Agence France Locale - Société Territoriale
Consolidated accounts (IFRS GAAP)

BALANCE SHEET

Assets as of December 31, 2015

(€ '000s)	Note	31/12/2015	31/12/2014
Cash, central banks			
Financial assets at fair value through profit or loss			
Hedging derivative instruments	1	2 390	
Available-for-sale financial assets	2	459 037	
Loans and receivables due from credit institutions	4	47 206	6 151
Loans and advances to customers	5	383 527	
Revaluation adjustment on interest rate hedged portfolios	1	17	
Held-to-maturity financial assets	3		31 873
Current tax assets			
Deferred tax assets	6	7 290	3 301
Accruals and other assets	7	13 786	1 593
Intangible assets	8	7 505	4 148
Property, plant and equipment	8	630	649
Goodwill			
TOTAL ASSETS		**921 387**	**47 715**

Liabilities as of December 31, 2015

(€ '000s)	Note	31/12/2015	31/12/2014
Central banks			
Financial liabilities at fair value through profit or loss			
Hedging derivative instruments	1	12 025	
Due to credit institutions	9		15 800
Due to customers			
Debt securities	10	840 536	
Revaluation adjustment on interest rate hedged portfolios			
Current tax liabilities			
Deferred tax liabilities	6	1 234	
Accruals and other liabilities	11	2 374	1 228
Provisions	12	19	3
Equity		**65 200**	**30 684**
Equity, Group share		**65 199**	**30 683**
Share capital and reserves		77 413	37 286
Consolidated reserves		(6 604)	
Reevaluation reserve			
Gains and losses recognised directly in equity		2 099	
Profit (loss) for the period		(7 710)	(6 603)
Non-controlling interests		**1**	**1**
TOTAL LIABILITIES		**921 387**	**47 715**

Income statement

(€ '000s)	Note	31/12/2015	31/12/2014
Interest and similar income	13	5 406	440
Interest and similar expenses	13	(4 911)	(63)
Commissions (income)	14	0,01	
Commissions (expense)	14	(24)	(53)
Net gains (losses) on financial instruments at fair value through profit or loss	15	(94)	
Net gains (losses) on available-for-sale financial assets	16	14	1
Income on other activities		17	
Expenses on other activities			
NET BANKING INCOME		**408**	**325**
Operating expenses	17	(10 077)	(10 112)
Net depreciation, amortisation and impairments of tangible and intangible assets	8	(1 226)	(117)
GROSS OPERATING INCOME		**(10 894)**	**(9 904)**
Cost of risk			
OPERATING INCOME		**(10 894)**	**(9 904)**
Net gains and losses on other assets	18	**(670)**	
INCOME BEFORE TAX		**(11 565)**	**(9 904)**
Income tax	6	**3 854**	**3 301**
NET INCOME		**(7 710)**	**(6 603)**
Non-controlling interests			
NET INCOME GROUP SHARE		**(7 710)**	**(6 603)**
Basic earnings per share (in EUR)		(10,73)	(17,71)
Diluted earnings per share (in EUR)		(10,73)	(17,71)

Net income and other comprehensive income

(€ '000s)	31/12/2015	31/12/2014
Net income	**(7 710)**	**(6 603)**
Items will be reclassified subsequently to profit or loss	**2 099**	
Unrealized or deferred gains and losses of financial assets available for sale	2 099	
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	**(1)**	
Actuarial gains / (losses) on defined benefit funds	(1)	**-**
Items will not be reclassified subsequently to profit or loss	**2 099**	**-**
NET INCOME AND GAINS AND LOSSES THROUGH EQUITY	**(5 611)**	**(6 603)**

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	Share-holders' equity - Group share	Share-holders'equity, non-controlling interests	Total share-holders equity
Shareholders' equity at opening									
Increase in share capital	37 286						**37 286**	1	**37 287**
Elimination of treasury shares									
Allocation of profit									
Dividends paid									
Sub-total of changes linked to transactions with shareholders	**37 286**	**-**	**-**	**-**	**-**	**-**	**37 286**	**1**	**37 287**
Changes in fair value through equity									
2014 Net income						(6 603)	**(6 603)**		**(6 603)**
Sub-total	**37 286**	**-**	**-**	**-**	**-**	**(6 603)**	**30 683**	**1**	**30 684**
Effect of acquisitions and disposals on non-controlling interests									
Shareholders' equity at 31 december 2014	**37 286**	**-**	**-**	**-**	**-**	**(6 603)**	**30 683**	**1**	**30 684**
Accounting policies changes									
Shareholders' equity at 1 january 2015	**37 286**	**-**	**-**	**-**	**-**	**(6 603)**	**30 683**	**1**	**30 684**
Increase in share capital	40 128						**40 128**		**40 128**
Elimination of treasury shares									
Allocation of profit			(6 603)			6 603	**-**		
Dividends 2014 paid									
Sub-total of changes linked to transactions with shareholders	**40 128**	**-**	**(6 603)**	**-**	**-**	**6 603**	**40 128**	**-**	**40 128**
Changes in fair value through equity				2 101			**2 101**		**2 101**
Net (gains)/losses transferred to income				(2)			**(2)**		**(2)**
Actuarial gains / (losses) on defined benefit funds			(1)				**(1)**		**(1)**
Sub-total of net income and gains and losses through equity	**-**	**-**	**(1)**	**2 099**	**-**	**-**	**2 099**	**-**	**2 099**
Net income at 31 december 2015						(7 710)	**(7 710)**		**(7 710)**
Sub-total	**-**	**-**	**(1)**	**2 099**	**-**	**(7 710)**	**(5 611)**	**-**	**(5 611)**
Effect of acquisitions and disposals on non-controlling interests									
Shareholders' equity at 31 december 2015	**77 413**	**-**	**(6 605)**	**2 099**	**-**	**(7 710)**	**65 199**	**1**	**65 200**

Cash flow statement

(€ '000s)	31/12/2015	31/12/2014
Net income before taxes	**(11 565)**	**(9 904)**
+/- Net depreciation and amortisation of tangible and intangible non-current assets	1 226	117
+/- Net provisions and impairment charges	105	3
+/- (Expense)/income from investing activities	470	(88)
+/- (Expense)/income from financing activities	28	63
+/- Other non-cash items	663	(420)
= Non-monetary items included in net income before tax and other adjustments	**2 493**	**(325)**
+/- Cash from interbank operations		
+/- Cash from customer operations	(384 336)	
+/- Cash from financing assets and liabilities	(5 146)	
+/- Cash from not financing assets and liabilities	1 181	55
- Income tax paid		
= Decrease/(increase) in cash from operating activities	(388 301)	
= CASH FLOW FROM OPERATING ACTIVITIES (A)	**(397 373)**	**(10 174)**
+/- Flows linked to financial assets and investments	(424 390)	(31 784)
+/- Flows linked to investment properties		
+/- Flows linked to tangible and intangible non-current assets	(4 563)	(4 914)
= CASH FLOW FROM INVESTING ACTIVITIES (B)	**(428 953)**	**(36 698)**
+/- Cash from or for shareholders	40 128	37 287
+/- Other cash from financing activities	827 254	15 737
= CASH FLOW FROM FINANCING ACTIVITIES (C)	**867 382**	**53 023**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)		
Increase/(decrease) in cash equivalents (A + B+ C + D)	**41 055**	**6 151**
Cash flow from operating activities (A)	(397 373)	(10 174)
Cash flow from investing activities (B)	(428 953)	(36 698)
Cash flow from financing activities (C)	867 382	53 023
Effect of changes in exchange rates on cash and cash equivalents (D)		
Cash and cash equivalents at the beginning of the period	**6 151**	
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	6 151	
Cash and cash equivalents at the end of the period	**47 206**	**6 151**
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	47 206	6 151
CHANGE IN NET CASH	**41 055**	**6 151**

NOTES TO THE YEARLY CONSOLIDATED ACCOUNTS

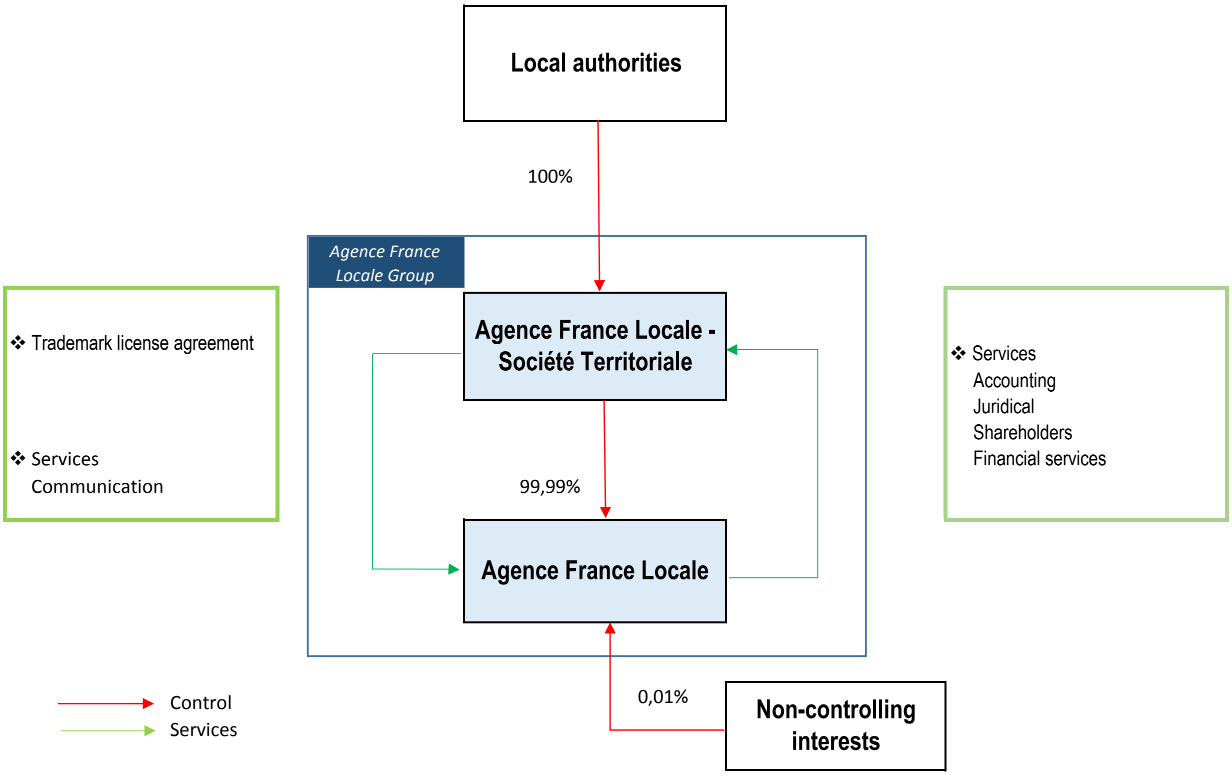
General framework

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 Board of Directors. which consists exclusively local authorities are shareholder and member of the Group AFL. The AFL ST is the parant company of the Agence. Agence is a limited company with a Management Board and a Supervisory Board.

The diagram below shows the structure of the AFL group:



I - Publication context

The yearly financial statements were approved by the Executive Board as of March 16, 2015.

II - Highlights from the 2015 financial year

The 2015 year mark the start of the Agence in its activity as a credit institution.

On 12 January 2015, Agence France Locale was granted a licence as specialised credit institution by the Autorité de Contrôle Prudentiel et de Résolution (ACPR - French Supervisory Authority). This licence allows the company to ensure its loans to local authorities which are members and shareholders of Agence France Locale - Société Territoriale.

On 6 March 2015, the Autorité des Marchés Financiers (AMF - French Financial Markets Authority), delivered its certification, validating the base prospectus endorsed within a programme of issuances and admissions of debt securities for a maximum nominal amount of €3 billion.

It is on this basis that on 24 March 2015 Agence France Locale launched its inaugural issuance for a nominal amount of €750 million within the framework of its EMTN programme. This inaugural issuance, which saw great success among the community of French and international investors who generated an order book in excess of €1.3 billion, allowed the company to raise €750 million for 7 years.

During the 2015 year, Agence saw its capital increase from €37.3 million to €77.4 million following four capital increases subscribed by its parent, Société Territoriale, who had previously received fifty-three new local authorities in its capital.

Following the inaugural issuance, Agence France Locale was immediately able to launch its credit activities for member local authorities and hence offer its first loans. As of 31 December 2015, Agence France Locale had signed €508.35 million in credit agreements with a disbursement date of 2016 and has recognised €383.5 million of loans in balance sheet.

For the year end 2015, the generated Net Banking Income is established at €408K compared to €325K as at 31 December 2014. It essentially corresponds to an interest margin of €496K and a net result of hedge accounting of € -94K.

The interest margin amounting to € 496K is the sum of the following:
- First of all, €1,365K of interest income on loans following the inaugural issue;
- secondly, €762K of interest income on securities held to maturity, which represent the investment of capital on long-maturity government securities.
- third, a negative interest income of €388K on the available for sale portfolio. The temporary stocking-up of liquidity, product of the inaugural bond issuance, on very short-term instruments offered remuneration at a negative rate due to market conditions entirely new; With the start of the credit business, liquidity could be redeployed on securities with a better remuneration, according to Agence France Local investment policy on a broader range of counterparties and medium-term investment horizon, reducing the disadvantageous effects of the negative carry of the liquidity. It should be noted that a liquidity reserve remains essential for the local authorities' funding agency to maintain a solid model, despite the carry effect generated by its prudent investment policies.
Finally the financing expenses for an amount of €2,612K.
- At these positions has been added a net interest income of € 1,369k corresponding to the hedging of assets, liabilities and off-balance.

The -€94K hedge accounting net income results from the best practice that the Agence has adopted with regards to the valuation of hedging derivatives and hedge items. This practice is based on a valuation method against Eonia for derivatives which are subject to daily margin calls, while a valuation against Euribor is maintained for hedged instruments. This asymmetry in valuation with regards to the evolution of interest rates, for hedged instruments on the one hand and their derivatives on the other, leads, according to IFRS standards, to a hedge ineffectiveness which is recorded in the profit and loss account. It should nevertheless be noted that these are unrealised losses.

As of 31 december 2015, the general operating expenses reached €10,077K. They show an increase compared to those of the first half of the previous year which amounted to €10,112K. The sum includes €3,866K for personnel expenses compared to €2,021K on 31 December 2014, an increase explained reflecting the ramp-up of the teams mobilized in the development of the bank. With regards to administrative charges, these were maintained at a level of €10,649K, before the transfer of capital expenditures. They registered a non-recoverable VAT charge of €2,036K incurred by the change in tax regime which the Agence faced after the launch of its activity as a credit institution. For comparison, the administrative charges which amounted to €12,055K at December 31, 2014 did not include non-recoverable VAT.

These administrative costs were able to be controlled without neglecting the development of the information system infrastructure which was launched during 2014. Therefore, of the €10,649K in administrative charges, €4,443K were recorded as intangible assets on 31 December 2015, compared to €4,251K on 31 December 2014. It should be noted that the project for the creation of a portal specifically for Local Authorities, which was launched in September 2014, has come to bear fruit and is operational now.

After taking into account a depreciation charge of €1,226K compared to €117K on 31 December 2014, the operating income on 31 December 2015 come to €-10,894K compared to €-9,904K for the previous year.

The Agence recorded a loss of €670K as a result of the sale of part of its securities held to maturity. This shift in capital allocation is intended to free up jobs previously invested mainly in government bonds enjoying the highest ratings and replaced by loans to local authorities. Due to the continued decline in interest rates, investment capital in fixed rate securities at a very low level appeared as inefficient and it turned out better mobilize these resources to use loans to members with superior remuneration rate and liquidity.

The fiscal deficit recorded for this period led to the recognition of deferred tax assets which resulted in a tax income of €3,854K.
The 2015 year ended with a net loss of € -7,710K compared to a loss of € -6,603K during the previous year.

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

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.

Subsequent events

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

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 consolidated financial statements for 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

Scope of consolidation and control

The AFL Group is structured as follows:

- The Group parent company is AFL ST
- Agence is the only subsidiary as of 31 December 2015

On 31 December 2014, the consolidation scope is composed exclusively of Agency, the subsidiary, on which the AFL ST has exclusive control coming from its holding of 99.99% of the voting rights.

Consolidation methods

A subsidiary is an entity controlled by the group. The Group considers that it has exclusive control of a company when it is in a position to influence directly or indirectly the operational and financial policies of the company. The subsidiaries' financial statements are included in the consolidated financial statements from the date control is obtained to the date control ceases. Revenues, expenses and balance sheet items resulting from intra-group transactions are eliminated.

Changes in ownership interests in a subsidiary's equity instruments that do not result in a loss of control are accounted for as equity transactions

AFL ST hold an exclusive control on Agence. The consolidation method used is full consolidation method.

Financial assets and liabilities

At the time of initial recognition, financial assets and financial Held-to-maturity financial assets liabilities are measured at fair value including trading costs (with the category Held-to-maturity financial assets (applicable to the exception of financial instruments recognised at fair value through profit or loss.

Subsequently, financial assets and financial liabilities are measured according to their classification, either at fair value or at amortised cost based on the effective interest rate

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to obtain the net carrying amount of the financial asset financial liability.

Assets and financial liabilities are classified as below:

Held-to-maturity financial assets

The category Held-to-maturity financial assets includes securities with fixed or determinable payments that the Group has the intention and ability to hold until maturity other than:

With a few limited exceptions, IAS 39 prohibits the sale or transfer of these securities before they mature. Infringing this rule may result in the Group being prohibited from classifying securities in this category for two financial years

Interest-rate risk hedging transactions on this category of securities are not eligible for hedge accounting as defined by IAS 39.

At year-end, the securities are valued at amortised cost according to the effective interest rate method, which includes amortisation of the premiums and discounts that correspond to the difference between their acquisition and repayment values.

Income received in respect of these securities is shown in “Interest and similar income” in the profit and loss statement.

Where there is objective evidence of impairment, a provision is recorded to represent the difference between book value and estimated recovery value, discounted at the original effective interest rate. This impairment charge is offset against the cost of risk. In the event of a subsequent improvement, the excess provision, which is redundant, is written back.

Available-for-sale financial assets

Applying criteria established by IAS 39, the Group classifies as "Financial assets available for sale":

- Non-consolidated compagnies

- Placement securities

These assets are recognised on the balance sheet at their market value at the time of their acquisition and at subsequent year-ends until they are sold. Movements in fair value are recorded in a specific line in equity capital: "Unrealised or deferred gains and losses". These unrealized gains and losses recognised in equity capital are not recognised in the profit and loss statement unless they are sold or impaired. Income accrued or received from fixed-income securities is recognised in profit and loss according to the effective net interest method in "Interest and similar income". Dividends received on variable-income securities are recognised in "Net gains or losses on financial assets available for sale" in the profit and loss statement.

When the securities are sold, unrealised gains and losses that were previously recorded in equity capital are recycled through the profit and loss statement in "Net gains or losses on financial assets available for sale".

Loans and receivables

Loans and receivables are non-derivative financial assets, which are not listed on an active market and for which returns are fixed or can be determined. They include credit institution and customer loans and receivables. Following their initial recognition, they are recognized at amortised cost using the effective interest rate method and may be subject to impairment, if required.

The effective interest rate is the exact rate used for discounting future cash flows at the initial fair value of the loan. It includes transaction costs and ancillary revenues (arrangement fees, commitment fees when drawdown is deemed more likely than not, or participation fees) directly related to the issuance of loans, considered to be an integral part of returns on lending.

Income calculated based on the effective interest rate is recognized in the balance sheet under accrued interests in the income statement.

Impairment of financial assets

The Group records charges for impairment losses when there is objective evidence that a financial asset or group of financial assets is impaired, as a result of one or more events occurring since initial recognition and when that loss event has an impact on the estimated future cash flows that can be reliably estimated. Impairment represents management's best estimate of losses in the value of assets at each balance-sheet date.

Impairment of financial assets measured at amortized cost

The Group begins by identifying whether there is objective evidence of an event occurring after a loan or a financial asset acquired was granted that is likely to lead to a loss of value.

Individually assessed financial assets: if there is objective evidence that loans or other receivables, or held-to maturity assets are impaired, the impairment charge is calculated as the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows discounted at the financial instrument's original effective interest rate. When an asset is individually impaired, it will be excluded from the portfolio on which a collective impairment is calculated.

Collective impairment: this covers the risk of loss in value not covered by specific impairment where there is objective evidence that probable losses are present in certain segments of the lending portfolio on the balance-sheet date. These losses are estimated on the basis of past performance and historical loss experience in each segment and the current environment in which borrowers operate.

Available for sale impairment

In the event of a prolonged or material reduction in the fair value of equity instruments, an impairment charge is recorded on financial assets available for sale. The same applies to debt securities in the event of a significant deterioration in the credit risk.

Losses on the impairment of variable income securities recognized in profit and loss cannot be reversed while the instrument concerned is shown on the balance sheet. They are recognised in "Net gains or losses on financial Assets available for sale". Losses on the impairment of fixed-income securities are reversible and are recognised in cost of risk when they involve credit risk financial policies of the company, regardless of its percentage of ownership.

Financial assets at fair value through profit or loss

The Group does not have financial assets at fair value through profit or loss.

Financial assets designated at fair value through profit or loss (fair value option)

The Group does not use the option to designate its financial assets at fair value through profit or loss.

Recognition date of securities

AFL Group records on the settlement date securities the Held-to-maturity financial assets. Other securities, regardless of type or classification, are recognised on the trading date.

Fixed assets

Fixed assets shown on the balance sheet include tangible and intangible operating assets, i.e. assets used for administrative purposes. The Group has no investment property.

Fixed assets are recognised at their acquisition cost plus acquisition expenses that are directly related and required to put them in working order so that they can be used.

Fixed assets that are depreciated are subject to impairment tests in cases where evidence of a loss of value is identified at year-end. Fixed assets that are not depreciated are subject to impairment tests in cases where potential evidence of a loss of value is identified at year-end, and at least once a year.

If evidence of a loss of value is recorded, the recoverable value of the asset is compared with its net book value. In the event of a loss of value, an impairment charge is recorded in the profit and loss statement. That impairment changes the depreciation schedule of the asset going forwards. The impairment is reversed in the event of a change in the estimated recoverable value or the evidence of impairment disappears.

Tangible assets

Tangible assets are depreciated linearly over their expected useful life.

Fixed asset	Estimated usefull life
Fixtures and fittings	10 years
Computer equipment	3 years
Office furniture	9 years

Intangible assets

Software are recognised in intangible assets as they meet the following three criteria in respect of IAS 38:

- Must be identifiable;

- Be controlled by the Company;

- Is likely that the future economic advantages attributable to such an element will go to the Company

Intangible assets are depreciated linearly over their expected useful life.

Fixed asset	Estimated usefull life
Software	5 years
Website	3 years
Software development	5 years

Debt

Debt that is not classified in financial liabilities at fair value is initially recorded at cost, which corresponds to the fair value of the amounts borrowed net of transaction costs. At year-end, the debt is valued at amortised cost according to the effective interest rate and recorded in the balance sheet under “Debt payable to credit institutions” or “Debt represented by a security”.

Debt payable to credit institutions

Debt payable to credit institutions is broken down according to their initial maturity or nature of the debt: overnight debt (overnight deposits, ordinary accounts) or term debt (savings accounts).

Debt represented by a security

Financial instruments are classified as debt instruments if the issuer is required to remit cash or other financial assets or to exchange instruments under potentially unfavorable conditions. Debt represented by a security consists of negotiable debt securities issued by Agence.

Reimbursement and issue premiums are amortized according to an actuarial method over the expected life of the securities concerned. They are recorded on the balance sheet in items corresponding to the type of debt concerned. The amortization of these premiums is recorded in the income statement as interest income and expense on debt

Fees paid on bond issues are amortized on an actuarial basis over the life of the related financial liabilities.

Financial derivatives and hedge accounting

According to IAS 39, a derivative is a financial instrument or other contract that has the following three characteristics:

- Its value fluctuates according to an interest rate, the price of a financial instrument, the price of a commodity, an exchange rate, a price or share price index, a credit rating or credit index, or another variable known as the underlying asset;
- It requires a low or nil initial net investment, or a net investment that is lower than the investment required by a non-derivative financial instrument in order to achieve the same sensitivity to the underlying asset;
- It is unwound at a future date.

Derivatives held for transaction purposes

Derivatives belong to the category of financial instruments held for trading, except for derivatives that are used for hedging purposes. Their fair value is recognised in the balance sheet in “Financial instruments at fair value through profit and loss”. Movements in fair value and interest accrued or received are recognised in “Net gains and losses on financial instruments at fair value through profit and loss”.

Hedge accounting

Fair value hedges are intended to provide protection from exposure to a change in the fair value of an asset or of a liability that has been recognised, or of a firm commitment that has not been recognised. Cash flow hedges are intended to provide protection from a change in future cash flows from financial instruments associated with a recognised asset or liability (for example, with all or part of future interest payments on a floating-rate debt) or a projected transaction that is considered to be highly probable. Hedges of net investments in a foreign operation are intended to provide protection from the risk of an adverse movement in fair value arising from the foreign exchange risks associated with a foreign investment in a currency other than the euro. Hedges must meet the following criteria in order to be eligible for hedge accounting:

- The hedging instrument and the instrument hedged must be eligible;
- There must be formal documentation from inception, primarily including the individual identification and characteristics of the hedged item, the hedging instrument, the nature of the hedging relationship and the nature of the hedged risk;
- The effectiveness of the hedge must be demonstrated, at inception and retrospectively, by testing at each reporting date.

Fair value hedge

Any revaluation of the derivative is recognised in profit and loss in a way that mirrors the revaluation of the item hedged. Gains or losses attributable to the hedged risk are recognised in “Net gains or losses on financial instruments at fair value through profit and loss” in the profit and loss statement. As soon as the hedge relationship becomes effective, movements in the fair value of the hedged item are mirrored by the movements in the fair value of the hedging instrument. Any potential failure in the hedge is directly recognised in profit and loss. The portion relating to the accrued income or expenses of the derivative instrument is recognised in Income and interest expense in the profit and loss statement at the same time as the interest income and expense relating to the hedged item.

If at any time the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortized to profit or loss over the residual maturity of the hedged item by adjusting the yield on the hedged item.

Cash flow hedges

The change in value of the derivative is recognised in the balance sheet through a specific account in other comprehensive income for the efficient portion and any inefficient portion of the hedge is recognised in the income statement. Any profits or losses on the derivative accrued through other comprehensive income are then reclassified in the income statement when the hedged cash flows occur;

Macro-hedging

The Group applies the provisions of IAS 39, as adopted by the European Union, to macro-hedging transactions that are performed as part of the asset & liability management of fixed-rate positions. Macro-hedging instruments are interest-rate swaps designated as fair value hedges for the Group’s fixed-rate resources. Macro-hedging derivatives are accounted for according to the same principles as those described above. The revaluation of the hedging component is recognised in “Revaluation differences on portfolios hedged against interest rate risk”.

Determining fair value or market value

IFRS 13 defines fair value as the price received for the sale of an asset or paid for the transfer of a liability in a standard transaction between market participants on the valuation date.

When an instrument is initially recognised, its fair value is generally the transaction price.

IFRS 13 recommends using a price quoted on an active market in the first instance to determine the fair value of a financial asset or liability. A market is considered to be active if prices are easily and regularly available from a stock exchange, a broker (multiple inputs), an intermediary or a regulatory agency, and if those prices represent real transactions (volume and price range) under normal competition conditions.

In the absence of an active market, the fair value must be determined using valuation techniques.

These techniques include the use of recent transactions performed in a normal competition environment. They are based on market data, on the fair value of substantially identical instruments, or on cash flow or option valuation discount models, and involve recognised valuation methods.

The aim of a valuation technique is to establish what the price of an instrument would be under normal market conditions.

The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and, for an asset to be acquired or liability held, the asking price.

Fair value of financial instruments are presented in Appendix over three levels in descending order of observability of values and parameters used for their valuation:

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 2 is composed of:

- bonds quoted in an inactive market or non quoted in an active market but for which fair value is established using a valuation methodology usually used by market participants (such as discounted cash flow techniques) and based on observable market data;

- Instruments that are traded over the counter, the fair value of which is measured with models using observable market data, i.e. derived from various and independent available external sources which can be obtained on a regular basis. For example, the fair value of interest rate swaps is generally derived from the yield curves of market interest rates as observed at the reporting date.

Level 3: fair value that is measured using significant unobservable inputs

For some instruments that are not traded in an active market, fair value measurement is based on valuation techniques using assumptions i.e. that cannot be observed on the market for an identical instrument. Loans to local authorities are disclosed within Level 3.

Financial guarantees

According to IAS 39, a contract meets the definition of a financial guarantee if it includes an indemnity clause, according to which the issuer shall compensate the beneficiary for losses that the latter has suffered due to the default of a debtor who was specifically designated to make a payment on a debt instrument.

Provisions

Provisions are recorded in balance sheet liabilities when the Group has an obligation towards a third party and that obligation is likely or certain to cause an outflow of funds for the benefit of the third party with no expectation of a counter-payment that is at least equivalent.

Provisions and provision reversals are recorded in profit and loss on the lines that correspond to the nature of the future expenditure involved.

Interest income and expense

Interest income and expense are recognised in the profit and loss statement for all financial instruments valued at amortised cost using the effective interest rate.

Interest income and expense include for available for sale and held to maturity securities, the difference between the purchase price and the redemption value which is spread over the remaining life of the security on an actuarial basis.

The effective interest rate is the rate that discounts future cash outflows or inflows exactly over the expected life of the financial instrument, so as to arrive at the net book value of the financial asset or liability.

The calculation of this rate factors in commissions received or paid, which are by nature an integral part of the effective contract rate.

Cost of risk

The cost of credit risk includes impairment charges and reversals on fixed-income securities, and customer loans and receivables, as well as charges and reversals of impairment relating to guarantee commitments given, losses on receivables, and the recovery of amortised receivables.

Current tax expense

The current income tax expense is calculated using a 33 1/3% rate which is the effective tax rate for the 31 December 2015 period.

Deferred taxes

Deferred taxes are recognized using the liability method to account for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The tax rates enacted or substantively enacted at the balance-sheet date are used to determine deferred taxes. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is recognised as tax income or expense in the profit and loss statement, except for tax relating to unrealised gains and losses on assets available for sale, and for movements in the value of derivatives classified as cash flow hedges, for which deferred tax is charged directly to equity capital.

IAS 12 prohibits discounting of deferred tax assets and liabilities.

Post-employment benefits

In accordance with IAS 19 – Employee Benefits, obligations under defined benefit plans are measured by independent actuaries using the projected unit credit method.

Under this method, each period of service gives rise to an additional unit in terms of benefit entitlement and each unit is assessed separately so as to calculate the final obligation. This final obligation is then discounted. The main items taken into account in these calculations are:

• an estimated date of payment of the benefit,
• a financial discount rate
• an inflation rate
• assumptions on salary increases, staff turnover

Changes in actuarial assumptions and experience adjustments - corresponding to the effects of differences between the previous actuarial assumptions and what has actually occurred - give rise to actuarial gains and losses on the benefit obligation or on the plan assets. These gains and losses are recorded in the “Income and expenses recognized directly in equity” statement, and will not be recycled in the income statement.

The net cost of defined benefit pension plans for the period therefore corresponds to the sum of the following:

- The service cost (recognized in “Operating income” in “Other general operating expenses”);

- The finance cost less the expected yield on plan assets (recognized in “Non-operating income” in “Pension obligation expense or income”). These two items (finance cost and expected yield on assets) are measured based on the rate used to discount the obligations.

These two items (finance cost and expected yield on assets) are measured based on the rate used to discount the obligations.

V - Notes to the Balance Sheet

Note 1 - HEDGING DERIVATIVES

Analysis by type of hedge

	31/12/2015		31/12/2014	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Derivatives designated as fair value hedges	2 204	11 743	-	-
Derivatives designated as cash flow hedges				
Derivatives designated as portfolio hedges	186	282	-	-
Total Hedging derivatives	**2 390**	**12 025**	**-**	**-**

Detail of derivatives designated as fair value hedges

	31/12/2015				31/12/2014			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Négative	To receive	To deliver	Positive	Négative
FIRM TRANSACTIONS	**802 404**	**397 427**	**2 204**	**11 743**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**802 404**	**397 427**	**2 204**	**11 743**	**-**	**-**	**-**	**-**
Interest rate contracts	755 100	397 427	2 204	10 401				
FRA								
Cross Currency Swaps	47 304			1 342				
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Detail of derivatives designated as interest rate hedged portfolios

	31/12/2015				31/12/2014			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Négative	To receive	To deliver	Positive	Négative
FIRM TRANSACTIONS	**-**	**65 100**	**186**	**282**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**-**	**65 100**	**186**	**282**	**-**	**-**	**-**	**-**
Interest rate contracts		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)	31/12/2015	31/12/2014
Government paper and similar securities	407 976	
Bonds	51 061	
Other fixed income securities		
Net amount in balance sheet	**459 037**	**-**
Including depreciation	-	
Including net unrealised gains and losses	3 178	

Fixed-income securities - Analysis by contreparty

(€ '000s)	31/12/2015	31/12/2014
Local public sector	189 427	
Financial institutions	269 610	
Central banks		
Net amount in balance sheet	**459 037**	**-**

Fixed income securities held on Financial institutions include 195 769k€ of securities guaranteed by governments from European Comunity.

Changes in Available-for-sale financial assets

(€ '000s)	Total amount as of 31/12/2014	Additions	Disposals	Gains/(losses) in fair value recognised in equity	Impairment recognised in Income statement	Change in accrued interest	Prem/Disc Amort.	Transfers from Held to maturity	Total 31/12/2015
Government paper and similar securities	-	1 736 867	(1 348 224)	3 129		785	(423)	15 843	407 976
Bonds	-	43 134	(10 007)	50		9	(68)	17 943	51 061
Other fixed income securities	-								-
TOTAL	**-**	**1 780 001**	**(1 358 231)**	**3 179**	**-**	**793**	**(492)**	**33 787**	**459 037**

Note 3 - Held-to-maturity financial assets

(€ '000s)	31/12/2015	31/12/2014
Government paper and similar securities	-	13 913
Bonds	-	17 959
Other fixed income securities	-	-
Net amount in balance sheet	**-**	**31 873**
Including depreciation	#VALEUR!	

Change in Held-to-maturity financial assets

(€ '000s)	Total amount as of 31/12/2014	Additions	Disposals	Impairment recognised in Income statement	Change in accrued interest	Prem/Disc Amort.	Other movements	Transfers to Available for sale	Total 31/12/2015
Government paper and similar securities	13 913	24 754	(22 979)	-	238	(79)	(5)	(15 843)	-
Bonds	17 959	-	-	-	(1)	(15)		(17 943)	-
Other fixed income securities	-	-	-	-	-	-			-
TOTAL	**31 873**	**24 754**	**(22 979)**	**-**	**238**	**(94)**	**(5)**	**(33 787)**	**-**

The Agence has sold a part of its securities held to maturity. This sale resulted in the reclassification of residual Investment securities in Available for sale securities class for €33,8m.This shift in capital allocation is intended to free up jobs previously invested mainly in government bonds enjoying the highest ratings and replaced by loans to local authorities. Due to the continued decline in interest rates, investment capital in fixed rate securities at a very low level appeared as inefficient and it turned out better mobilize these resources to use loans to members with superior remuneration rate and liquidity.

Note 4 - RECEIVABLES ON CREDIT INSTITUTIONS

(€ '000s)	31/12/2015	31/12/2014
Loans and receivables		
- demand	47 206	6 151
- time		
Securities bought under repurchase agreements		
Sub-Total	**47 206**	**6 151**
Impairment		
Net carrying amount	**47 206**	**6 151**

Note 5 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	31/12/2015	31/12/2014
Short-term credit facilities		
Other loans	383 527	
Customers transactions before impairment charges	**383 527**	
Impairment		
Net carrying amount	**383 527**	**-**
Of which individual impairment		
Of which collective impairment		

Note 6 - DEFERRED TAX

The movement on the deferred tax account is as follows:

(€ '000s)	31/12/2015	31/12/2014
Net asset as at 1st of january	3 301	
Of which deferred tax assets	3 301	
Of which deferred tax liabilities		
Recognised in income statement	**3 854**	**3 301**
Income statement (charge) / credit	3 854	
Recognised in equity	**(1 100)**	**-**
Available-for-sale financial assets	(1 100)	
Cash flow hedges		
Other		
Net asset as at	**6 056**	**3 301**
Of which deferred tax assets	7 290	3 301
Of which deferred tax liabilities	1 234	

As at 31 December 2015, Agence recognised deferred tax assets corresponding to losses carried forward. At the end of the year, the Agence 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)	31/12/2015	31/12/2014
Available-for-sale financial assets		
Cash flow hedges		
Losses carried forward	7 290	3 301
Other temporary differences		
TOTAL DEFERRED TAX ASSETS	**7 290**	**3 301**

Deferred tax net liabilities are attributable to the following items:

(€ '000s)	**31/12/2015**	**31/12/2014**
Available-for-sale financial assets	1 100	
Cash flow hedges		
Other temporary differences	134	
TOTAL DEFERRED TAX LIABILITIES	**1 234**	**-**

Note 7 - OTHER ASSETS AND ACCRUALS

(€ '000s)	**31/12/2015**	**31/12/2014**
Other assets		
Cash collateral paid	12 985	62
Other assets	663	1 506
Impairment		
Net carrying amount	**13 647**	**1 568**
Accruals		
Prepaid charges	67	26
Other deferred income		
Transaction to recieve and settlement accounts		
Other accruals	72	
Total	**139**	**26**
TOTAL OTHER ASSETS AND ACCRUALS	**13 786**	**1 593**

Note 8 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible fixed assets	**31/12/2014**	**Additions**	**Transfers**	**Disposals**	**Amort.**	**Other movements**	**31/12/2015**
Intangible fixed assets							
IT development costs	3 861		4 363				8 224
Other intangible assets	268	49					317
Intangible assets in progress	122		80				202
Intangible fixed assets gross amount	**4 251**	**49**	**4 443**	**-**	**-**		**8 743**
Depreciation and allowances - Intangible fixed assets	(103)				(1 135)		(1 238)
Intangible fixed assets net carrying amount	**4 148**	**49**	**4 443**	**-**	**(1 135)**		**7 505**

Tangible fixed assets	**31/12/2014**	**Additions**	**Transfers**	**Disposals**	**Amort.**	**Other movements**	**31/12/2015**
Property, plant & equipment	663	72					735
Tangible fixed assets gross amount	**663**	**72**	**-**	**-**	**-**		**735**
Depreciation and allowances - Tangible fixed assets	(14)				(91)		(105)
Tangible fixed assets net carrying amount	**649**	**72**	**-**	**-**	**(91)**		**630**

Note 9 - DUE TO CREDIT INSTITUTIONS

(€ '000s)	31/12/2015	31/12/2014
Accounts and Overdrafts		
- demand	-	15 800
- time		
Securities sold under repurchase agreements		
TOTAL	**-**	**15 800**

Note 10 - DEBT SECURITIES

(€ '000s)	31/12/2015	31/12/2014
Negotiable debt securities		
Bonds	840 536	
Other debt securities		
TOTAL	**840 536**	**-**

Note 11 - ACCRUALS AND OTHER LIABILITIES

(€ '000s)	31/12/2015	31/12/2014
Other liabilities		
Cash collateral received	100	
Miscellaneous creditors	1 553	1 029
Total	**1 653**	**1 029**
Accruals		
Transaction to pay and settlement accounts		
Other accrued expenses	720	199
Unearned income		
Other accruals		
Total	**720**	**199**
TOTAL ACCRUALS AND OTHER LIABILITIES	**2 374**	**1 228**

Note 12 - PROVISIONS

(€ '000s)	Balance as of 31/12/2014	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Total 31/12/2015
Provisions						
Financing commitment execution risks						
Provisions for other litigations						
Provisions for employee retirement and similar benefits	3	14			2	19
Provisions for other liabilities to employees						
Other provisions						
TOTAL	**3**	**14**	**-**	**-**	**2**	**19**

OFF-BALANCE SHEET

(€ '000s)	31/12/2015	31/12/2014
Commitments given	**136 933**	
Financing commitments	121 922	
For credit institutions		
For customers	*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	**-**	**9 200**
Financing commitments		9 200
From credit institutions		*9 200*
Guarantee commitments		
From credit institutions		
From customers		
Commitments on securities		
Securities receivable		

VI - Notes to the Income Statement

Note 13 - INTEREST INCOME AND EXPENSES

(€ '000s)	31/12/2015	31/12/2014
Interest and similar income	**5 406**	**440**
Due from banks	3	
Due from customers	1 365	
Bonds and other fixed income securities	373	440
from Held-for-sale securities	*(388)*	
from Held-to-maturity securities	*762*	*440*
Income from interest rate instruments	3 664	
Other interest income		
Interest and similar expenses	**(4 911)**	**(63)**
Due to banks	(41)	(63)
Due to customers		
Debt securities	(2 574)	
Expense from interest rate instruments	(2 296)	
Other interest expenses		
Interest margin	**496**	**377**

Note 14 - NET FEE AND COMMISSION INCOME

(€ '000s)	31/12/2015	31/12/2014
Commission income	**-**	**-**
Interbank transactions		
Customer transactions		
Securities transactions		
Forward financial instruments transactions		
Currencies transactions		
Financing commitments and guarantee		
Other commissions recieved		
Commission expenses	**(24)**	**(53)**
Interbank transactions	(0,04)	(53)
Securities transactions	(12)	
Forward financial instruments transactions	(12)	
Currencies transactions		
Financing commitments and guarantee		
Other commissions paid		
Net fee and commission income	**(24)**	**(53)**

Note 15 - NET RESULT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(€ '000s)	31/12/2015	31/12/2014
Gains/(losses) on Trading book		
Net result of hedge accounting	(94)	
Net result of foreign exchange transactions		
TOTAL	**(94)**	**-**

Analysis of net result of hedge accounting

(€ '000s)	31/12/2015	31/12/2014
Fair value hedges		
Fair value changes in the hedged item attributable to the hedged risk	3 585	
Fair value changes in the hedging derivatives	(3 640)	
Discontinuation of cash flow hedge accounting	(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	17	
Fair value changes in the hedging derivatives	(42)	
Net result of hedge accounting	**(94)**	**-**

Note 16 - NET GAINS (LOSSES) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

(€ '000s)	31/12/2015	31/12/2014
Gains from disposal of fixed income securities	36	
Losses from disposal of fixed income securities	(22)	
Gains from disposal of variable income securities		1
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	**14**	**1**

Note 17 - GENERAL OPERATING EXPENSES

(€ '000s)	31/12/2015	31/12/2014
Employee expenses		
Wages and salaries	2 644	1 384
Post-employment benefit expenses	286	144
Other expenses	935	493
Total Employee expenses	**3 866**	**2 021**
Operating expenses		
Taxes and duties	273	19
External services	10 376	12 055
Total Administrative expenses	**10 649**	**12 074**
Charge-backs and reclassification of administrative expenses	(4 439)	(3 983)
Total General operating expenses	**10 077**	**10 112**

Note 18 - +/- NET GAINS (LOSSES) ON FIXED ASSETS

(€ '000s)	31/12/2015	31/12/2014
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 19 - External auditor fees

	Caillau Dedouit et Associés				KPMG Audit			
	2015		2014		2015		2014	
	(€ '000s)	%	(€ '000s)	%	(€ '000s)	%	(€ '000s)	%
Audit								
Fees related to statutory audit, certification, examination of:								
AFL-Société Territoriale (Parent company)	15	16	10	21	16	17	10	21
AFL-Société Opérationelle (Subsidiary company)	78	84	37	79	77	83	37	79
Sub-total	**93**	**100**	**47**	**100**	**93**	**100**	**47**	**100**
Fees related to audit services and related assignments:								
AFL-Société Territoriale (Parent company)								
AFL-Société Opérationelle (Subsidiary company)								
Sub-total								
Other benefits from the network of consolidated subsidiaries								
Law, tax, social								
Other								
Sub-total								
TOTAL	**93**	**100**	**47**	**100**	**93**	**100**	**47**	**100**

Note 20 - Related parties

There are, on 31 December 2015, 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.

Remuneration for Board of AFL and the Group's Director:

Neither members of AFL Board nor Group's Director benefited from a payment in actions in conformance with the exercise 2015 and a compensation was settled because of termination of contract of employment. No other long-term advantage was granted to them.

Their Director's remunerations on the exercise 2015 were the following ones :

(€ '000s)	31/12/2015
Fixed remuneration	833
Variable remuneration	60
Payments in kind	8
Total	**901**

In addition, members of the AFL Supervisory Board received € 151k attendance fees. No attendance fees were paid to members of the Board of Directors of Agence France Locale - Sociéré Territoriale.

VII - Notes to Risk exposure

A - Fair value of financial instruments

IFRS 13 defines fair value as the price received for the sale of an asset or paid for the transfer of a liability in a standard transaction between market participants on the valuation date.

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 that is measured using significant unobservable inputs

Fair value of instruments carried at fair value:

	31/12/2015			
		Measured using		
(€ '000s)	Total	Level 1	Level 2	Level 3
Financial assets				
Derivative financial instruments	**2 390**	-	2 390	-
Government paper and similar securities	407 976	407 976	-	-
Bonds	51 061	51 061	-	-
Other fixed income securities	-	-	-	-
Total Available-for-sale financial assets	**459 037**	**459 037**	**-**	**-**
Total Financial assets	**461 427**	**459 037**	**2 390**	**-**
Financial liabilities				
Derivative financial instruments	(12 025)	-	(12 025)	-
Total Financial liabilities	**(12 025)**	**-**	**(12 025)**	**-**

Fair values of instruments carried at amortised cost:

	31/12/2015				
			Measured using		
(€ '000s)	Valeur comptable	Juste valeur	Level 1	Level 2	Level 3
Financial assets					
Loans and receivables due from credit institutions	**47 206**	47 206	-	-	47 206
Loans and advances to customers	**383 527**	383 527	-	-	383 527
Total Held-to-maturity financial assets	**-**	**-**	-	-	-
Total Financial assets	**430 733**	**430 733**	**-**	**-**	**430 733**
Financial liabilities					
Debt securities	840 536	840 018	744 066	-	95 953
Total Financial liabilities	**840 536**	**840 018**	**744 066**	**-**	**95 953**

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 31 December 2015 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 31/12/2015
Hedging derivative instruments	2 390			**2 390**
Available-for-sale financial assets	459 037			**459 037**
Loans and receivables due from credit institutions	47 206			**47 206**
Held-to-maturity financial assets				**-**
Loans and advances to customers	383 527			**383 527**
Revaluation adjustment on interest rate hedged portfolios	17			**17**
Other assets	13 647			**13 647**
Sub-total Assets	**905 824**	**-**	**-**	**905 824**
Financing commitments given	121 922			**121 922**
TOTAL Credit risk exposure	**1 027 746**	**-**	**-**	**1 027 746**

Analysis by contreparty

(€ '000s)	Total 31/12/2015
Central Bank	373
Local public sector	695 094
Credit institutions guaranteed by the EEA States	195 769
Credit institutions	86 750
Other financial corporations	49 688
Non-financial corporations	71
Total Exposure by contreparty	**1 027 746**

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 country

(€ '000s)	Total 31/12/2015
France	898 931
Supranational	55 140
Netherlands	26 255
Canada	21 157
Germany	12 970
Norway	5 305
Danemark	5 013
Sweden	2 502
Belgium	473
Total Exposure by contreparty	**1 027 746**

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 31/12/2015
Hedging derivative instruments			2 041	407	**2 448**	**(58)**		**2 390**
Available-for-sale financial assets								
Government paper and similar securities	99 081	54 460	229 692	20 602	403 834	1 013	3 128	407 975
Bonds	5 006	28 053		17 692	50 751	260	50	51 061
Total Available-for-sale financial assets	**104 087**	**82 513**	**229 692**	**38 294**	**454 585**	**1 273**	**3 178**	**459 037**
Loans and receivables due from credit institutions	47 206				**47 206**			**47 206**
Held-to-maturity financial assets					**-**	**-**	**-**	**-**
Loans and advances to customers	5 467	19 963	101 361	257 545	**384 336**	**537**	**(1 346)**	**383 527**
Revaluation adjustment on interest rate hedged portfolios					**-**		**17**	**17**
Other assets	13 647				**13 647**			**13 647**
TOTAL ASSETS								**905 825**
Hedging derivative instruments		1 368	5 112	6 986	**13 466**	**(1 441)**		**12 025**
Debt securities		95 888		746 258	**842 145**	**2 132**	**(3 742)**	**840 536**
Accruals and other liabilities	2 374				**2 374**			**2 374**
TOTAL LIABILITIES								**854 935**

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

Exposure to interest rate risk relates to that of the Operational subsidiary, Agence France Locale.

Maturity	1 Day	30 Days	6 Month	12 Month	5 Year	10 Year	15 Year	20 Year
Gap (M€)	137,2	180,2	4,3	44,0	51,2	51,3	52,8	0,0

Agence France Locale has a surplus of fixed rates exposures, primarily resulting from:
- In the short term, positions indexed on the 3-month EURIBOR rate, which will be re-set on 21 March 2016,
- In the long term, equity capital that is modelled "in fine" at 20 years.

Agence France Locale's NPV sensitivity is calculated excluding equity capital and intangible assets to avoid double-counting, as they are already subtracted from the denominator (prudential own funds).

	31/12/2015	30/09/2015	30/06/2015	Limit
Sc. +100bp	-1,1%	-8,0%	-8,3%	±20%
Sc. -100bp	1,1%	8,9%	9,2%	±20%
Sc. -100bp (floor)	1,1%	8,8%	9,1%	±20%
Sc. +200bp	-2,2%	-15,3%	-15,9%	±20%
Sc. -200bp	2,2%	18,9%	19,6%	/
Sc. -200bp (floor)	2,1%	17,5%	9,1%	±20%

Agence France Locale complies with all regulatory limits, including limits that were introduced in early 2015 on NPV sensitivity to shocks of +/- 200 bp. Agence France Locale's sensitivity declined at the year end, with the sale of a significant proportion of the portfolio of HTM fixed-rate securities.

AGENCE FRANCE LOCALE – SOCIETE TERRITORIALE

STATUTORY AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2015

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures.

This report also includes information relating to the specific verification of information given in the Group's management report.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

KPMG AUDIT FS I
Tour EQHO
2, avenue Gambetta
CS 60055
92066 Paris La Défense

Cailliau Dedouit et Associés
19, rue Clément Marot
75008 Paris

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2015

To the Shareholders
AGENCE FRANCE LOCALE – SOCIETE TERRITORIALE
41, quai d'Orsay
75007 PARIS

In compliance with the assignment entrusted to us by the Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2015, on:

- the audit of the accompanying consolidated financial statements of Agence France Locale – Société Territoriale (AFL Group),
- the justification of our assessments,
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2015 and of the results of the operations for the year then ended, in accordance with IFRSs as adopted by the European Union.

II. Justification of assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code ("Code de commerce") relating to the justification of our assessments, we bring to your attention the following matters.

Accounting principles

- *Financial assets*

Your group has purchased a bonds portfolio for liquidity purposes. These financial assets have been registered during the year in "Available for sale financial assets" and "Held to maturity financial assets" categories in accordance with the principles set out in paragraph IV of the Notes to the consolidated financial statements. In the framework of assessing the accounting principles used by your Group, we have verified the appropriateness of these accounting methods, as well as the information provided in notes 2 and 3 of paragraph V of the Notes to the consolidated financial statements, and have made sure of their correct application.

- *Derivative financial instruments*

Your Group has concluded derivative financial instruments to hedge its exposure to market risks. These instruments have been registered in « Fair value hedging » category in accordance with the principles set out in paragraph IV of the Notes to the consolidated financial statements. In the context of assessing the accounting principles used by your Group, we have verified the appropriateness of these accounting methods, as well as the information provided in note 1 of paragraph V of the Notes to the consolidated financial statements, and have made sure of their correct application.

Accounting estimates

Your group has carried out accounting estimates concerning recognition of deferred tax assets relating to tax losses carried forward in accordance with the principles set out in note 6 of paragraph V of the Notes to the consolidated financial statements. We have examined the main assumptions used and verified that the estimations done rely on documented procedures in accordance with the principles set out in the Notes to the consolidated financial statements.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verification

As required by the law we have also verified, in accordance with professional standards applicable in France, the information presented in the Group's management report. We have no matters to report regarding its presentation and its consistency with the consolidated financial statements.

Paris la Défense and Paris, April 8, 2016

French original signed by

KPMG Audit FS 1	**Cailliau Dedouit et Associés**
Fabrice Odent	Laurent Brun