

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

BALANCE SHEET

Assets as of June 30, 2017

(€ '000s)	Notes	30/06/2017	31/12/2016
Cash, central banks	4	412,607	57,929
Financial assets at fair value through profit or loss	1	16,185	6,505
Hedging derivative instruments	2	15,807	16,777
Available-for-sale financial assets	3	658,592	357,646
Loans and receivables due from credit institutions	4	163,775	25,054
Loans and advances to customers	5	1,060,617	892,227
Revaluation adjustment on interest rate hedged portfolios			1,091
Held-to-maturity financial assets			
Current tax assets		25	
Deferred tax assets	6	5,796	5,909
Accruals and other assets	7	43,159	21,312
Intangible assets	8	5,281	6,004
Property, plant and equipment	8	514	550
Goodwill			
TOTAL ASSETS		2,382,357	1,391,003

Liabilities as of June 30, 2017

(€ '000s)	Notes	30/06/2017	31/12/2016
Central banks		213	
Financial liabilities at fair value through profit or loss	1	16,651	6,504
Hedging derivative instruments	2	38,094	20,448
Due to credit institutions			
Due to customers			
Debt securities	9	2,206,949	1,259,073
Revaluation adjustment on interest rate hedged portfolios		1,205	
Current tax liabilities			
Deferred tax liabilities	6	30	113
Accruals and other liabilities	10	1,780	5,841
Provisions	11	19	506
Subordinated debt			
Equity		117,416	98,518
Equity, Group share		117,415	98,517
Share capital and reserves		135,044	115,891
Consolidated reserves		(17,665)	(14,314)
Reevaluation reserve			
Gains and losses recognised directly in equity		78	291
Profit (loss) for the period		(41)	(3,352)
Non-controlling interests		1	1
TOTAL LIABILITIES		2,382,357	1,391,003

Income statement

(€ '000s)	Notes	30/06/2017	30/06/2016	31/12/2016
Interest and similar income	12	16,721	8,168	19,625
Interest and similar expenses	12	(13,524)	(6,041)	(14,920)
Commissions (income)	13	29		1
Commissions (expense)	13	(44)	(53)	(61)
Net gains (losses) on financial instruments at fair value through profit or loss	14	545	(294)	(1,177)
Net gains (losses) on available-for-sale financial assets	15	1,636	3,267	5,786
Income on other activities			1	
Expenses on other activities				
NET BANKING INCOME		5,364	5,049	9,254
Operating expenses	16	(4,355)	(4,435)	(9,503)
Net depreciation, amortisation and impairments of tangible and intangible assets	8	(937)	(915)	(1,855)
GROSS OPERATING INCOME		72	(301)	(2,105)
Cost of risk				
OPERATING INCOME		72	(301)	(2,105)
Net gains and losses on other assets	17			
INCOME BEFORE TAX		72	(301)	(2,105)
Income tax	6	(113)	37	(1,247)
NET INCOME		(41)	(264)	(3,352)
Non-controlling interests				
NET INCOME GROUP SHARE		(41)	(264)	(3,352)
Basic earnings per share (in EUR)		(0.03)	(0.23)	(2.89)
Diluted earnings per share (in EUR)		(0.03)	(0.23)	(2.89)

Net income and other comprehensive income

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Net income	(41)	(264)	(3,352)
Items will be reclassified subsequently to profit or loss	78	(229)	291
Unrealized or deferred gains and losses of financial assets available for sale	78	(229)	291
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			
Items will not be reclassified subsequently to profit or loss	78	(229)	291
NET INCOME AND GAINS AND LOSSES THROUGH EQUITY	37	(493)	(3,060)

Consolidated statement of changes in equity

	Capital	Associated reserves to capital	Consolidated reserves	Gains or losses, net of tax, recognised directly in equity		Net income, Group share	Share-holders' equity - Group share	Share-holders' equity, non-controlling interests	Total share-holders equity
				Net change in fair value of available-for-sale financial assets, after tax	Net change in fair value of cash flow hedging derivatives, after tax				
(€ '000s)									
Shareholders' equity at 1 January 2016	77,413	-	(6,604)	2,099	-	(7,710)	65,199	1	65,200
Increase in share capital	38,478						38,478		38,478
Elimination of treasury shares									
Allocation of profit			(7,710)			7,710			
Dividends paid									
Sub-total of changes linked to transactions with shareholders	38,478	-	(7,710)	-	-	7,710	38,478	-	38,478
Change in fair value through equity				154			154		154
Change in value of through profit or loss				(1,962)			(1,962)		(1,962)
Changes in actuarial gains on retirement benefits									0
Changes in gains and losses recognized directly in equity	-	-	-	(1,808)	-	-	(1,808)	-	(1,808)
2016 Net income						(3,352)	(3,352)		(3,352)
Sub-total	-	-	-	(1,808)	-	(3,352)	(5,160)	-	(5,160)
Effect of acquisitions and disposals on non-controlling interests									
Shareholders' equity at 31 December 2016	115,891	-	(14,314)	291	-	(3,352)	98,517	1	98,518
Impact of changes in accounting policies									
Shareholders' equity at 1 January 2017	115,891	-	(14,314)	291	-	(3,352)	98,517	1	98,518
Increase in share capital	19,153 ⁽¹⁾						19,153		19,153
Elimination of treasury shares									
Allocation of profit			(3,352)			3,352			
Dividends 2016 paid									
Sub-total of changes linked to transactions with shareholders	19,153	-	(3,352)	-	-	3,352	19,153	-	19,153
Changes in fair value through equity				45			45		45
Change in value of through profit or loss				(258)			(258)		(258)
Changes in actuarial gains on retirement benefits									
Changes in gains and losses recognized directly in equity	-	-	-	(213)	-	-	(213)	-	(213)
June 30, 2017 Net income						(41)	(41)		(41)
Sub-total	-	-	-	(213)	-	(41)	(254)	-	(254)
Effect of acquisitions and disposals on non-controlling interests									
Shareholders' equity at 30 June 2017	135,044	-	(17,665)	78	-	(41)	117,415	1	117,416

(1) Territorial Company had two capital increases during the first half of 2017. The first was subscribed on 6th March 2017 to €17,327k and the second on 28th June 2017 for €1,826k.

Cash flow statement

(€ '000s)	30/06/2017	31/12/2016
Net income before taxes	72	(2,105)
+/- Net depreciation and amortisation of tangible and intangible non-current assets	937	1,855
+/- Net provisions and impairment charges	(488)	488
+/- Expense/income from investing activities	(2,646)	(10,024)
+/- Expense/income from financing activities	148	142
+/- Other non-cash items	(15,154)	4,057
= Non-monetary items included in net income before tax and other adjustments	(17,203)	(3,482)
+/- Cash from interbank operations		
+/- Cash from customer operations	(176,295)	(503,246)
+/- Cash from financing assets and liabilities	(3,904)	2,967
+/- Cash from not financing assets and liabilities	(159)	778
- Income tax paid		
= Decrease/(increase) in cash from operating activities	(180,358)	(499,501)
= CASH FLOW FROM OPERATING ACTIVITIES (A)	(197,489)	(505,088)
+/- Flows linked to financial assets and investments	(351,763)	103,661
+/- Flows linked to investment properties		
+/- Flows linked to tangible and intangible non-current assets	(178)	(275)
= CASH FLOW FROM INVESTING ACTIVITIES (B)	(351,941)	103,387
+/- Cash from or for shareholders	19,046	38,017
+/- Other cash from financing activities	973,540	399,461
= CASH FLOW FROM FINANCING ACTIVITIES (C)	992,586	437,478
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)		
Increase/(decrease) in cash equivalents (A + B+ C + D)	443,156	35,777
Cash flow from operating activities (A)	(197,489)	(505,088)
Cash flow from investing activities (B)	(351,941)	103,387
Cash flow from financing activities (C)	992,586	437,478
Effect of changes in exchange rates on cash and cash equivalents (D)		
Cash and cash equivalents at the beginning of the period	82,983	47,206
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	82,983	47,206
Cash and cash equivalents at the end of the period	526,139	82,983
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	526,139	82,983
CHANGE IN NET CASH	443,156	35,777

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

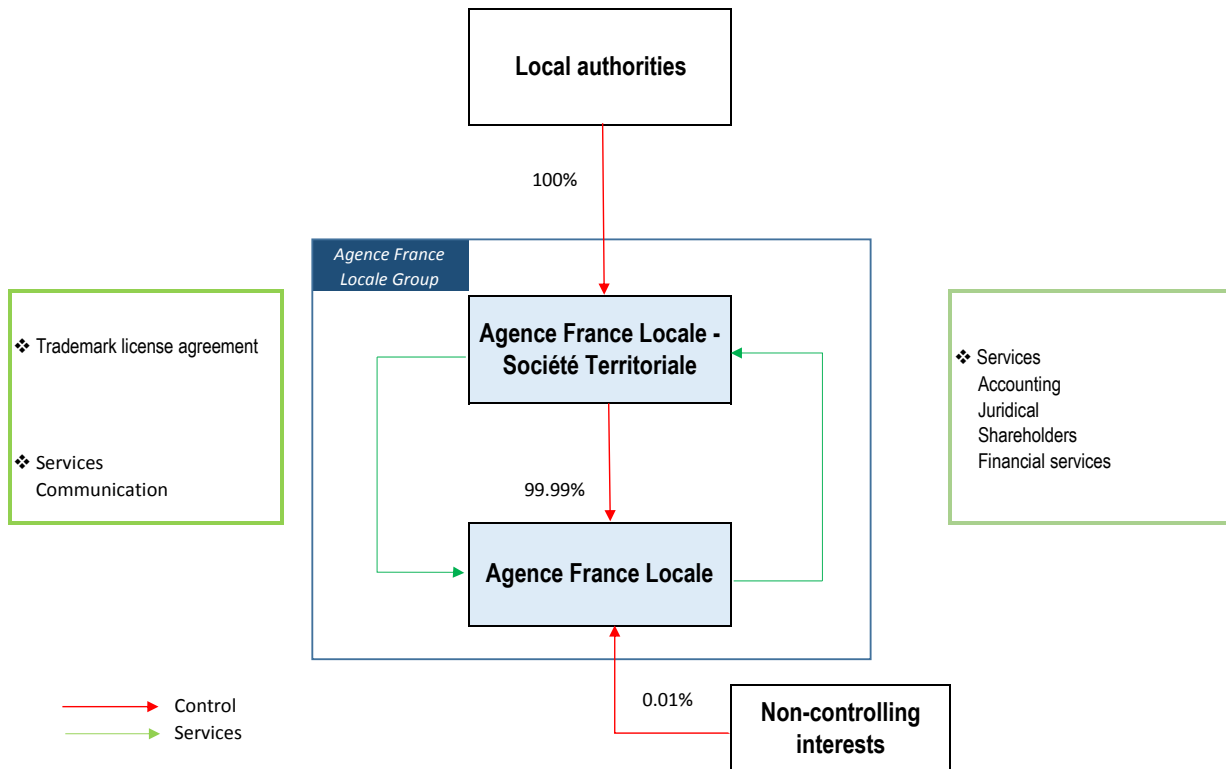
I - General framework

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 consolidated financial statements were approved by the Board of Directors as of September 7, 2017.

II - Highlights from the first half of 2017

Despite its seasonal shape the credit activity of the Agence France Locale to member local authorities was more dynamic during the first half of 2017 compared with the first half of the previous financial year. As at 30 June 2017, the credit production amounted to €176.7 million compared with €110.4 million as at 30 June 2016. On 30 June 2017, AFL reached a €1 billion outstanding loan threshold with €1,062.2 million of long term loans to member local authorities on its balance sheet. The off-balance sheet committed but undisbursed loans amounted to €133,4 million as at 30 June 2017.

On January 23, 2017, Agence France Locale issued a new tranche of €250 million on top of its March 2023 benchmark bond issue. Subsequently, on May 10, 2017, AFL issued its third Euro benchmark issue of €500 million, with a maturity of 7 years and a 0.5% coupon corresponding to a margin of 25 basis points against the yield curve of French government bonds (OATs). These two issues have been subscribed by investors whose geographic origin and category was similar to those of previous issues, hence strengthening AFL's position on the euro debt market. At the beginning of the financial year 2017, Agence France Locale successfully issued its first Commercial paper on the money market as part of its ECP program. The outstanding amount of debt issued by AFL in this short-term market range amounted to \$150 million as at June 30, 2017.

During the first half of 2017, Société Territoriale saw its capital raise from €115.9m to €135m following two increases in capital. Société Territoriale now has 207 local authorities represented in its capital.

Over the first half of 2017 the NBI generated by the business reached €5,364K compared to €5,049K as at 30 June 2016. It mainly corresponds to an interest margin of €3,197K which increased sharply compared to €2,127 million recorded in the first half of 2016, and net capital gains on investment securities disposal of €2,343K and an impairment on available-for-sale securities for -€162K.

The interest margin of €3,197k stems from three items: firstly, an income of €2,979k from the loan portfolio, once restated to hedge accounting; secondly, a negative income of -€1,168k from the management of the cash reserve, in a context of deep negative interest rates; and lastly, a positive income of €1,386k associated to interest charges given the reasons stated above, net of hedge accounting. Among these revenues, €442.5k represent negative interests received on ECP issues.

The €1,636k capital gains on securities disposals came from the portfolio management of the liquidity reserve over the period. These securities disposals resulted in the termination of interest rate hedges for €707k, generating net capital gains of €2,343k for the period.

Net income from hedge accounting came to: €546k It comprises two items. Firstly, the disposal revenues in relation to the interest rate hedging of available-for-sale financial assets, amounting to €707k, which must be set against the gains from the underlying security disposals; and secondly, -€162k representing, for the instruments still in the portfolio at the end of the period, the balance of the fair value differences of hedged items and their hedging. Among these differences, -€305k relate to valuation differential expenses on instruments classified under macro-hedging and €144k in income relate to the valuation of instruments classified under micro-hedging. It remains unrealized valuation differences between hedged items and hedging instruments of which ones comes from an accounting practice that leads to an asymmetry in the valuation, on the one hand, of hedging instruments collateralised daily, discounted on the basis of an Eonia curve, and, on the other, of hedged items, discounted on the basis of a Euribor curve, which, pursuant to IFRS standards, leads to the recognition of a hedging ineffectiveness that is recorded in the income statement. However, it should be noted that this corresponds to latent income.

As at 30 June 2017, general operating expenses came to €4,355k as compared to €4,435k as at June 30, 2016. They include €2,575k of personnel expenses, compared with €2,265k for the first half of 2016; an increase mainly due to the regularization of taxes and duties on wages. General operating expenses also include administrative expenses, which were down to €1,813k, compared with €2,223k as at June 30, 2016, because of a reversal of tax provisions of €488k.

After depreciation, amortization and provisions, amounting to €937k compared with €915k as at June 30, 2016, operating income came to €72k compared to €-301k for the first half of the previous year.

The first half-year 2017 closed with a negative net income of -€41k compared with -€264k over the same period of the previous year.

Subsequent events

No significant subsequent events occurred on the beginning of the second half 2017 after the accounts closure date has to be reported.

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

The condensed interim consolidated financial statements for the half-year ended June 30, 2017 were prepared in accordance with IAS 34, Interim financial reporting which 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 2017 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 2016.

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 30 June 2017

On 30 June 2017, 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.

V - Notes to the Balance Sheet

Note 1 - Financial assets at fair value through profit or loss

	30/06/2017		31/12/2016	
	Assets	Liabilities	Assets	Liabilities
(€ '000s)				
Financial assets held for trading	16,185	16,651	6,505	6,504
Financial assets at fair value option through profit or loss				
Total financial assets at fair value through profit or loss	16,185	16,651	6,505	6,504

Financial assets held for trading

	30/06/2017		31/12/2016	
	Assets	Liabilities	Assets	Liabilities
(€ '000s)				
Equity instruments				
Debt securities				
Loans and advances				
Derivatives	16,185	16,651	6,505	6,504
Total Financial assets held for trading	16,185	16,651	6,505	6,504

	30/06/2017				31/12/2016			
	Notional amount		Fair value		Notional amount		Fair value	
	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
(€ '000s)								
FIRM TRANSACTIONS	456,554	456,554	16,185	16,651	137,471	137,471	6,505	6,504
Organised markets	-	-	-	-	-	-	-	-
Interest rate contracts								
Other contracts								
Over-the-counter markets	456,554	456,554	16,185	16,651	137,471	137,471	6,505	6,504
Interest rate contracts	456,554	456,554	16,185	16,651	137,471	137,471	6,505	6,504
FRA								
Cross Currency Swaps								
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	-	-	-	-	-	-	-	-

Derivatives classified as financial assets held for transaction purposes do not constitute interest rate positions taken with a view to drawing short-term profits. They are investment portfolio fair value hedging derivatives in a fixed-rate borrower position which have been neutralised by fixed-rate lender derivatives. These contracts, concluded in a clearing house, present positions which are rigorously symmetric in terms of rates and maturities. These financial assets and liabilities, although they are the object of a framework netting agreement, are presented as assets and liabilities because future cash flows payable and receivable differ in the amount of the fixed-rate coupon payable and receivable. The positions presented in the table above do not entail any kind of residual interest rate risk, the fair value difference is only the result of payable or receivable cash flows.

Note 2 - HEDGING DERIVATIVES

Analysis by type of hedge

	30/06/2017		31/12/2016	
	Assets	Liabilities	Assets	Liabilities
(€ '000s)				
Derivatives designated as fair value hedges	13,585	36,206	15,792	17,889
Derivatives designated as cash flow hedges				
Derivatives designated as portfolio hedges	2,222	1,888	985	2,559
Total Hedging derivatives	15,807	38,094	16,777	20,448

Detail of derivatives designated as fair value hedges

	30/06/2017				31/12/2016			
	Notional amount		Fair value		Notional amount		Fair value	
	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
(€ '000s)								
FIRM TRANSACTIONS	2,272,298	1,107,278	13,585	36,206	1,250,000	762,085	15,792	17,889
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	2,272,298	1,107,278	13,585	36,206	1,250,000	762,085	15,792	17,889
Interest rate contracts	2,000,000	1,107,278	13,585	27,152	1,250,000	762,085	15,792	17,889
FRA								
Cross Currency Swaps	272,298			9,054				
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	-	-	-	-	-	-	-	-

Detail of derivatives designated as interest rate hedged portfolios

	30/06/2017				31/12/2016			
	Notional amount		Fair value		Notional amount		Fair value	
	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
(€ '000s)								
FIRM TRANSACTIONS	36,100	203,799	2,222	1,888	39,100	165,200	985	2,559
Organised markets	-	-	-	-	-	-	-	-
Interest rate contracts								
Other contracts								
Over-the-counter markets	36,100	203,799	2,222	1,888	39,100	165,200	985	2,559
Interest rate contracts	36,100	203,799	2,222	1,888	39,100	165,200	985	2,559
FRA								
Cross Currency Swaps								
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	-	-	-	-	-	-	-	-

PORTFOLIO

Note 3 - Available-for-sale financial assets

Fixed-income securities - Analysis by nature

(€ '000s)	30/06/2017	31/12/2016
Government paper and similar securities	571,998	357,062
Bonds	86,594	584
Other fixed income securities		
Net amount in balance sheet	658,592	357,646
Including depreciation	-	-
Including net unrealised gains and losses	(2,147)	(94)

Fixed-income securities - Analysis by counterparty

(€ '000s)	30/06/2017	31/12/2016
Local public sector	451,892	261,086
Financial institutions	191,715	96,560
Central banks	14,985	
Net amount in balance sheet	658,592	357,646

Fixed income securities held on Financial institutions include €120,675k of securities guaranteed by governments.

Changes in Available-for-sale financial assets

(€ '000s)	Total amount as of 31/12/2016	Additions	Disposals	Gains/(losses) in fair value recognised in equity	Change in accrued interest	Prem/Disc Amort.	Total amount as of 30/06/2017
Government paper and similar securities	357,062	1,212,407	(994,648)	(1,758)	245	(1,311)	571,998
Bonds	584	90,096	(3,989)	(62)	58	(92)	86,594
Other fixed income securities	-	-	-	-	-	-	-
TOTAL	357,646	1,302,503	(998,637)	(1,820)	303	(1,402)	658,592

Note 4 - RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	30/06/2017	31/12/2016
Mandatory reserve deposits with central banks	412,607	57,929
Other deposits		
Cash and central banks	412,607	57,929

Receivables on credit institutions

(€ '000s)	30/06/2017	31/12/2016
Loans and receivables		
- demand	113,775	25,054
- time	50,000	
Securities bought under repurchase agreements		
TOTAL	163,775	25,054
Impairment		
NET CARRYING AMOUNT	163,775	25,054

Note 5 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	30/06/2017	31/12/2016
Short-term credit facilities	1,692	850
Other loans	1,058,925	891,377
Customers transactions before impairment charges	1,060,617	892,227
Impairment		
Net carrying amount	1,060,617	892,227
<i>Of which individual impairment</i>		
<i>Of which collective impairment</i>		

Note 6 - DEFERRED TAX

The movement on the deferred tax account is as follows:

(€ '000s)	30/06/2017	31/12/2016
Net asset as at 1st of january	5,796	6,056
<i>Of which deferred tax assets</i>	5,909	7,290
<i>Of which deferred tax liabilities</i>	113	1,234
Recognised in income statement	(113)	(1,247)
Income statement (charge) / credit	(113)	(1,247)
Recognised in equity	83	987
Available-for-sale financial assets	83	987
Cash flow hedges		
Other		
Net asset as at	5,765	5,796
<i>Of which deferred tax assets</i>	5,796	5,909
<i>Of which deferred tax liabilities</i>	30	113

Deferred tax net assets are attributable to the following items:

(€ '000s)	30/06/2017	31/12/2016
Available-for-sale financial assets		
Cash flow hedges		
Losses carried forward	5,628	5,628
Other temporary differences	167	281
TOTAL DEFERRED TAX ASSETS	5,796	5,909

Deferred tax net liabilities are attributable to the following items:

(€ '000s)	30/06/2017	31/12/2016
Available-for-sale financial assets	30	113
Cash flow hedges		
Other temporary differences		
TOTAL DEFERRED TAX LIABILITIES	30	113

Note 7 - OTHER ASSETS AND ACCRUALS

(€ '000s)	30/06/2017	31/12/2016
Other assets		
Cash collateral paid	42,594	20,682
Other assets	168	370
Impairment		
Net carrying amount	42,762	21,051
Accruals		
Prepaid charges	340	199
Other deferred income		
Transaction to receive and settlement accounts		
Other accruals	56	62
Total	397	260
TOTAL OTHER ASSETS AND ACCRUALS	43,159	21,312

Note 8 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible fixed assets	31/12/2016	Additions	Transfers	Disposals	Amort.	Other movements	30/06/2017
Intangible fixed assets							
IT development costs	8,547	10				2	8,559
Other intangible assets	394	1					395
Intangible assets in progress	63	122	33			(2)	216
Intangible fixed assets gross amount	9,004	133	33	-	-	-	9,169
Depreciation and allowances - Intangible fixed assets	(3,000)				(888)		(3,888)
Intangible fixed assets net carrying amount	6,004	133	33	-	(888)	-	5,281

Tangible fixed assets	31/12/2016	Additions	Transfers	Disposals	Amort.	Other movements	30/06/2017
Property, plant & equipment	748	12					760
Tangible fixed assets gross amount	748	12	-	-	-	-	760
Depreciation and allowances - Tangible fixed assets	(199)				(48)		(247)
Tangible fixed assets net carrying amount	550	12	-	-	(48)	-	514

Note 9 - DEBT SECURITIES

(€ '000s)	30/06/2017	31/12/2016
Negotiable debt securities	131,441	
Bonds	2,075,508	1,259,073
Other debt securities		
TOTAL	2,206,949	1,259,073

Note 10 - ACCRUALS AND OTHER LIABILITIES

(€ '000s)	30/06/2017	31/12/2016
Other liabilities		
Cash collateral received		3,990
Miscellaneous creditors	1,172	1,324
Total	1,172	5,314
Accruals		
Transaction to pay and settlement accounts		
Other accrued expenses	607	527
Unearned income		
Other accruals		
Total	607	527
TOTAL ACCRUALS AND OTHER LIABILITIES	1,780	5,841

Note 11 - PROVISIONS

(€ '000s)	Balance as of 31/12/2016	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Amount as of 30/06/2017
Provisions						
Financing commitment execution risks						
Provisions for litigations						
Provisions for employee retirement and similar benefits	19					19
Provisions for other liabilities to employees						
Other provisions	488			(488)		
TOTAL	506	-	-	(488)	-	19

OFF-BALANCE SHEET

(€ '000s)	30/06/2017	31/12/2016
Commitments given	224,994	133,782
Financing commitments	133,449	133,782
<i>For credit institutions</i>		
<i>For customers</i>	133,449	133,782
Guarantee commitments		
<i>For credit institutions</i>		
<i>For customers</i>		
Commitments on securities	91,545	
<i>Securities to be delivered to the issuance</i>	87,543	
<i>Other securities to be delivered</i>	4,002	
Commitments received	12,636	2,711
Financing commitments		
<i>From credit institutions</i>		
Guarantee commitments	2,711	2,711
<i>From credit institutions</i>		
<i>From customers</i>	2,711	2,711
Commitments on securities	9,925	
<i>Securities receivable</i>	9,925	

VI - Notes to the Income Statement

Note 12 - INTEREST INCOME AND EXPENSES

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Interest and similar income	16,721	8,168	19,625
Due from banks	3	28	97
Due from customers	5,632	3,428	7,625
Bonds and other fixed income securities	272	(70)	(244)
<i>from Held-for-sale securities</i>	272	(70)	(244)
<i>from Held-to-maturity securities</i>			
Income from interest rate instruments	10,813	4,782	12,146
Other interest income			
Interest and similar expenses	(13,524)	(6,041)	(14,920)
Due to banks	(788)	(20)	(142)
Due to customers			
Debt securities	(4,774)	(2,150)	(5,006)
Expense from interest rate instruments	(7,962)	(3,870)	(9,772)
Other interest expenses			
Interest margin	3,197	2,127	4,705

Note 13 - NET FEE AND COMMISSION INCOME

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Commission income	29	-	1
Interbank transactions			
Customer transactions			
Securities transactions			
Forward financial instruments transactions			
Currencies transactions			
Financing commitments and guarantee	29		1
Other commissions received			
Commission expenses	(44)	(53)	(61)
Interbank transactions		(1)	
Securities transactions	(3)	(28)	(16)
Forward financial instruments transactions	(41)	(24)	(45)
Currencies transactions			
Financing commitments and guarantee			
Other commissions paid			
Net fee and commission income	(15)	(53)	(60)

Note 14 - NET RESULT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Gains/(losses) on Trading book	(1)		1
Net result of hedge accounting	546	(293)	(1,177)
Net result of foreign exchange transactions	1	(1)	(1)
TOTAL	545	(294)	(1,177)

Analysis of net result of hedge accounting

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Fair value hedges			
Fair value changes in the hedged item attributable to the hedged risk	13,644	(18,754)	(12,434)
Fair value changes in the hedging derivatives	(13,501)	18,715	12,440
Hedging relationship disposal gain	707	(231)	(1,133)
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	(2,296)	3,525	1,074
Fair value changes in the hedging derivatives	1,990	(3,548)	(1,124)
Net result of hedge accounting	546	(293)	(1,177)

Note 15 - NET GAINS (LOSSES) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Gains from disposal of fixed income securities	2,873	3,281	6,522
Losses from disposal of fixed income securities	(1,237)	(13)	(737)
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	1,636	3,267	5,786

Note 16 - GENERAL OPERATING EXPENSES

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Employee expenses			
Wages and salaries	1,693	1,517	2,854
Post-employment benefit expenses	164	164	308
Other expenses	717	584	1,223
Total Employee expenses	2,575	2,265	4,384
Operating expenses			
Taxes and duties	(108)	117	763
External services	1,921	2,106	4,476
Total Administrative expenses	1,813	2,223	5,239
Charge-backs and reclassification of administrative expenses	(33)	(53)	(120)
Total General operating expenses	4,355	4,435	9,503

A €488k provision for liabilities & charges has been reversed during the first half of 2017. This provision reversal has been added back from taxes and duties of the period.

VII - Notes to Risk exposure

A - 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:

(€ '000s)	30/06/2017			
	Total	Measured using		
		Level 1	Level 2	Level 3
Financial assets				
Financial assets at fair value through profit or loss	16,185	-	16,185	-
Hedging derivative instruments	15,807	-	15,807	-
Government paper and similar securities	571,998	571,998	-	-
Bonds	86,594	86,594	-	-
Other fixed income securities	-	-	-	-
Total Available-for-sale financial assets	658,592	658,592	-	-
Total Financial assets	690,584	658,592	31,992	-
Financial liabilities				
Financial liabilities at fair value through profit or loss	16,651	-	16,651	-
Hedging derivative instruments	38,094	-	38,094	-
Total Financial liabilities	54,745	-	54,745	-

Fair values of instruments carried at amortised cost:

(€ '000s)	30/06/2017				
	Net Carrying value	Fair value	Measured using		
			Level 1	Level 2	Level 3
Financial assets					
Cash, central banks	412,607	412,607	-	-	412,607
Loans and receivables due from credit institutions	163,775	163,775	-	-	163,775
Loans and advances to customers	1,060,617	1,060,617	-	-	1,060,617
Total Held-to-maturity financial assets	-	-	-	-	-
Total Financial assets	1,636,999	1,636,999	-	-	1,636,999
Financial liabilities					
Debt securities	2,206,949	2,218,818	1,999,581	87,921	131,316
Total Financial liabilities	2,206,949	2,218,818	1,999,581	87,921	131,316

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 2017 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 30/06/2017
Cash, central banks	412,607			412,607
Financial assets at fair value through profit or loss	16,185			16,185
Hedging derivative instruments	15,807			15,807
Available-for-sale financial assets	658,592			658,592
Loans and receivables due from credit institutions	163,775			163,775
Loans and advances to customers	1,060,617			1,060,617
Revaluation adjustment on interest rate hedged portfolios				
Current tax assets	25			25
Other assets	42,762			42,762
Sub-total Assets	2,370,370	-	-	2,370,370
Financing commitments given	133,449			133,449
TOTAL Credit risk exposure	2,503,819	-	-	2,503,819

Analysis by counterparty

(€ '000s)	Total 30/06/2017
Central banks	412,607
Local public sector	1,645,579
Credit institutions guaranteed by the EEA States	59,651
Credit institutions	298,652
Other financial corporations guaranteed by the EEA States	46,040
Other financial corporations	26,237
Non-financial corporations guaranteed by the EEA States	14,985
Non-financial corporations	69
Total Exposure by counterparty	2,503,819

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 30/06/2017
France	2,124,895
Canada	190,293
Netherlands	43,649
Denmark	37,903
South Korea	29,746
Supranationaux	24,643
China	14,911
Switzerland	14,887
Norway	9,984
Germany	7,431
Sweden	5,010
Belgium	468
Total Exposure by country	2,503,819

As credits are solely granted to French local authorities, the largest exposure is to France.

Exposures to other countries (EEA, North America and Asia) 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 30/06/2017
Cash, central banks	412,607				412,607			412,607
Financial assets at fair value through profit or loss			6,017	9,601	15,618	567		16,185
Hedging derivative instruments			4,190	12,486	16,676	(869)		15,807
Available-for-sale financial assets								
Government paper and similar securities	26,003	32,056	249,863	264,939	572,860	1,294	(2,157)	571,998
Bonds		4,116	81,899	505	86,520	65	9	86,594
Total Available-for-sale financial assets	26,003	36,172	331,762	265,443	659,380	1,359	(2,147)	658,592
Loans and receivables due from credit institutions	113,775		50,000		163,775			163,775
Held-to-maturity financial assets								
Loans and advances to customers	19,870	49,654	281,595	712,758	1,063,877	1,460	(4,719)	1,060,617
Revaluation adjustment on interest rate hedged portfolios								
Current tax assets	25				25			25
Other assets	42,762				42,762			42,762
TOTAL ASSETS								2,370,370
Central banks						213		213
Financial assets at fair value through profit or loss			6,016	9,602	15,618	1,033		16,651
Hedging derivative instruments	3,714	57	9,610	24,966	38,347	(252)		38,094
Debt securities	131,316		834,774	1,242,739	2,208,829	1,617	(3,497)	2,206,949
Revaluation adjustment on interest rate hedged portfolios							1,205	1,205
Other liabilities	1,172				1,172			1,172
TOTAL LIABILITIES								2,264,285

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 30th June 2017, 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. The rate risk management policy and its implications on the first half of 2017 are described into the financial report as at 30th June 2017.

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AGENCE FRANCE LOCALE

– SOCIETE TERRITORIALE

**STATUTORY AUDITORS' REVIEW REPORT ON THE HALF-YEARLY
CONSOLIDATED FINANCIAL STATEMENTS**

For the period from January 1, 2017 to June 30, 2017
AGENCE FRANCE LOCALE – SOCIETE TERRITORIALE
41 quai d'Orsay - 75007 Paris
This report contains 23 pages
Référence :

This is a free translation into English of the statutory auditors' 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 – SOCIETE TERRITORIALE

Registered office : 41, quai d'Orsay - 75007 Paris
Share capital : €.135,043,800

STATUTORY AUDITORS' REVIEW REPORT ON THE HALF YEARLY CONSOLIDATED FINANCIAL STATEMENTS

For the period from January 1, 2017 to June 30, 2017

To the shareholders,

In our quality of statutory auditors of Agence France Locale – Société Territoriale 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 – Société Territoriale, for the period from January 1, 2017 to June 30, 2017.

These consolidated condensed half-yearly financial statements are the responsibility of the Board of Directors. Our responsibility is to express a conclusion on these condensed 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, 2017 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.

For the period from January 1, 2017 to June 30, 2017

AGENCE FRANCE LOCALE – SOCIÉTÉ TERRITORIALE
STATUTORY AUDITORS' REVIEW REPORT ON THE HALF YEARLY CONSOLIDATED
FINANCIAL STATEMENTS
September 28, 2017

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 28, 2017

Paris, September 28, 2017

KPMG Audit FS I

Cailliau Dedouit et Associés

Ulrich Sarfati
Partner

Laurent Brun
Partner