from the liquidation of securities which had originally been classified as held-to-maturity financial assets and were reclassified as available-for-sale financial assets after Agence France Locale decided to change its use of capital policy in December 2015.

The interest margin comes from three components : firstly, revenue associated with the gradual creation of the loan portfolio totalling €2,179,000 net of hedging; secondly, revenue from the management of the liquidity reserve, which – in a context of deep negative interest rates – are negative at -€251,000; and finally, net interest on debt refinancing, which for the aforementioned reasons constitutes a source of revenue amounting to €181,000 once revenues derived from its hedging have been taken into account.

In addition to the fact that the short-term rates are negative, the cost of carry for the liquidity reserve stems from both a volume effect and a price effect. The volume effect is essentially driven by the decision taken by Agence France Locale to release a new bond issue at the beginning of May in order to prevent any risk of market disruption resulting from a vote for Brexit, and the associated wharehousing of additional liquidity. The price effect stems from, among other things, the difference between the cost of the seven-year bond issue and the return on assets in the liquidity reserve in which the proceeds from the issue were invested. This difference primarily results from the relatively short duration of these assets.

It should be noted that holding a liquidity reserve is vital to the robustness of the local government funding agency despite the cost of carry that is generated by the prudence of the investment policy.

The exceptional gross capital gain of €3,146,000 comes from the liquidiation of securities which had initially been classified as held-to-maturity financial assets and were reclassified as available-for-sale financial assets after Agence France Locale decided to change its use of capital policy in December 2015.

The net loss from hedge accounting is -€293,000. It is made up of two components: firstly, the unwinding of the interest rates hedging of available-for-sale financial securities, which amounts to €231,000, and secondly, the sum-total of fair value differences between the hedged items and their hedging instruments, which is €62,000, including €39,000 which relates to instruments classified as micro-hedging and €23,000 relating to those classified as macro-hedging. This hedge accounting loss is mainly due to the fact that Agence France Locale applies a market practice which leads to asymmetries in valuation between hedging instruments which are collateralised daily on the one hand, discounted against an Eonia curve, and the hedged items on the other hand, discounted against a Euribor curve, which – according to IFRS standards – lead to disclose a hedging inefficiency which is recorded in the profit and loss account. It should be noted, however, that this is a latent loss.

As at 30 June 2016, general operating expenses were €4,438,000 as compared with €5,942,000 as at 30 June 2015. They included €2,230,000 of staff costs, which is comparable to the figure of €2,091,000 which was applicable on 30 June 2015. General operating costs also include administrative costs, which fell significantly to €2,362,000 from €6,740,000 as at 30 June 2015, prior to the transfer of expenses to fixed assets amortisation. This decrease mainly stems from the completion of the first stage of the IT infrastructure construction and the roll-out of the customer portal, resulting in a decrease in capital expenditures, which amounted to €53,000 for the first six months of 2016 as compared with €2,963,000 over the same period in 2015.

After an amortisation charge of €915,000 as compared with €535,000 as at 30 June 2015, operating profits stand at €318,000 on 30 June 2016, as compared with -€7,154,000 over the first half of the previous financial year.

The fiscal deficit over the period led to the triggering of deferred tax debits, which led to a tax income of €43,000 as compared with €2,384,000 as at 30 June 2015.

Therefore, the first six months of 2016 ended on a net loss of -€275,000 compared with -€4,770,000 over the same period during the last financial year. In addition to the exceptional capital gain generated by the transfer of securities, this significant reduction in net losses, which is in line with the central scenario in the business plan, reflects the first positive outcomes resulting from Agence France Locale's commencement of lending activity.

D. Assets as at 30 June 2016

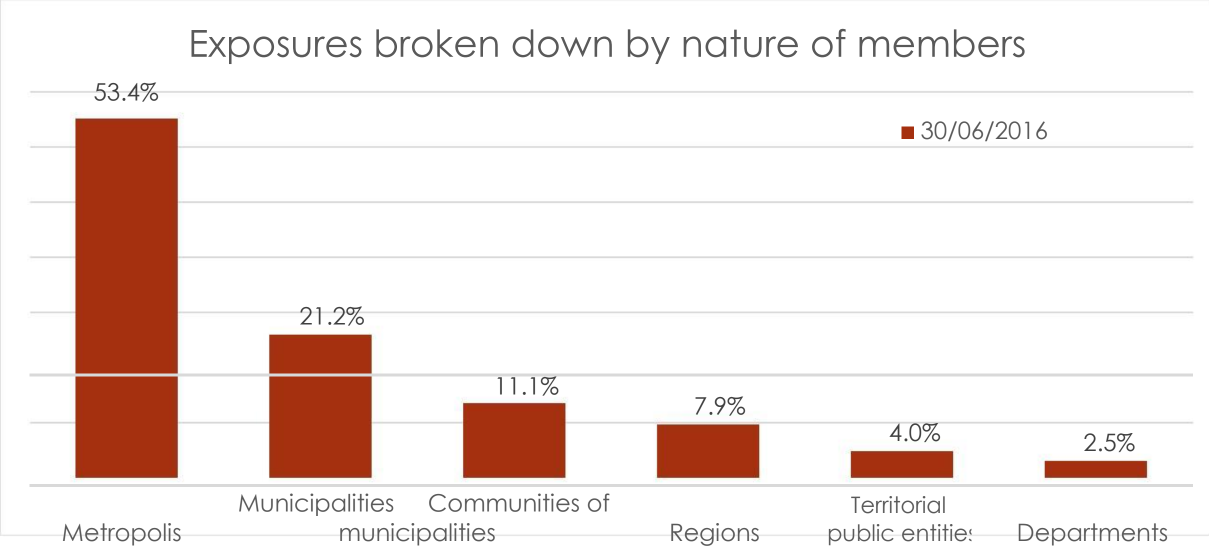
The assets of Agence France Locale are primarily made up of loans to local authorities, securities arising out of liquidity reserve investment, the bank accounts of Agence France Locale, and margin calls paid to swap counterparties.

Thousands of EUR	30/06/2016	31/12/2015
Loans and advances to clients	590,206	383,527
Available-for-sale assets	727,091	456,497
Loans and advances to lending institutions	120,399	45,982
Deposits and net margin calls	27,208	12,885

1. Loans to local authorities

Agence France Locale lends solely to French local authorities which are shareholder members. As at 30 June 2016, over 50% of the loan portfolio was concentrated in the municipality sector[3].

[3] The municipality sector comprises metropolis, municipalities and municipal communities.

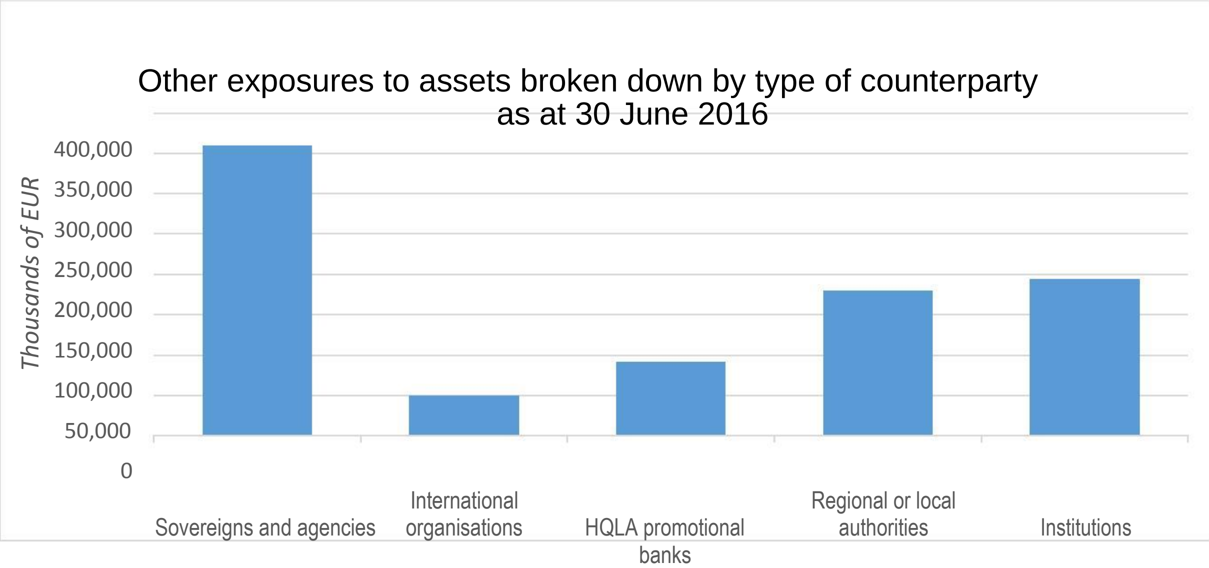


Communities of municipalities include Communautés urbaines [Urban Communities], Communautés d'agglomération [Urban District Communities] and Communautés de communes [Communities of Communes].

2. Other financial assets

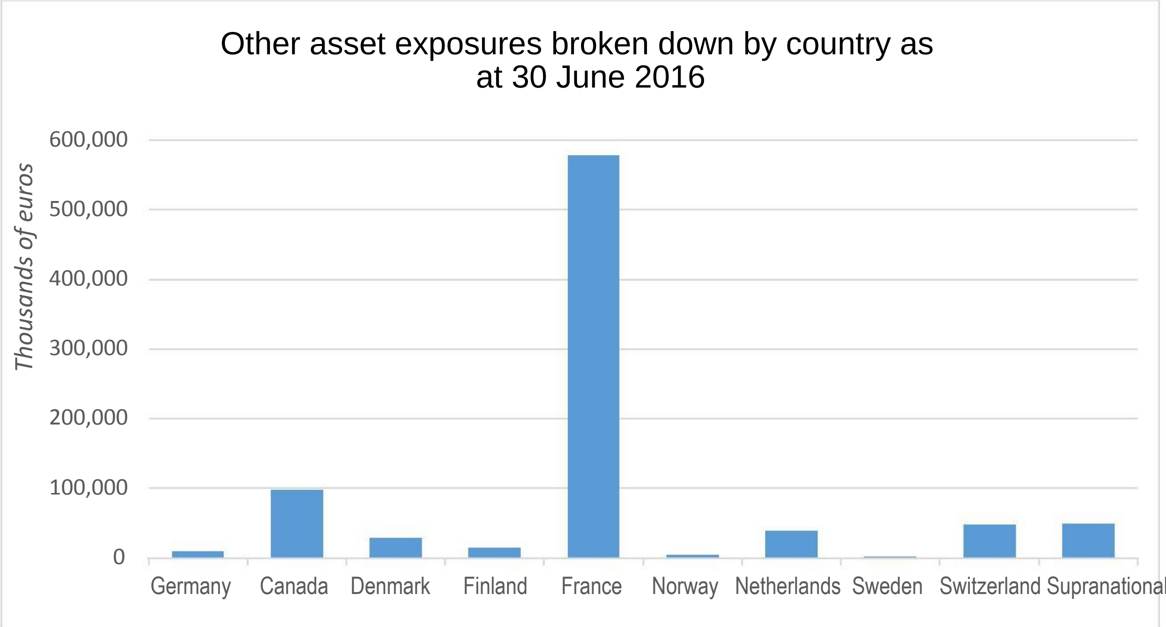
a. Breakdown

Over 75% of the securities that make up the liquidity reserve are securities issued by France or European Union member states, regional governments, supranational institutions, public agencies and financial institutions, and some are guaranteed or held by European states. All of these issuers have minimum long-term financial ratings of A-. The other financial assets are bank accounts opened at French banks and margin calls paid to French banks which are counterparties to swaps or the clearing house LCH Clearnet.



Promotional banks (which are defined by the Delegated act on the liquidity coverage ratio – LCR of the European Commission of 10 October 2014) are a category of financial institutions whose securities are eligible for the HQLA (High Quality Liquid Assets) standard by virtue of their characteristics, in accordance with European regulations.

The liquidity reserve is mainly invested in French issuers securities.



b. *Mark-to-market swaps*

Agence France Locale uses interest rate swaps to hedge against its exposure to the interest rate risk that it carries on its balance sheet. Foreign exchange risk is hedged systematically. These swaps are either entered into directly with banking counterparties, or, for some interest rate swaps only, cleared through LCH Clearnet. As at 30 June 2016, the fair value of Agence France Locale's hedging in the form of swaps broke down as follows:

(Thousands of EUR)	Nominal value	Mark-to-market value
Interest rate swaps	1,995,681	-17,895
Currency swaps	47,304	-2,232
Total	**2,042,985**	**-20,127**

As at 30 June 2016, the aggregate amount of the margin calls paid for swaps was EUR 33.6 million and the aggregate amount of margin calls received was EUR 6.4 million.

c. Securitisation

Agence France Locale has no securitisation exposures.

E. Debts as at 30 June 2016 (IFRS standards)

Agence France Locale's assets are mainly made up of bond issues executed since its banking activities commenced in March 2015. This portfolio of bond issues comprises two *ab initio* seven-year public issues of EUR 750 and 500 million respectively and two private placements with a remaining lifespan of less than 6 months. As at 30 June 2016, the book value of this debt portfolio of bond debts is

EUR 1.367 million after taking into account the consequences of interest rate changes in the amortised cost of since the issue date.

After the three capital increases that took place during the first six months of 2016, the amount of Agence France Locale's capital is EUR 95.5 million.

Extracts from the main items on the liabilities side

Thousands of EUR	30/06/2016	31/12/2015
Debt represented by a security	1,366,818	840,536
Capital	95,533	62,046

F. Risk management

Agence France Locale has implemented a strict asset and liability management system whose purpose, in view of the nature of its balance sheet and the risks to which it is exposed, is to minimise the exposure of its profits and capital to market risks and credit and counterparty risk. This system is based on a set of financial policies which are designed to cover and manage the risks arising out of its financial activity.

1. Credit and counterparty risk

a. Credit and counterparty risk management policy

Agence France Locale operates exclusively for the benefit of local authorities which are shareholders of Agence France Locale – Société Territoriale and act as guarantors for the financial creditors of Agence France Locale. Because it can only grant loans to French local authorities, Agence France Locale's counterparty risk is highly concentrated on a single type of actor. However, while it is not impossible that an authority may fail, these counterparties present a very limited risk profile. To optimise the risk profile of its loan portfolio, Agence France Locale has adopted a strict policy of lending based on matching volume with risk, and the latter is assessed by means of a system of internal ratings for each local authority. This internal rating system for local authorities serves two objectives:

- to assess the financial situation of local authorities which are candidates to acquire a stake in Agence France Locale by giving a "financial" rating. On a scale of 1 to 7 (where 1 is the best rating and 7 is the worst), only local authorities which are rated between 1 and 5.99 are given the opportunity to acquire a stake in Agence France Locale – Société Territoriale; and

- to assess the financial situation of member local authorities which request a loan from Agence France Locale by means of a "socio-economic" rating, and possibly also a "qualitative" rating in addition to the aforementioned "financial" rating.

At the end of this internal rating process, Agence France Locale allows itself to provide funding up to a limit of 50% of the outstanding total debts of a member authority, according to its rating, except in special cases concerning small authorities, where it can lend up to 100% of their total debts.

The counterparty and concentration risk to which Agence France Locale is exposed also stems from the investments of its liquidity reserve – a risk which is greatly mitigated by its conservative investment policy and its hedging policy.

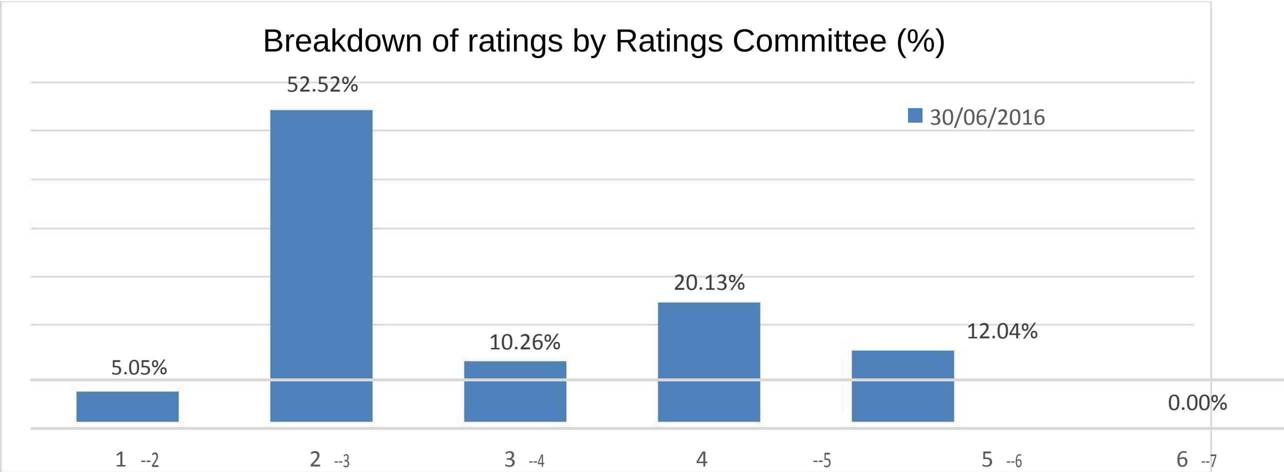
To reduce counterparty risk associated with the interest rate and currency hedging activities, Agence France Locale requires daily collateralisation as from the first euro of all swaps that it enters into. In addition, in order to optimise the management of capital and collateral consumption associated with heavy use of these instruments, Agence

France Locale favours negotiating on its hedging instruments through a clearing house or *Central Counterparty* (CCP) in accordance with EMIR (European Market Infrastructure Regulation) rather than in a bilateral format, but does not exclude the latter. The reason why it clears OTC (over-the-counter) transactions through a CCP in association with a collateral swap is to substantially reduce capital consumption associated with counterparty credit risk on the one hand, and the consumption of collateral due to the opposite hedging positions taken in order to hedge against the interest rates on asset-side and liability-side instruments on the other hand.

As at 30 June 2016, the share of the notional amounts of Agence France Locale's interest rate swaps – both bilateral and cleared – is equivalent.

b. Credit risk associated with local authorities

As at 30 June 2016, the average weighted rating set by the Committee for Agence France Locale's exposures to local authorities is 3.36 according to its internal rating system. Two-thirds of its exposures are in the 1-4 rating range, and one third are between 4 and 6.



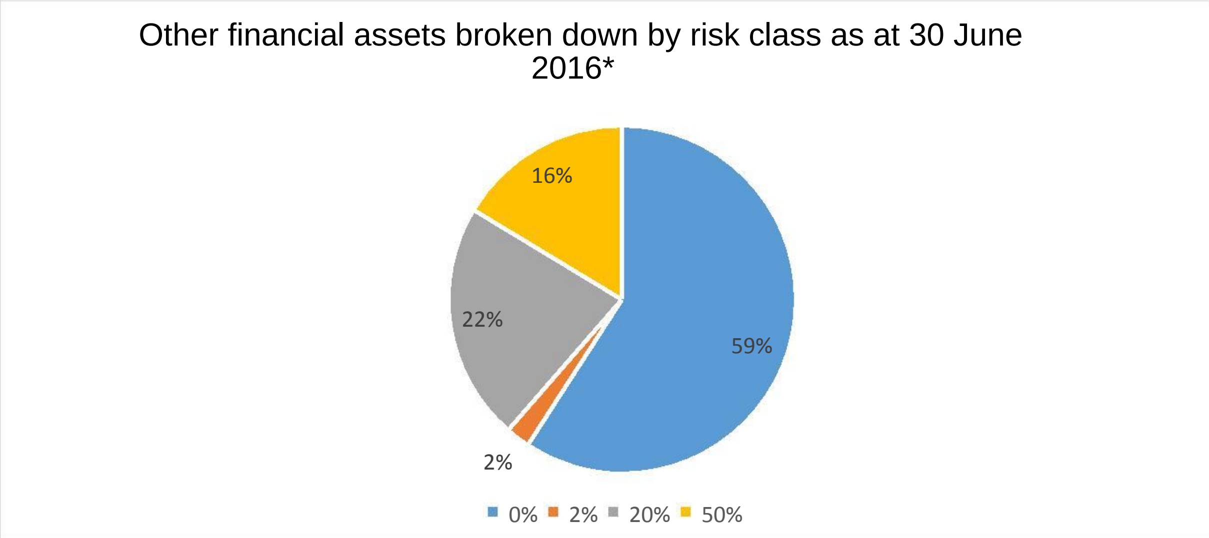
As at 30 June 2016, the five largest exposures made up 45% of the loan portfolio and the largest ten made up 67%.

c. Credit risk associated with other exposures

Agence France Locale has three other sources of exposures:

- Those arising out of securities acquired for the purpose of managing its liquidity reserve in accordance with a very prudent investment policy. These are mainly issued or guaranteed by Member States of the European Union or supranational institutions;
- Those corresponding to the balance of its bank accounts denominated in euros which it has opened at French banks;
- And finally, derivative exposures acquired in order to hedge against interest rate risk or foreign exchange risk.

As at 30 June 2016, the portfolio has a limited risk profile. Agence France Locale is exposed to a level of nearly 60% to 0% risk weighted counterparties , and to a level of 22% to 20% risk weighted counterparties . The counterparties with a 50% weighting are banks rated between A+ and A-. These banks correspond to derivative positions, bank accounts and securities in banks.



Risk weighting according to the standard method as per EU Regulation 575/2013

d. Doubtful debts, disputed debts, provisions

No collective provisions or special provisions have been set aside as at 30 June 2016 for loans granted to authorities or market transactions.

2. Other balance sheet risks

a. Liquidity risk

Liquidity risk can be considered from three separate angles:

- Illiquidity risk: this is the risk that cash flow will be interrupted in the short term, i.e. in particular, the risk that Agence France Locale may be unable to transfer an asset within a market easily and at a reasonable cost;
- Financing risk: this is the risk that Agence France Locale may be unable to raise the liquidity necessary to meet its obligations, i.e. to finance its liabilities adequately;
- Liquidity transformation risk – also known as liquidity price risk: this is the risk of loss of revenue caused by an increase in refinancing spreads combined with a transformation position which is too large, i.e. a mismatch between assets and liabilities which most often takes the form of assets which are longer than the liabilities.

Agence France Locale has adopted a very strict liquidity policy with the main objective, in the long term, of ensuring that at all times, including during periods of stress, it has a liquidity reserve which is sufficient to maintain its operational activities and in particular its lending activities, and to service its debt for a period of twelve months. In the absence of deposits and resources other than market resources, it is essential for Agence France Locale to have an appropriate level of liquidity.

As part of its liquidity policy, Agence France Locale has implemented a system with three objectives:

- to hold a liquidity reserve made up of liquid and mobilisable assets in order to carry out the operational activity of Agence Locale France, and to enable it to deal with temporary market dislocation taking the form of inability to finance itself in normal conditions or leading to very significant and non-anticipated consumption of collateral resulting from adverse movements in interest rates or exchange rates.

- a funding strategy which favours diversification of debt sources and instruments. Agence France Locale issues bonds on the bond market and aims to become a legitimate money market issuer. Agence France Locale also aims for diversity in its investors, in terms of both geographical area and type. For this reason, Agence France Locale is especially careful to ensure that its issues are distributed to several categories of investors and in a number of different countries or geographical areas. Agence France Locale releases "benchmark" issues denominated in euros, but also non-benchmark issues in euros and potentially in foreign currencies, as well as private placements.

Finally, in order to control its liquidity transformation risk, Agence France Locale closely monitors differences in the maturity of its asset and liability positions, limits the difference in average lifespan between its assets and its liabilities to one year, and keeps its NSFR (net stable funding ratio) above 150%. Finally, Agence France Locale regularly monitors the price of liquidity. As at 30 June 2016, the 30-day liquidity coverage ratio was over 4000%. When expressed as a cash flow requirement, the liquidity reserve was estimated at nearly 9 months. This high level stems from the decision taken in the spring to return to the bond market before the Brexit referendum, which was regarded at that time as a risk factor, combined with forecasts of significant requirements due to the loan production over the last few months of the year.

The NSFR regulatory transformation ratio exceeds 250% as at 30 June 2016, and the difference in average lifespan has reached -1.6 years as at 30 June 2016, which is well below the limit of one year.

b. Interest rate risk

Agence France Locale is naturally subject to interest rate risks, in relation to both its asset positions (loans granted and securities in the liquidity reserve) and also its liability positions (loans issued). Agence France Locale is also subject to interest rate risks on its off-balance sheet positions due in particular to loans which have been signed off but not disbursed.

Consequently, Agence France Locale has adopted a policy of hedging against interest rate risk in order to make its balance sheet immune to undesired market movements. However, a limited proportion of fixed-rate loans are not hedged against interest rate risk. The purpose of this proportion, which is the only component of the balance sheet which has a fixed rate and is financed with equity, is to stabilise Agence France Locale's net interest margin. The exposure to interest rate risk is regularly measured by the sensitivity of Agence France Locale's economic value to interest rate risk.

Agence Locale France's interest rate risk hedging policy consists of:

- systematic micro-hedging of fixed-rate debts to transform them into variable-rate debts indexed to the three-month Euribor interest rate with the aid of interest rate swaps;
- micro-hedging of a significant proportion of fixed-rate loans at a fixed rate in order to transform them into variable-rate loans. Where fixed-rate loans are small, Agence France Locale macro-hedges this loan portfolio;
- micro-hedging of positions indexed to different reference interest rates, in order to reduce the interest rate basis risk.

The interest rate risk hedging strategy is reflected in a notional outstanding swaps figure of €1.996 billion as at 30 June 2016.

Breakdown of interest rate swaps outstanding as at 30 June 2016	Total notional amounts * (thousands of EUR)
Micro-hedging of debt	1,250,000
Micro-hedging of loans and securities	604,781
Macro-hedging of loans	140,900
Total long-term swaps	**1,995,681**

The interest rate risk associated with capital reinvestment is shaped by the sensitivity of NPV (net present value), which as at 30 June 2016 is 16.99% assuming a parallel shift in the yield curve by -200 basis points.

Throughout 2016, the sensitivity of the Company's net present value to a variation of more or less 200 basis points has remained below 20% of capital.

c. Foreign currency risk

The hedging policy requires that foreign currency risk must be fully hedged by using micro-hedging instruments. Assets and liabilities which were initially denominated in currencies other than the euro are systematically swapped into euros when they are added to the balance sheet and until the time of their final maturity. As at 30 June 2016, the notional amount of the cross-currency swaps on Agence France Locale's balance sheet is EUR 47.3 million.

3. Management of other risks

a. Operational risks and constant monitoring

In line with the Basel II recommendations regarding operational risk, Agence France Locale has implemented an oversight and surveillance system for the prevention, measurement and early tackling of risks associated with activities. It has opted for the standard method and has implemented a system in line with best market practice which is based on the following four principles:

- The **business lines** are the main contributors to the operational risk management system.
- They are thus responsible, within their respective remits, for monitoring, identifying risks, contributing to the incident feedback system, developing and implementing action plans, and the activity report for the operational risk monitoring function.
- The **operational risk monitoring function**, which is hosted at the Risks, Monitoring and Compliance Department of Agence France Locale, is independent of the businesses. Its role is to design, implement and manage the system.
- **Second-level constant monitoring** monitors the implementation of upstream systems.

The **periodic control** system is responsible for independently reviewing the whole of the operational risk management system.

The risk management system also covers reputational risk and information systems security risk.

b. Security and payment systems

Agence France Locale does not make any payment systems available to its clients.

G. Capital and prudential ratios

Capital contributions resulting from regular capital increases enable Agence France Locale to develop all of its operational and financial activities. A characteristic of the latter is that they give rise to exposures which require few solvency ratios.

Agence France Locale reports its regulatory capital to ACPR *[Autorité de contrôle prudentiel et de résolution]* both on a consolidated basis, in accordance with IFRS accounting standards, for its parent company – the Holding company – and also on a corporate basis, in accordance with French general accepted accounting standards, for the lending institution. As at 30 June 2016, the lending institution's regulatory capital was €82.1 million, according to French accounting standards. Taking into account the credit quality of the assets carried by AFD, the Basel III solvency ratio based on the standard method was 32.63% on a corporate basis. The leverage ratio was 5.48% as at the same date.

H. Outlook for 2016

The finances of local authorities are characterised by their robustness in a context of falling allocations from the government and low economic growth.

The President's announcement during the Congress of Mayors at the beginning of June 2016 that the effort required from municipalities and municipal communities will be reduced by half in 2017, i.e. that there will be a cut of €1 billion instead of €2 billion, is a favourable signal for the resumption of spending on equipment by these authorities. The same applies to the renewal of the exceptional investment fund and its expansion in 2016 by €1.2 billion.

1. Production of new loans in the second half of 2016

As at the date on which this report was drawn up, all loan commitments taken together amount to EUR 674.6 million, corresponding to 136 loan agreements. For the period between now and the end of the year, an acceleration in loan production is anticipated in line with the funding requirements of the shareholding members and in accordance with the practice of borrowing by local authorities, which is generally concentrated towards the end of the year. It should be noted that the members of the Agence France Locale Group have outstanding debts which amount to approximately 13% of those owed by all French local authorities.

2. Capital increase in the second half of 2016

As at 30 June 2016, the capital subscribed to the Agence France Locale Group by the 161 member local authorities is EUR 115.2 million, and the capital promised by these same shareholders is EUR 123.7 million. This promised capital will be released in future through new capital increases. A capital increase is planned before the end of 2016 in order to maintain the rate at which new authorities join Agence France Locale and to support the institution's growth.

3. Strengthening refinancing capacities

AFL plans to expand its access to the financial markets by implementing a short-term debt issue programme to supplement its range of refinancing tools while reducing its financing costs. This Euro Commercial Paper (ECP) programme, which will make it possible to raise resources in the money market, will be launched by the end of the financial year.

AGENCE FRANCE LOCALE IFRS GAAP

BALANCE SHEET

Assets as of June 30, 2016

(€ '000s)	Note	30/06/2016	31/12/2015
Cash, central banks	3	999	
Financial assets at fair value through profit or loss			
Hedging derivative instruments	1	22,750	2,390
Available-for-sale financial assets	2	727,091	456,497
Loans and receivables due from credit institutions	3	119,400	45,982
Loans and advances to customers	4	590,206	383,527
Revaluation adjustment on interest rate hedged portfolios		3,541	17
Held-to-maturity financial assets			
Current tax assets			
Deferred tax assets	5	7,387	7,264
Accruals and other assets	6	34,648	13,779
Intangible assets	7	6,713	7,505
Property, plant and equipment	7	591	630
Goodwill			
TOTAL ASSETS		**1,513,326**	**917,590**

Liabilities as of June 30, 2016

(€ '000s)	Note	30/06/2016	31/12/2015
Central banks			
Financial liabilities at fair value through profit or loss			
Hedging derivative instruments	1	42,877	12,025
Due to credit institutions			
Due to customers			
Debt securities	8	1,366,818	840,536
Revaluation adjustment on interest rate hedged portfolios			
Current tax liabilities			
Deferred tax liabilities	5		1,189
Accruals and other liabilities	9	8,079	1,776
Provisions	10	19	19
Equity		**95,533**	**62,046**
Equity, Group share		**95,533**	**62,046**
Share capital and reserves		110,500	74,300
Consolidated reserves		(14,263)	(6,485)
Reevaluation reserve			
Gains and losses recognised directly in equity		(428)	2,009
Profit (loss) for the period		(275)	(7,777)
Non-controlling interests		**-**	
TOTAL LIABILITIES		**1,513,326**	**917,590**

Income statement

(€ '000s)	Note	30/06/2016	30/06/2015	31/12/2015
Interest and similar income	11	8,150	1,163	5,376
Interest and similar expenses	11	(6,041)	(1,329)	(4,910)
Commissions (income)	12		0.01	
Commissions (expense)	12	(49)	(3)	(24)
Net gains (losses) on financial instruments at fair value through profit or loss	13	(294)	(500)	(94)
Net gains (losses) on available-for-sale financial assets	14	3,267	(8)	14
Income on other activities		1		
Expenses on other activities				
NET BANKING INCOME		**5,035**	**(677)**	**361**
Operating expenses	15	(4,438)	(5,942)	(10,131)
Net depreciation, amortisation and impairments of tangible and intangible assets	7	(915)	(535)	(1,226)
GROSS OPERATING INCOME		**(318)**	**(7,154)**	**(10,995)**
Cost of risk				
OPERATING INCOME		**(318)**	**(7,154)**	**(10,995)**
Net gains and losses on other assets	16			(670)
INCOME BEFORE TAX		**(318)**	**(7,154)**	**(11,666)**
Income tax	5	43	2,384	3,888
NET INCOME		**(275)**	**(4,770)**	**(7,777)**
Non-controlling interests				
NET INCOME GROUP SHARE		**(275)**	**(4,770)**	**(7,777)**
Basic earnings per share (in EUR)		(0.25)	(6.91)	(10.47)
Diluted earnings per share (in EUR)		(0.25)	(6.91)	(10.47)

Net income and other comprehensive income

(€ '000s)	30/06/2016	31/12/2015
Net income	**(275)**	**(7,777)**
Items will be reclassified subsequently to profit or loss	**(428)**	**2,009**
Unrealized or deferred gains and losses of financial assets available for sale	(428)	2,009
Unrealized or deferred gains and losses of cash flow hedges		
Taxes on items reclassified subsequently to profit or loss		
Elements not recyclable in profit or loss	**-**	**-**
Revaluation in respect of defined benefit plans		**(1)**
Items will not be reclassified subsequently to profit or loss	**(428)**	**2,008**
NET INCOME AND GAINS AND LOSSES THROUGH EQUITY	**(703)**	**(5,769)**

Consolidated statement of changes in equity

(€ '000s)	Capital	Associated reserves to capital	Consolidated reserves	Gains or losses, net of tax, recognised directly in equity: Net change in fair value of available-for-sale inancial assets, after tax	Gains or losses, net of tax, recognised directly in equity: Net change in fair value of cash flow hedging derivatives, after tax	Net income, Group share
Shareholders' equity at at 31 december 2014	**35,800**					**(6,484)**
Increase in share capital	38,500					
Elimination of treasury shares						
Allocation of profit			(6,484)			6,484
Dividends paid						
Sub-total of changes linked to transactions with shareholders	**38,500**	**-**	**(6,484)**	**-**	**-**	**6,484**
Change in fair value through equity				2,011		
Change in value of through profit or loss				(2)		
Changes in actuarial gains on retirement benefits			(1)			
Changes in gains and losses recognized directly in equity	**-**	**-**	**(1)**	**2,009**	**-**	**-**
2015 Net income						(7,777)
Sub-total		**-**	**(1)**	**2,009**	**-**	**(7,777)**
Effect of acquisitions and disposals on non-controlling interests						
Shareholders' equity at 31 december 2015	**74,300**	**-**	**(6,485)**	**2,009**	**-**	**(7,777)**
Impact of changes in accounting policies						
Shareholders' equity at 1 january 2016	**74,300**	**-**	**(6,485)**	**2,009**	**-**	**(7,777)**
Increase in share capital	36,200 (1)					
Elimination of treasury shares						
Allocation of profit			(7,777)			7,777
Dividends 2015 paid						
Sub-total of changes linked to transactions with shareholders	**36,200**	**-**	**(7,777)**	**-**	**-**	**7,777**
Changes in fair value through equity				(417) (2)		
Change in value of through profit or loss				(2,020)		
Changes in actuarial gains on retirement benefits						
Changes in gains and losses recognized directly in equity				**(2,437)**		
June 30, 2016 Net income						(275)
Sub-total	**-**	**-**	**-**	**(2,437)**	**-**	**(275)**
Effect of acquisitions and disposals on non-controlling interests						
Shareholders' equity at 30 june 2016	**110,500**	**-**	**(14,263)**	**(428)**	**-**	**(275)**

(1) Agence carried out three capital increases in the first half of 2016 for the benefit of the Territorial Company, its parent company. The first was subscribed on 4th March 2016 to €
€11,000k, and the third on 28th June 2016 for € 6,000k.

(2) The change in fair value through equity in the first half can be explained by a change in valuation methods for available for sale securities. Valuations of latent gains on investment secu
transaction price offered (Bid) while the portfolio was evaluated in the previous year on an average price of transaction (Mid). These estimation of the portfolio value terms are in accordanc
monitoring the performance of portfolio applied by the Agency. At June 30, 2016, the difference between the offered price and the average price underestimates the overall valuation of the

Share-holders' equity - Group share	Share-holders'equity, non-controlling interests	Total share-holders equity
29,316		**29,316**
38,500	0	38,500
38,500	**0**	**38,500**
2,011		2,011
(2)		(2)
(1)		(1)
2,008	**-**	**2,008**
(7,777)		(7,777)
(5,770)	**-**	**(5,770)**
62,046	**-**	**62,046**
62,046	**-**	**62,046**
36,200		36,200
-		
36,200	**-**	**36,200**
(417)		(417)
(2,020)		(2,020)
(2,437)		**(2,437)**
(275)		(275)
(2,712)	**-**	**(2,712)**
95,533	**-**	**95,533**

€19,200k and the second on 27th April 2016 for

rities was made to 30 June 2016 on a
ce with the risk management rules and
e portfolio of approximately € 0.7 million.

Cash flow statement

(€ '000s)	30/06/2016	31/12/2015
Net income before taxes	**(318)**	**(11,666)**
+/- Net depreciation and amortisation of tangible and intangible non-current assets	915	1,226
+/- Net provisions and impairment charges	(0)	105
+/- Expense/income from investing activities	(4,717)	470
+/- Expense/income from financing activities	1	28
+/- Other non-cash items	604	666
= Non-monetary items included in net income before tax and other adjustments	**(3,197)**	**2,494**
+/- Cash from interbank operations		
+/- Cash from customer operations	(194,988)	(384,336)
+/- Cash from financing assets and liabilities	7,622	(5,146)
+/- Cash from not financing assets and liabilities	338	630
- Income tax paid		
= Decrease/(increase) in cash from operating activities	(187,028)	(388,852)
= CASH FLOW FROM OPERATING ACTIVITIES (A)	**(190,544)**	**(398,023)**
+/- Flows linked to financial assets and investments	(268,229)	(423,105)
+/- Flows linked to investment properties		
+/- Flows linked to tangible and intangible non-current assets	(85)	(4,563)
= CASH FLOW FROM INVESTING ACTIVITIES (B)	**(268,314)**	**(427,669)**
+/- Cash from or for shareholders	36,200	38,500
+/- Other cash from financing activities	497,075	827,254
= CASH FLOW FROM FINANCING ACTIVITIES (C)	**533,275**	**865,754**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)		
Increase/(decrease) in cash equivalents (A + B+ C + D)	**74,417**	**40,063**
Cash flow from operating activities (A)	(190,544)	(398,023)
Cash flow from investing activities (B)	(268,448)	(427,669)
Cash flow from financing activities (C)	533,275	865,754
Effect of changes in exchange rates on cash and cash equivalents (D)		
Cash and cash equivalents at the beginning of the period	**45,982**	**5,919**
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	45,982	5,919
Cash and cash equivalents at the end of the period	**120,399**	**45,982**
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	120,399	45,982
CHANGE IN NET CASH	**74,417**	**40,063**

NOTES TO THE INTERIM CONDENSED ACCOUNTS

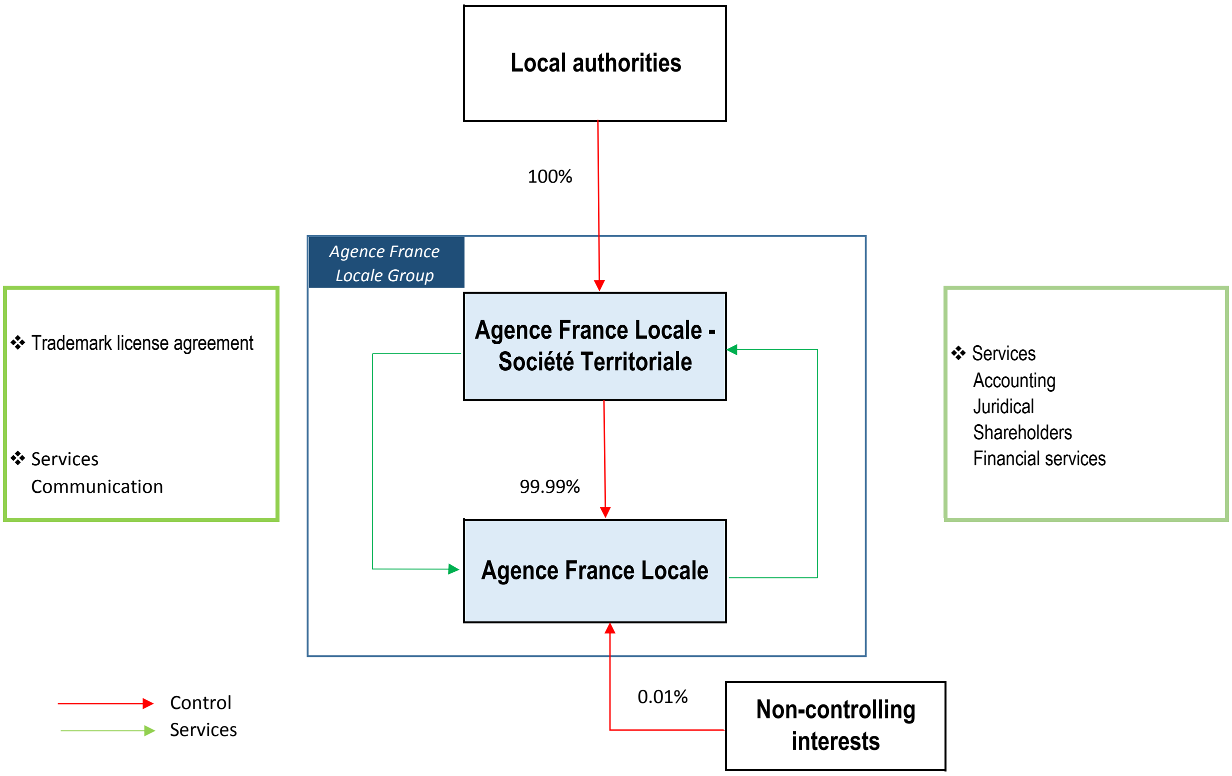
I - General framework

AFL (« Agence ») presentation

The AFL ("Agence") is the subsidiary of Agence France Locale - Société Territoriale ("AFL ST").

The AFL ST is a limited company with a Board of Directors whose shareholders are comprised exclusively of Communities that the membership of the Group AFL. The AFL ST is the parent company of the Agence. Agence is a limited company with an Executive Board and a Supervisory Board.

The diagram below shows the structure of the AFL group:



I - Publication context

The half year financial statements were approved by the Board of Directors as of September 12, 2016.

II - Highlights from the first half of 2016

The lending activity of Agence France Locale to its local authority members amounted to 110.4 million Euros during the first half of 2016, a traditionally weak period as far as local authority borrowing is concerned. The outstanding amounts at 30 June 2016 were therefore 590.2 million Euros of funds made available and 23.6 million Euros of funding commitments, or a total amount of loans signed of 613.8 million Euros.

During the first half of 2016 Agence France Locale issued its second benchmark bond in Euros, for 500 million Euros, with a maturity period of 7 years and 0.25% coupon corresponding to a margin of 31 basis points against the yield curve of French government bonds (OATs). This issuance was very well received by the market with an order book of more than 780 million Euros and very diverse investors in terms both of category and geography, as evidenced by the high number of French and international investors.

During the first half of 2016, Agence France Locale saw its capital raise from €36.2m to €110.5m following three increases in capital subscribed by the parent company, Société Territoriale, which now has 161 local authorities represented in its capital.

Over the first half of 2016 the NBI generated by the business reached €5,035K compared to -€677K at 30 June 2015. This corresponds mainly to an interest margin of €2, 109K over the half-year, capital gains on the sale of available-for -sale securities of €3,281K and a net hedge accounting loss of -€293K.

The interest margin is explained by three factors: first of all, the revenue from the progressive constitution of the loan portfolio, for €2,179K, once restated to take account of the hedges; secondly, the revenue from the management of the liquidity reserves, which in an environment where interest rates are profoundly anchored in negative rate territory, represents a negative amount of -€251K, and finally the net interest incarne on refinancing, which for the reasons mentioned above, represents a source of revenue amounting to €181K, once the income from its hedge is taken into account.

The gains on placement portfolio include an extraordinary capital gain of €3,146K from the sale of securities initially classified as financial assets held to maturity, which were reclassified as financial assets available for sale after Agence France Locale decided to change the use of its shareholders' equity in December 2015.

The net result of the hedge accounting was -€293K. This consisted of two items. First of all, the sale of the interest rate hedge of available-for-sale securities for €231K, and secondly, the sum of the difference in the fair value of the underlying hedged items and their associated hedging instruments for €62K, €39K of which concerned instruments classed as a micro-hedging and €23k classed as macro-hedging. This hedge accounting result is mainly explained by Agence France Locale taking account of a market practice that leads to mismatch in valuation between the hedging instruments collateralised daily on the one hand, discounted using an Eonia curve, and the hedged items on the other, discounted using an Euribor curve, leading, in accordance with the IFRS, to the recording of an ineffective hedge, which is posted in the income statement. It should be noted, however, that this is an unrealised result.

At 30 June 2016, the general operating expenses stood at €4,438K compared to €5,942K at 30 June 2015. These included €2,230K of personnel costs, which remained at a level comparable to the €2,091K of charges recorded at 30 June 2015. The general operating expenses also included administrative costs, which sharply decreased to €2,362K compared to €6,740K at 30 June 2015, before transferring expenses to fixed assets. This drop is mainly due to the result of the completion of the first stage of the construction and introduction of the information system infrastructure and the deployment of the customer portal, resulting in a decrease of €53K in capitalised expenses for the first half of 2016 compared to €2,963K over the same period in 2015.

After a depreciation charge of €915K compared to €535K at 30 June 2015, the operating income at 30 June 2016 stood at -€318K, compared to -€7,154K at the end of the first half of the previous financial year.

The tax losses recognised for the period gave rise to the capitalisation of deferred tax assets which led to a tax income of €43K compared to €2,384K at 30 June 2015.

The first half of 2016 therefore showed a net loss of -€275K compared to -€4,770K for the same period of the previous financial year. Beyond the extraordinary capital gain generated by the sale of securities, this significant reduction in the net loss, which is in line with the central scenario of the business plan, translates the positive effects of the start-up of Agence France Locale's lending activity.

Subsequent events

No significant subsequent events occurred on the beginning of the second half 2016 after the accounts closure date has to be reported.

III - Principles and methods applicable to Agence, judgments and estimates used

Agence has decided to publish a set of individual financial statements according to IFRS. This publication is voluntary and the reference for the preparation of the financial statements is consistently, in compliance with legislation applicable in France, French generally accepted accounting principles (French GAAP).

The condensed interim financial statements for the half-year ended June 30, 2016 were prepared in accordance with IAS 34, Interim financial reporting wich identify accounting and valuation principles to be applied to a half-year financial report.

The preparation of the financial statements involves making assumptions and estimates that may or may not prove accurate in the future. These estimates, which are based on the information available at year-end, call upon the judgement of managers and the parties involved in preparing the financial statements, particularly where assessing the fair value of financial instruments is concerned.

Future achievements depend on many factors: fluctuations in interest and foreign exchange rates, the economic environment, changes in regulations or legislation, etc., which means that the final outcome of the transactions concerned may differ from these estimates and have an impact on the financial statements.

The valuation of financial instruments not listed on organized markets involves the use of models based on observable market data for most OTC instruments. The determination of the value of certain instruments, like loans that are not traded on an active market is based on valuation techniques which, in certain cases, rely on parameters that are deemed to be non-observable;

Information on the fair value of financial assets and liabilities carried at cost is disclosed in appendix.

IV - Accounting principles

In accordance with IFRS 1 "First-time Adoption of IFRS" and pursuant to European Regulation 1606/2002 of July 19, 2002, the condensed interim consolidated financial statements for the first half of 2015 are presented in compliance with the IFRS (International Financial Reporting Standards) published by and as approved by the European Union and in force on that date. The IFRS framework includes IFRS standards and also include International Accounting Standards (IAS) and related interpretations issued by the International Financial Reporting Interpretations Committee) et SIC (Standing Interpretations Committee).

The format used for the summary financial statements is a banking format. It is consistent with Recommendation No. 2013-04 of 7 November 2013 of the French Accounting Standards Authority (Autorité des normes comptables).

Accounting principles applied to the financial statements

The accounting principles and methods used to prepare the interim financial statements are identical to those applied at 31 December 2015.

V - Notes to the Balance Sheet

Note 1 - HEDGING DERIVATIVES

Analysis by type of hedge

	30/06/2016		31/12/2015	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Derivatives designated as fair value hedges	22,579	38,819	2,204	11,743
Derivatives designated as cash flow hedges				
Derivatives designated as portfolio hedges	171	4,059	186	282
Total Hedging derivatives	**22,750**	**42,877**	**2,390**	**12,025**

Detail of derivatives designated as fair value hedges

	30/06/2016				31/12/2015			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Négative	To receive	To deliver	Positive	Négative
FIRM TRANSACTIONS	**1,330,904**	**571,181**	**22,579**	**38,819**	**802,404**	**397,427**	**2,204**	**11,743**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**1,330,904**	**571,181**	**22,579**	**38,819**	**802,404**	**397,427**	**2,204**	**11,743**
Interest rate contracts	1,283,600	571,181	22,579	36,586	755,100	397,427	2,204	10,401
FRA								
Cross Currency Swaps	47,304			2,232	47,304			1,342
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Detail of derivatives designated as interest rate hedged portfolios

	30/06/2016				31/12/2015			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Négative	To receive	To deliver	Positive	Négative
FIRM TRANSACTIONS	**-**	**140,900**	**171**	**4,059**	**-**	**65,100**	**186**	**282**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**-**	**140,900**	**171**	**4,059**	**-**	**65,100**	**186**	**282**
Interest rate contracts		140,900	171	4,059		65,100	186	282
FRA								
Cross Currency Swaps								
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

PORTFOLIO

Note 2 - Available-for-sale financial assets

Fixed-income securities - Analysis by nature

(€ '000s)	30/06/2016	31/12/2015
Government paper and similar securities	689,767	406,006
Bonds	37,324	50,491
Other fixed income securities		
Net amount in balance sheet	**727,091**	**456,497**
Including depreciation	-	-
Including net unrealised gains and losses	2,250	3,042

Valuations of latent gains on investment securities was made to 30 June 2016 on a transaction price offered (Bid) while the portfolio was evaluated in the previous year on an average price of transaction (Mid). These estimation of the portfolio value terms are in accordance with the risk management rules and monitoring the performance of portfolio applied by the Agency. At June 30, 2016, the difference between the offered price and the average price underestimates the overall valuation of the portfolio of approximately € 0.7 million.

Fixed-income securities - Analysis by contreparty

(€ '000s)	30/06/2016	31/12/2015
Local public sector	592,754	187,457
Financial institutions	134,337	269,040
Central banks		
Net amount in balance sheet	**727,091**	**456,497**

Fixed income securities held on Financial institutions include € 97,013k of securities guaranteed by governments.

Changes in Available-for-sale financial assets

(€ '000s)	Total amount as of 31/12/2015	Additions	Disposals	Gains/(losses) in fair value recognised in equity	Impairment recognised in Income statement	Change in accrued interest	Other movements	Total 30/06/2016
Government paper and similar securities	406,006	697,772	(416,171)	2,107		(1,497)	1,549	689,767
Bonds	50,491	28,344	(41,207)	(26)		(31)	(247)	37,324
Other fixed income securities		-	-	-	-	-	-	-
TOTAL	**456,497**	**726,116**	**(457,378)**	**2,081**	**-**	**(1,528)**	**1,302**	**727,091**

Note 3 -RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	30/06/2016	31/12/2015
Mandatory reserve deposits with central banks	999	
Other deposits		
Cash and central banks	**999**	**-**

Receivables on credit institutions

(€ '000s)	30/06/2016	31/12/2015
Loans and receivables		
- demand	119,400	45,982
- time		
Securities bought under repurchase agreements		
TOTAL	**119,400**	**45,982**
Impairment		
NET CARRYING AMOUNT	**119,400**	**45,982**

Note 4 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	30/06/2016	31/12/2015
Short-term credit facilities		
Other loans	590,206	383,527
Customers transactions before impairment charges	**590,206**	**383,527**
Impairment		
Net carrying amount	**590,206**	**383,527**
Of which individual impairment		
Of which collective impairment		

Note 5 - DEFERRED TAX

The movement on the deferred tax account is as follows:

(€ '000s)	30/06/2016	31/12/2015
Net asset as at 1st of january	6,076	**3,242**
Of which deferred tax assets	7,264	3,242
Of which deferred tax liabilities	1,189	
Recognised in income statement	**43**	**3,888**
Income statement (charge) / credit	43	**3,888**
Recognised in equity	**1,269**	**(1,055)**
Available-for-sale financial assets	1,269	(1,055)
Cash flow hedges		
Other		
Net asset as at	**7,387**	**6,076**
Of which deferred tax assets	7,387	7,264
Of which deferred tax liabilities		1,189

As at 30 June 2016, Agence recognised deferred tax assets corresponding to losses carried forward. At the end of the 2016 half year, the Group assessed the recovery of these losses as probable. Estimated profit projections based on the most recent revenue projections showed that Agence's operations should generate sufficient taxable profits to absorb its carried forward losses in a medium-term horizon.

Deferred tax net assets are attributable to the following items:

(€ '000s)	30/06/2016	31/12/2015
Available-for-sale financial assets	214	
Cash flow hedges		
Losses carried forward	6,805	7,264
Other temporary differences	368	
TOTAL DEFERRED TAX ASSETS	**7,387**	**7,264**

Deferred tax net liabilities are attributable to the following items:

(€ '000s)	30/06/2016	31/12/2015
Available-for-sale financial assets		1,055
Cash flow hedges		
Other temporary differences		134
TOTAL DEFERRED TAX LIABILITIES	**-**	**1,189**

Note 6 - OTHER ASSETS AND ACCRUALS

(€ '000s)	30/06/2016	31/12/2015
Other assets		
Cash collateral paid	33,638	12,985
Other assets	446	655
Impairment		
Net carrying amount	**34,084**	**13,640**
Accruals		
Prepaid charges	375	67
Other deferred income	122	
Transaction to recieve and settlement accounts		
Other accruals	67	72
Total	**564**	**139**
TOTAL OTHER ASSETS AND ACCRUALS	**34,648**	**13,779**

Note 7 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible fixed assets	31/12/2015	Additions	Transfers	Disposals	Amort.	Other movements	30/06/2016
Intangible fixed assets							
IT development costs	8,224	16	45			147	8,431
Other intangible assets	317	10	8			23	358
Intangible assets in progress	202					(170)	32
Intangible fixed assets gross amount	**8,743**	**26**	**53**	**-**	**-**	**-**	**8,821**
Depreciation and allowances - Intangible fixed assets	(1,238)				(870)		(2,108)
Intangible fixed assets net carrying amount	**7,505**	**26**	**53**	**-**	**(870)**	**-**	**6,713**

Tangible fixed assets	31/12/2014	Additions	Transfers	Disposals	Amort.	Other movements	30/06/2016
Property, plant & equipment	735	7					742
Tangible fixed assets gross amount	**735**	**7**	**-**	**-**	**-**	**-**	**742**
Depreciation and allowances - Tangible fixed assets	(105)				(46)		(151)
Tangible fixed assets net carrying amount	**630**	**7**	**-**	**-**	**(46)**	**-**	**591**

Note 8 - DEBT SECURITIES

(€ '000s)	30/06/2016	31/12/2015
Negotiable debt securities		
Bonds	1,366,818	840,536
Other debt securities		
TOTAL	**1,366,818**	**840,536**

Note 9 - ACCRUALS AND OTHER LIABILITIES

(€ '000s)	30/06/2015	31/12/2015
Other liabilities		
Cash collateral received	6,430	100
Miscellaneous creditors	1,128	956
Total	**7,558**	**1,056**
Accruals		
Transaction to pay and settlement accounts		
Other accrued expenses	521	720
Unearned income		
Other accruals		
Total	**521**	**720**
TOTAL ACCRUALS AND OTHER LIABILITIES	**8,079**	**1,776**

Note 10 - PROVISIONS

(€ '000s)	Balance as of 31/12/2015	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Amount as of 30/06/2016
Provisions						
Financing commitment execution risks						
Provisions for other litigations						
Provisions for employee retirement and similar benefits	19	-	-	-	-	19
Provisions for other liabilities to employees						
Other provisions						
TOTAL	**19**	**-**	**-**	**-**	**-**	**19**

OFF-BALANCE SHEET

(€ '000s)	30/06/2016	31/12/2015
Commitments given	**23,570**	**136,933**
Financing commitments	23,570	121,922
For credit institutions		
For customers	*23,570*	*121,922*
Guarantee commitments		
For credit institutions		
For customers		
Commitments on securities		15,011
Securities to be delivered to the issuance		
Other securities to be delivered		*15,011*
Commitments received	**-**	
Financing commitments		
From credit institutions		
Guarantee commitments		
From credit institutions		
From customers		
Commitments on securities		
Securities receivable		

VI - Notes to the Income Statement

Note 11 - INTEREST INCOME AND EXPENSES

(€ '000s)	30/06/2016	30/06/2015	31/12/2015
Interest and similar income	**8,150**	**1,163**	**5,376**
Due from banks	28		3
Due from customers	3,428	161	1,365
Bonds and other fixed income securities	(89)	189	343
from Held-for-sale securities	*(89)*	*(168)*	*(388)*
from Held-to-maturity securities		*357*	*731*
Income from interest rate instruments	4,782	813	3,664
Other interest income			
Interest and similar expenses	**(6,041)**	**(1,329)**	**(4,910)**
Due to banks	(20)	(28)	(41)
Due to customers			
Debt securities	(2,150)	(831)	(2,574)
Expense from interest rate instruments	(3,870)	(470)	(2,296)
Other interest expenses			
Interest margin	**2,109**	**(166)**	**465**

Note 12 - NET FEE AND COMMISSION INCOME

(€ '000s)	30/06/2016	30/06/2015	31/12/2015
Commission income	**-**	**0.01**	**-**
Interbank transactions			
Customer transactions			
Securities transactions			
Forward financial instruments transactions			
Currencies transactions		0.01	
Financing commitments and guarantee			
Other commissions recieved			
Commission expenses	**(49)**	**(3)**	**(24)**
Interbank transactions	(1)	(0.04)	
Securities transactions	(24)		(12)
Forward financial instruments transactions	(24)	(3)	(12)
Currencies transactions			
Financing commitments and guarantee			
Other commissions paid			
Net fee and commission income	**(49)**	**(3)**	**(24)**

Note 13 - NET RESULT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(€ '000s)	30/06/2016	30/06/2015	31/12/2015
Gains/(losses) on Trading book			
Net result of hedge accounting	(293)	(500)	(94)
Net result of foreign exchange transactions	(1)		
TOTAL	**(294)**	**(500)**	**(94)**

Analysis of net result of hedge accounting

(€ '000s)	30/06/2016	30/06/2015	31/12/2015
Fair value hedges			
Fair value changes in the hedged item attributable to the hedged risk	(18,754)	14,492	3,585
Fair value changes in the hedging derivatives	18,715	(14,993)	(3,640)
Hedging relationship disposal gain	(231)		(14)
Cash flow hedges			
Fair value changes in the hedging derivatives – ineffective portion			
Discontinuation of cash flow hedge accounting			
Portfolio hedge			
Fair value changes in the hedged item	3,525	3	17
Fair value changes in the hedging derivatives	(3,548)	(3)	(42)
Net result of hedge accounting	**(293)**	**(500)**	**(95)**

Note 14 - NET GAINS (LOSSES) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

(€ '000s)	30/06/2016	30/06/2015	31/12/2015
Gains from disposal of fixed income securities	3,281	11	36
Losses from disposal of fixed income securities	(13)	(19)	(22)
Gains from disposal of variable income securities			
Other income/(expenses) from held-for-sale securities			
Impairment (charges) and reversals on held-for-sale securities			
Gains or (losses) on available-for-sale portfolio	**3,267**	**(8)**	**14**

Note 15 - GENERAL OPERATING EXPENSES

(€ '000s)	30/06/2016	30/06/2015	31/12/2015
Employee expenses			
Wages and salaries	1,492	1,430	2,594
Post-employment benefit expenses	162	149	282
Other expenses	577	512	921
Total Employee expenses	**2,230**	**2,091**	**3,797**
Operating expenses			
Taxes and duties	107	65	273
External services	2,255	6,676	10,691
Total Administrative expenses	**2,362**	**6,740**	**10,964**
Charge-backs and reclassification of administrative expenses	(154)	(2,890)	(4,631)
Total General operating expenses	**4,438**	**5,942**	**10,131**

NOTE 16 - +/- NET GAINS (LOSSES) ON FIXED ASSETS

(€ '000s)	30/06/2016	30/06/2015	31/12/2015
Gains on sales of Investment securities			
Gains on sales of tangible or intangible assets			
Reversal of impairment			
Total Gains on fixed assets	**-**	**-**	**-**
Losses on sales of Investment securities			(670)
Losses on sales of tangible or intangible assets			
Charge of impairment			
Total Losses on fixed assets	**-**	**-**	**(670)**

VII - Notes to Risk exposure

Fair value of financial instruments

For financial reporting purposes, the new standard IFRS 13 requires fair value measurements applied to financial instruments to be allocated to one of three Levels, reflecting the extent to which the valuation is based on observable data.

level 1: Instruments valued using quoted prices (non-adjusted) in active markets for identical assets or liabilities. These specifically include bonds and negotiable debt securities listed on markets;

level 2: Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability concerned, either directly (i.e. prices) or indirectly (i.e. derived from prices);

Level 3: Fair value instruments which are measured at least in part on the basis of non-observable market in the valuation.

Fair value of instruments carried at fair value:

	30/06/2016			
	Total	Measured using		
(€ '000s)		Level 1	Level 2	Level 3
Financial assets				
Derivative financial instruments	**22,750**	-	22,750	-
Government paper and similar securities	689,767	689,767	-	-
Bonds	37,324	37,324	-	-
Other fixed income securities	-	-	-	-
Total Available-for-sale financial assets	**727,091**	**727,091**	**-**	**-**
Total Financial assets	**749,840**	**727,091**	**22,750**	**-**
Financial liabilities				
Derivative financial instruments	(42,877)	-	(42,877)	-
Total Financial liabilities	**(42,877)**	**-**	**(42,877)**	**-**

Fair values of instruments carried at amortised cost:

	30/06/2016				
	Net Carrying value	Fair value	Measured using		
(€ '000s)			Level 1	Level 2	Level 3
Financial assets					
Loans and receivables due from credit institutions	**119,400**	119,400	-	-	119,400
Loans and advances to customers	**590,206**	590,206	-	-	590,206
Total Held-to-maturity financial assets					
Total Financial assets	**709,605**	**709,605**	**-**	**-**	**709,605**
Financial liabilities					
Debt securities	1,366,818	1,372,707	1,276,758	-	95,949
Total Financial liabilities	**1,366,818**	**1,372,707**	**1,276,758**	**-**	**95,949**

For Loans and receivables due from credit institutions, which are deposits, the fair value used was the nominal value.

B - Credit risk exposure

The tables below disclose the maximum exposure to credit risk at 30 June 2016 for financial assets with exposure to credit risk, without taking account of collateral held or other credit risk mitigation.

(€ '000s)	Performing assets	Past due but not impaired	Impairment allowance	Total 30/06/2016
Hedging derivative instruments	999			**999**
Available-for-sale financial assets	22,750			**22,750**
Loans and receivables due from credit institutions	727,091			**727,091**
Held-to-maturity financial assets	119,400			**119,400**
Loans and advances to customers	590,206			**590,206**
Revaluation adjustment on interest rate hedged portfolios	3,541			**3,541**
Other assets	34,084			**34,084**
Sub-total Assets	**1,498,071**	**-**	**-**	**1,498,071**
Financing commitments given	23,570			**23,570**
TOTAL Credit risk exposure	**1,521,641**	**-**	**-**	**1,521,641**

Analysis by contreparty

(€ '000s)	Total 30/06/2016
Central banks	999
Local public sector	1,206,976
Credit institutions guaranteed by the EEA States	97,605
Credit institutions	155,410
Other financial corporations	60,585
Non-financial corporations	66
Total Exposure by contreparty	**1,521,641**

Agence France Locale's very cautious investment policy prefers securities issued by States and central governments, or ones that are guaranteed by such counterparties.
Credit institutions exposures primarily result from cash management and interest rates hedging transactions.

Exposure analysis by contry

(€ '000s)	Total 30/06/2016
France	1,221,547
Canada	99,598
Supranational	50,037
Switzerland	48,569
Netherlands	40,072
Danemark	28,995
Finland	14,785
Germany	10,231
Norway	5,307
Sweden	2,501
Total Exposure by contreparty	**1,521,641**

As credits are solely granted to French local authorities, the largest exposure is to France.
Exposures to other countries (EEA and North America) result from Agence France Locale's cash management policy and its investment in sovereign or equivalent securities.

C - Liquidity risk : Assets and liabilities, analysed by remaining contractual maturity

(€ '000s)	Less than 3 month	3 month to 1 year	1 year to 5 years	more than 5 years	Total	Accruals	Revaluation	Total 30/06/2016
Hedging derivative instruments	999				**999**			**999**
		1	27	21,746	**21,774**	**976**		**22,750**
Available-for-sale financial assets								
Government paper and similar securities	122,587	53,024	351,473	157,860	684,944	2,540	2,283	689,767
Bonds	-	9,009	28,343	-	37,352	5	(33)	37,324
Total Available-for-sale financial assets	**122,587**	**62,034**	**379,816**	**157,860**	**722,296**	**2,545**	**2,250**	**727,091**
Loans and receivables due from credit institutions	119,400				**119,400**			**119,400**
Held-to-maturity financial assets								
Loans and advances to customers	9268	27096	147827	395133	**579324**	**733**	**10149**	**590206**
Revaluation adjustment on interest rate hedged portfolios					**0**		**3,541**	**3,541**
Other assets	34,084				**34,084**			**34,084**
TOTAL ASSETS								**1,498,071**
Hedging derivative instruments	-	-	14,347	26,791	**41,137**	**1,740**		**42,877**
Debt securities		95,019		1,243,699	**1,338,718**	**960**	**27,140**	**1,366,818**
Accruals and other liabilities	8,079				**8,079**			**8,079**
TOTAL LIABILITIES								**1,417,774**

Agence France Locale has a surplus of long-term liabilities, which reflects its limited transformation goals. The difference in modified duration between assets and liabilities is negative; liabilities are still longer than assets. This situation is related to the business start and should evolve in a balanced situation, which should eventually see liabilities with a slightly shorter average life than assets. On 31st December 2015, assets are composed of short-term securities that will be transformed into medium-to-long-term loans.

D - Interest rate risk: sensitivity to interest rate changes

Interest rate risk management policy and its implications on the first half of 2016 are described in the AFL's Financial Report as of 30 June 2016.

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Agence France Locale S.A.

Statutory Auditors' Review Report on the half-yearly financial statements in accordance with IFRSs

For the six-month period ended June 30, 2016
Agence France Locale S.A.
Tour Oxygène - 10-12, boulevard Vivier Merle - 69393
Lyon cedex 03
This report contains 22 pages
Référence :

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75008 Paris
France

This is a free translation into English of the statutory auditor's review report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

Agence France Locale S.A.

Siège social : Tour Oxygène - 10-12, boulevard Vivier Merle - 69393 Lyon cedex 03
Capital social : €.110 500 000

Statutory Auditors' Review Report
on the half-yearly financial statements
in accordance with IFRSs

For the six-month period ended June 30, 2016

Ladies and Gentlemen,

In our quality of statutory auditor of Agence France Locale S.A. and in answer to your request within the context of the communication of historical financial information linked to the Base Prospectus, we conducted a review of the accompanying condensed half-yearly financial statements of Agence France Locale – S.A. in accordance with IFRSs as adopted by the European Union, for the six-months period ended June 30, 2016.

These condensed half-yearly financial statements are the responsibility of the Management Board. Our responsability is to express a conclusion on these financial statements based on our review.

We conducted our review in accordance with professional standards applicable in France and the professional doctrine of the French national auditing body (Compagnie nationale des commissaires aux comptes) related to this engagement. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly financial statements as at June 30, 2016 are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

This report is addressed to your attention in the context described above and is not to be used, circulated, quoted or otherwise referred to for any other purposes. We accept no liability with regard to any third party to whom this report is distributed or into whose hands it may fall.

This report is governed by French law. The Courts of France shall have exclusive jurisdiction in relation to any claim, dispute or difference concerning the engagement letter or this report, and any matter arising from them. Each party irrevocably waives any right it may have to object to an action being brought in any of those Courts, to claim that the action has been brought in an inconvenient forum or to claim that those Courts do not have jurisdiction.

Paris La Défense, September 2016,26

KPMG Audit FS I

Fabrice Odent
Associé

Paris, September 2016,26

Cailliau Dedouit et Associés

Laurent Brun
Associé

AGENCE FRANCE LOCALE

Balance sheet

Assets as of 30th of june 2016

(€ '000s)	Notes	30/06/2016	31/12/2015
Cash and central banks	2	999	
Government paper and similar securities	1	687,428	402,894
Receivables on credit institutions	2	119,400	45,982
Loans and advances to customers	4	580,057	384,873
Bonds and other fixed income securities	1	37,324	50,491
Equities and other variable income securities			
Investments in non-consolidated companies and other long-term investments			
Investments in consolidated companies			
Intangible assets	5	7,756	8,759
Property, plant and equipment	5	591	630
Other assets	6	34,084	13,640
Accruals	6	8,507	6,164
TOTAL ASSETS		**1,476,146**	**913,432**

Liabilities as of 30th of june 2016

(€ '000s)	Notes	30/06/2016	31/12/2015
Central banks			
Due to banks	3		
Customer borrowings and deposits			
Debt securities	7	1,345,997	848,059
Other liabilities	8	7,943	1,584
Accruals	8	32,309	9,599
Provisions	9	17	17
Subordinated debt			
General banking risk fund (GBRF)			
Equity (excluding GBRF)	**10**	**89,880**	**54,173**
Share capital		110,500	74,300
Additional paid-in capital			
Reserves and retained earnings			
Revaluation differences			
Regulated provisions and investment subsidies			
Retained earnings (+/-)		(20,127)	(8,046)
Net income for the period (+/-)		(493)	(12,082)
TOTAL LIABILITIES		**1,476,146**	**913,432**

INCOME STATEMENT

(€ '000s)

	Notes	30/06/2016	30/06/2015	31/12/2015
+ Interest and similar income	12	8,167	1,286	5,376
- Interest and similar expenses	12	(6,058)	(1,319)	(4,910)
+ Income from variable income securities				
+ Fee and commission income	13		0.01	0.01
- Fee and commission expenses	13	(49)	(1,128)	(1,149)
+/- Net gains (losses) on held for trading portfolio	15	(238)	(10)	(14)
+/- Net gains (losses) on placement portfolio	15	3,249	(151.2)	(56)
+ Other banking income	14		1,125	1,125
- Other banking expense				
NET BANKING INCOME		**5,071**	**(198)**	**371**
- General operating expenses	16	(4,437)	(5,942)	(10,130)
+ Other operating income				
- Depreciation and amortization	5	(1,127)	(747)	(1,652)
GROSS OPERATING INCOME		**(493)**	**(6,887)**	**(11,411)**
- Cost of risk				
OPERATING INCOME		**(493)**	**(6,887)**	**(11,411)**
+/- Net gains (losses) on fixed assets	17			(670)
PRE-TAX INCOME ON ORDINARY ACTIVITIES		**(493)**	**(6,887)**	**(12,082)**
+/- Net extraordinary items				
- Income tax charge				
+/- Net allocation to FGBR and regulated provisions				
NET INCOME		**(493)**	**(6,887)**	**(12,082)**
Basic earnings per share		(0.45)	(9.98)	(16.26)

OFF-BALANCE SHEET

(€ '000s)

COMMITMENTS GIVEN AND RECEIVED	Notes	30/06/2016	31/12/2015
Commitments given		**23,570**	**136,933**
Financing commitments		23,570	121,922
Guarantee commitments			
Commitments on securities			15,011
Commitments received		**-**	**-**
Financing commitments			
Commitments received from credit institutions			
Guarantee commitments			
Commitments on securities			
Derivatives	11	**2,042,984**	**1,217,627**

NOTES TO THE INDIVIDUAL HAL YEAR ACCOUNTS

I - Publication context

The half year financial statements were approved by the Executive Board as of September 20, 2016.

II - Highlights from the first half of 2016

The lending activity of Agence France Locale to its local authority members amounted to 110.4 million Euros during the first half of 2016, a traditionally weak period as far as local authority borrowing is concerned. The outstanding amounts at 30 June 2016, expressed according to the French accounting standard, were therefore 580.1million Euros of funds made available and 23.6 million Euros of funding commitments, or a total amount of loans signed of 603.7 million Euros.

During the first half of 2016 Agence France Locale issued its second benchmark bond in Euros, for 500 million Euros, with a maturity period of 7 years and 0.25% coupon corresponding to a margin of 31 basis points against the yield curve of French government bonds (OATs). This issuance was very well received by the market with an order book of more than 780 million Euros and very diverse investors in terms both of category and geography, as evidenced by the high number of French and international investors.

During the first half of 2016, Agence France Locale saw its capital raise from €36.2m to €110.5m following three increases in capital subscribed by the parent company, Société Territoriale, which now has 161 local authorities represented in its capital.

Over the first half of 2016 the NBI generated by the business reached €5,071K compared to -€198K at 30 June 2015. This corresponds mainly to an interest margin of €2,109K over the half-year, capital gains on the sale of short-term investment securities of €3,267K and a loss on the discontinuation of the hedging relationship of -€238K.

The interest margin is explained by three factors: first of all, the revenue from the progressive constitution of the loan portfolio, for €2,179K, once restated to take account of the hedges; secondly, the revenue from the management of the liquidity reserves, which in an environment where interest rates are profoundly anchored in negative rate territory, represents a negative amount of -€251K, and finally the net interest incarne on refinancing, which for the reasons mentioned above, represents a source of revenue amounting to €181K, once the income from its hedge is taken into account.

The gains on placement portfolio include an extraordinary capital gain of €3,146K from the sale of securities initially classified as investment securities, which were reclassified as held for sale securities after Agence France Locale decided to change the use of its shareholders' equity in December 2015.

At 30 June 2016, the general operating expenses stood at €4,437K compared to €5,942K at 30 June 2015. These included €2,205K of personnel costs, which remained at a level comparable to the €2,091K of charges recorded at 30 June 2015. The general operating expenses also included administrative costs, which sharply decreased to €2,636K compared to €7,398K at 30 June 2015, before transferring expenses to fixed assets. This drop is mainly due to the result of the completion of the first stage of the construction and introduction of the information system infrastructure and the deployment of the customer portal, resulting in a reduction in capitalised charges, which amounted to €303K for the first half of 2016 compared to €3,445K over the same period in 2015.

After a depreciation charge of €1,127K compared to €747K at 30 June 2015, the operating income at 30 June 2016 stood at -€493K, compared to -€6,887K at the end of the first half of the previous financial year.

The first half of 2016 therefore showed a net loss of -€493K compared to -€6,887K for the same period of the previous financial year. Beyond the extraordinary capital gain generated by the sale of securities, this significant reduction in the net loss, which is in line with the central scenario of the business plan, translates the positive effects of the start-up of Agence France Locale's lending activity.

Subsequent events

No significant subsequent events occurred on the beginning of the second half 2016 after the accounts closure date has to be reported.

III - Accounting principles and valuation methods

Agence's financial statements have been prepared in accordance with accounting principles applyed in France by Banks.

Presentation format

Agence's financial statements are presented in accordance with ANC (Autorité des normes comptables) Regulation N° 2014-07 of 26 November 2014 related to the annual accounts for the banking sector.

The general accounting conventions have been applied, in accordance with the basic assumptions :

• Ongoing concern principle,
• Segregation of accounting periods,
• Consistency of methods.

And with the general rules for preparing and presenting annual financial statements.

The accounting principles and methods applied in drawing up these half-yearly financial statements are identical to those applied at 31 December 2015.

Identity of the parent company consolidating the accounts of the Agence as of June 30, 2016

Agence France Locale – Société Territoriale
41, quai d'Orsay 75 007 Paris

IV - Notes to the Balance Sheet

Note 1 - PORTFOLIO

(€ '000s)

30/06/2016	Government paper and similar securities	Bonds and other fixed income securities	Equities and other variable income securities	Total
Fixed or variable income securities				
Listed securities	684,944	37,352		722,296
Unlisted securities				-
Accrued interest	2,538	5		2,543
Impairment	(54)	(33)		(87)
Net carrying amount	**687,428**	**37,324**	**-**	**724,752**
Residual net Premium/Discout	22,964	52		23,016
31/12/2015				
Fixed or variable income securities				
Listed securities	401,968	50,246		452,214
Unlisted securities				-
Accrued interest	988	253		1,240
Impairment	(63)	(8)		(70)
Net carrying amount	**402,894**	**50,491**	**-**	**453,384**
Residual net Premium/Discout	5,055	250		5,305

Government paper and similar securities: analysis by residual maturity

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 30/06/2016	Total 31/12/2015
Government paper and similar securities								
Net amount	122,577	53,024	356,445	152,843	684,890	2,538	687,428	402,894
NET CARRYING AMOUNT	**122,577**	**53,024**	**356,445**	**152,843**	**684,890**	**2,538**	**687,428**	**402,894**
Bonds and other fixed income securities								
Net amount	-	9,008	28,311	-	37,319	5	37,324	50,491
NET CARRYING AMOUNT	**-**	**9,008**	**28,311**	**-**	**37,319**	**5**	**37,324**	**50,491**

Analysis by type of portfolio

(€ '000s)

Portfolio	Gross amount 31/12/2015	Additions	Disposals	Transfers	Prem/Disc Amort.	Change in accrued interest	Impairment	Total 30/06/2016	Unrealized gains/(losses)
Transaction								-	
Held-for-sale	453,384	726,116	(454,505)	-	(1,528)	1,302	(18)	724,752	2,250
Investment	-	-	-	-	-	-	-	-	-
NET CARRYING AMOUNT	**453,384**	**726,116**	**(454,505)**	**-**	**(1,528)**	**1,302**	**(18)**	**724,752**	**2,250**
Of which Premium/Discount	5,305	20,858	(1,619)		(1,528)			23,016	

Valuations of latent gains on investment securities was made to 30 June 2016 on a transaction price offered (Bid) while the portfolio was evaluated in the previous year on an average price of transaction (Mid). These estimation of the portfolio value terms are in accordance with the risk management rules and monitoring the performance of portfolio applied by the Agency. At June 30, 2016, the difference between the offered price and the average price underestimates the overall valuation of the portfolio of approximately € 0.7 million.

Note 2 -RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	30/06/2016	31/12/2015
Mandatory reserve deposits with central banks	999	
Other deposits		
Cash and central banks	**999**	**-**

Receivables on credit institutions

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 30/06/2016	Total 31/12/2015
Credit institutions							-	-
Loans and receivables							-	-
- demand	119,400						119,400	45,982
- time								-
Securities bought under repurchase agreements							-	-
TOTAL	**119,400**	**-**	**-**	**-**	**-**	**-**	**119,400**	**45,982**
Impairment								
NET CARRYING AMOUNT	**119,400**	**-**	**-**	**-**	**-**	**-**	**119,400**	**45,982**

Note 3 - DUE TO CREDIT INSTITUTIONS

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 30/06/2016	Total 31/12/2015
Credit institutions							-	-
Accounts and Overdrafts					-		-	-
- demand					-		-	-
- time					-		-	-
Securities sold under repurchase agreements					-		-	-
TOTAL	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Note 4 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	30/06/2016	31/12/2015
Short-term credit facilities		
Other loans	580,057	384,873
Customers transactions before impairment charges	**580,057**	**384,873**
Impairment		
Net carrying amount	**580,057**	**384,873**
Of which related receivables	733	537
Of which gross doubtful receivables		
Of which gross non-performing doubtful receivables		

Analysis by residual maturity excluding accrued interest

(€ '000s)

	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 30/06/2016
Loans and advances to customers	9,268	8,318	18,777	147,827	395,133	**579,324**	733	**580,057**

Note 5 - BREAKDOWN OF FIXED ASSETS

(€ ‘000s)

Intangible assets	31/12/2015	Additions	Transfers	Disposals	Amort.	Other movements	30/06/2016
Intangible assets	**10,663**	**26**	**53**			**170**	**10,912**
Start-up costs	2,123						2,123
IT development costs	8,224	16	45			147	8,431
Web site	289	10	8			23	330
Software	28						28
Intangible assets in progress	**202**					**(170)**	**32**
Intangible assets amortisation	**(2,106)**				**(1,081)**		**(3,188)**
Net carrying amount	**8,759**	**26**	**53**	**-**	**(1,081)**	**-**	**7,756**

Property, plant & equipment	31/12/2015						30/06/2016
Property, plant & equipment	735	7					742
Tangible assets in progress	0						
Tangible assets amortization	(105)				(46)		**(151)**
Net carrying amount	**630**	**7**	**-**		**(46)**		**591**

Note 6 - OTHER ASSETS AND ACCRUALS

(€ ‘000s)	30/06/2016	31/12/2015
Other assets		
Cash collateral paid	33,638	12,985
Other assets	446	655
Impairment		
Net carrying amount	**34,084**	**13,640**
Accruals		
Deferred charges on bond issues	6,319	3,781
Deferred charges on hedging transactions	607	94
Prepaid charges	375	67
Accrued interest not yet due on hedging transactions	1,084	2,222
Other deferred income	122	
Other accruals		
TOTAL	**8,507**	**6,164**

Note 7 - DEBT SECURITIES

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 30/06/2016	Total 31/12/2015
Negotiable debt securities					-	-	-	-
Bonds		95,037		1,250,000	1,345,037	960	1,345,997	848,059
Other debt securities					-		-	-
TOTAL	**-**	**95,037**	**-**	**1,250,000**	**1,345,037**	**960**	**1,345,997**	**848,059**

Note 8 - OTHER LIABILITIES and ACCRUALS

(€ '000s)	31/03/2015	31/12/2015
Other liabilities		
Cash collateral received	6,430	100
Miscellaneous creditors	1,513	1,484
TOTAL	**7,943**	**1,584**
Comptes de régulation		
Transaction to pay and settlement accounts		
Unrealised gains on hedging instruments	28,058	7,190
Unearned income		
Accrued expenses on hedging instruments	1,849	839
Other accrued expenses	19	
Other accruals	2,383	1,570
TOTAL	**32,309**	**9,599**

Note 9 - PROVISIONS

(€ '000s)	Balance as of 31/12/2015	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 30/06/2015
Provisions						
Financing commitment execution risks						
Provisions for other litigations						
Provisions for employee retirement and similar benefits	17	-	-	-	-	17
Provisions for other liabilities to employees						
Other provisions						
TOTAL	**17**	**-**	**-**	**-**	**-**	**17**

Note 10 - CHANGES IN EQUITY

(€ '000s)	Share capital	Legal reserve	Share premiums	Statutory reserve	Translation,revaluation	Translation, revaluation subsidies	Retained earnings	Net income	Total equity
Balance as of 31/12/2014	**35,800**	**-**	**-**	**-**	**-**	**-**	**-**	**(8,046)**	**27,754**
Dividend paid for 2014									
Change in share capital	38,500								38,500
Change in share premium and reserves									
Allocation of 2014 net profit							(8,046)	8,046	
Net income as of 31/12/2015								(12,082)	(12,082)
Other changes									
Balance as of 31/12/2015	**74,300**	**-**	**-**	**-**	**-**	**-**	**(8,046)**	**(12,082)**	**54,173**
Dividend paid for 2015									
Change in share capital	36,200 (1)								36,200
Change in share premium and reserves									
Allocation of 2015 net profit							(12,082)	12,082	
Net income as of 30/06/2016								(493)	(493)
Other changes									
Balance as of 30/06/2016	**110,500**	**-**	**-**	**-**	**-**	**-**	**(20,127)**	**(493)**	**89,880**

(1) The share capital of Agence which amounts on June 30th, 2016 to € 110,500,000 consists of 110,500 shares. Agence carried out three capital increases in the first half of 2016 for the benefit of the Territorial Company, its parent company. The first was subscribed on 4 March 2016 to € 19,200k, the second on 27th April, 2016 for € 16,000k, the third on 28th June 2016 for € 6,000k.

Note 11 - DERIVATIVES

Outstanding notional and Fair value

(€ '000s)	30/06/2016				31/12/2015			
	Hedging transactions		Others than Hedging transactions		Hedging transactions		Others than Hedging transactions	
	Outstanding notional	Fair value	Outstanding notional	Fair value	Outstanding notional	Fair value	Outstanding notional	Fair value
FIRM TRANSACTIONS	**2,042,984**	**-**	**-**	**-**	**1,264,930**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**2,042,984**	**-**	**-**	**-**	**1,264,930**	**-**	**-**	**-**
Interest rate contracts	1,995,681				1,217,627			
FRA								
Cross Currency Swaps	47,304				47,304			
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Exchange rate options								
Other options								
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Caps, floors								
Foreign currency option								
Crédit derivatives								
Other options								

Amount of micro-hedge transaction as of 30/06/2015	1,902,084	(€ '000s)
Amount of macro-hedge transaction as of 30/06/2015	140,900	(€ '000s)

Notional amount by maturity

(€ '000s)	30/06/2016					
	Hedging transactions			Others than Hedging transactions		
	Less than 1 year	1 year to 5 years	more than 5 years	Less than 1 year	1 year to 5 years	more than 5 years
FIRM TRANSACTIONS	**50,304**	**193,812**	**1,798,869**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts						
Other contracts						
Over-the-counter markets	**50,304**	**193,812**	**1,798,869**	**-**	**-**	**-**
Interest rate contracts	3,000	193,812	1,798,869			
FRA						
Cross Currency Swaps	47,304					
Other contracts						
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**
Exchange rate options						
Other options						
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**
Caps, floors						
Foreign currency option						
Crédit derivatives						
Other options						

V - Notes to the Income statement

Note 12 - Interest income and expenses

(€ '000s)	30/06/2016	30/06/2015	31/12/2015
Interest and similar income	**8,167**	**1,286**	**5,376**
Due from banks	28		3
Due from customers	3,445	161	1,365
Bonds and other fixed income securities	(89)	189	343
from Held-for-sale securities	*(89)*	*(168)*	*(388)*
from Investment securities		*357*	*731*
Income from interest rate instruments	4,782	936	3,664
Other interest income			
Interest and similar expenses	**(6,058)**	**(1,319)**	**(4,910)**
Due to banks	(20)	(28)	(41)
Due to customers			
Debt securities	(2,150)	(831)	(2,574)
Expense from interest rate instruments	(3,887)	(460)	(2,296)
Other interest expenses			
Interest margin	**2,109**	**(34)**	**465**

Note 13 - Net fee and commission income

(€ '000s)	30/06/2016	30/06/2015	31/12/2015
Commission income	**-**	**0.01**	**0.01**
Interbank transactions			
Customer transactions		0.01	0.01
Securities transactions			
Forward financial instruments transactions			
Currencies transactions			
Financing commitments and guarantee			
Other commissions recieved			
Commission expenses	**(49)**	**(1,128)**	**(1,149)**
Interbank transactions	(1)	(0.04)	(0.04)
Securities transactions	(24)	(1,125)	(1,137)
Forward financial instruments transactions	(24)	(3)	(12)
Currencies transactions			
Financing commitments and guarantee			
Other commissions paid			
Net fee and commission income	**(49)**	**(1,128)**	**(1,149)**

Note 14 - Other banking income and expenses

(€ '000s)	30/06/2016	30/06/2015	31/12/2015
Other banking income	**-**	**1,125**	**1,125**
Re-invoiced expenses outside the Group			
Expense reclassifications		1,125	1,125
Reversals of provisions			
Other banking expenses	**-**	**-**	**-**
Other sundry operating expenses			
Depreciation charges to provisions			

Note 15 - Analysis of gains and losses on portfolio transactions

(€ '000s)	30/06/2016	30/06/2015	31/12/2015
Gains/(losses) on Trading book			
Gains/(losses) on forward financial instruments	(238)	(10)	(14)
Gains/(losses) on foreign currency transactions			
Gains or (losses) on trading portfolio	**(238)**	**(10)**	**(14)**
Gains/(losses) from disposal of held-for-sale securities	3,267	(8)	14
Other income/(expenses) from held-for-sale securities			
Impairment (charges) and reversals on held-for-sale securities	(18)	(143)	(70)
Gains or (losses) on held-for-sale portfolio	**3,249**	**(151)**	**(56)**

Note 16 - General operating expenses

(€ '000s)	30/06/2016	30/06/2015	31/12/2015
Employee expenses			
Wages and salaries	1,467	1,430	2,580
Post-employment benefit expenses	162	149	282
Other expenses	577	513	935
Total Employee expenses	**2,205**	**2,091**	**3,797**
Operating expenses			
Taxes and duties	107	53	273
External services	2,529	7,344	11,280
Total Administrative expenses	**2,636**	**7,398**	**11,553**
Charge-backs and reclassification of administrative expenses	(405)	(3,547)	(5,220)
Total General operating expenses	**4,437**	**5,942**	**10,130**

Employee expenses relate to a staff of 26 to 30 June 2016.

Note 17 - +/- Net gains (losses) on fixed assets

(€ '000s)	30/06/2016	30/06/2015	31/12/2015
Gains on sales of Investment securities			
Gains on sales of tangible or intangible assets			
Reversal of impairment			
Total Gains on fixed assets	**-**	**-**	**-**
Losses on sales of Investment securities			(670)
Losses on sales of tangible or intangible assets			
Charge of impairment			
Total Losses on fixed assets	**-**	**-**	**(670)**

Note 18 - Income tax charge

The standard method for current tax has been chosen for report individual accounts.

Tax losses amounting to €20.1m at half-year were not recognised as deferred tax assets.

Note 19 - Related parties

There are, on 30 June 2016, an agreement of administrative services and a licensing for the use of a mark, which have been concluded between the Agence and the Agence France Locale Locale France - Territorial Corporation at normal market conditions.

Cailliau Dedouit et Associés

KPMG AUDIT FS I
Tour EQHO
2 Avenue Gambetta
CS 60055
92066 Paris la Défense Cedex
France

18, rue Clément Marot
75008 Paris
France

Agence France Locale S.A.

Statutory Auditors' Review Report on the Half-yearly Financial Information

For the six-month period ended June 30, 2016
Agence France Locale S.A.
Tour Oxygène - 10-12, boulevard Vivier Merle - 69393
Lyon cedex 03
This report contains 15 pages
Référence :

Cailliau Dedouit et Associés

18, rue Clément Marot
75008 Paris
France

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France

This is a free translation into English of the statutory auditors' report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

Agence France Locale S.A.

Siège social : Tour Oxygène - 10-12, boulevard Vivier Merle - 69393 Lyon cedex 03
Capital social : €.110 500 000

Statutory Auditors' Review Report on the Half-yearly Financial Information

For the six-month period ended June 30, 2016

To the shareholders,

In compliance with the assignment entrusted to us by the Shareholders' Meeting and in accordance with the requirements of article L.451-1-2 III of the French Monetary and Financial Code ("*Code monétaire et financier*"), we hereby report to you on:

- the review of the accompanying condensed half-yearly financial statements of Agence France Locale – S.A. for the six-months period ended June 30, 2016,
- the verification of the information presented in the half-yearly management report.

These condensed half-yearly financial statements are the responsibility of the Management Board. Our role is to express a conclusion on these financial statements based on our review.

I. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly financial statements do not give a true and fair view of the assets and liabilities and of the financial position of the company as at June 30, 2016, and of the results of its operations for the six-month period then ended, in accordance with the accounting rules and principles applicable in France.

II. Specific verification

We have also verified the information presented in the half-yearly management report on the condensed half-yearly financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-yearly financial statements.

Paris La Défense, September 26,2016	Paris, September 26,2016
KPMG Audit FS I	Cailliau Dedouit et Associés
Fabrice Odent *Associé*	Laurent Brun *Associé*

AGENCE FRANCE LOCALE
French société anonyme governed by an executive board and a supervisory board with a share capital 115,240,900 euros
Corporate seat in : Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon
799 379 649 RCS Lyon

CERTIFICATION BY THE PERSON ASSUMING RESPONSIBILITY FOR THE HALF-YEAR FINANCIAL

«I hereby certify that, to the best of my knowledge, the condensed interim consolidated financial statements have been prepared in accordance with applicable standards and give a true and fair picture of the assets and liabilities, financial position and results of Agence France Locale, and that the management report offers a true and fair picture of significant events for the first six months of the 2015 fiscal year, their impact on the financial statements, as well as a description of the main risks and uncertainties for the remaining six months of the year».

Lyon, 26 September 2016

Yves MILLARDET
Chairman of the Board