HALF-YEARLY FINANCIAL REPORT
June 30, 2018

AGENCE FRANCE LOCALE

AGENCE FRANCE LOCALE

La banque
des collectivités

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GLOSSARY

ICC	Initial Capital Contribution
ACC	Additional Capital Contribution
ACPR	*Autorité de contrôle prudentiel et de résolution* (French Prudential Supervision and Resolution Authority)
AFL	Agence France Locale
AFL - ST	Agence France Locale – Société Territoriale
ALM	Asset and Liabilities Management
AMF	*Autorité des marchés financiers* (French Financial Markets Authority)
ASW	Asset Swap
ECB	European Central Bank
RAC	Risk Audit Committee
ICC	Internal Control Committee
CET1	Common Equity Tier One
FGTC	French General Tax Code
GRC	Global Risk Committee
ALT	Average lifetime
EAPB	European Association of Public Banks
ECP	Euro Commercial Paper
EMTN	Euro Medium-Term Notes
EPCI	*Établissement public de coopération intercommunale* (Groupings of municipalities)
HQLA	High Quality Liquid Assets
DTA	Deferred tax asset
IMR	Initial margin requirement
LCR	Liquidity Coverage Ratio
LGFA	Local government funding agency
NIM	Net interest margin
NSFR	Net Stable Funding Ratio
NBI	Net banking income
GOP	Gross operating profit
NP	Net profit
RWA	Risk Weighted Asset
OIR	Opportunity interest rate
NDS	Negotiable debt securities
NPV	Net Present Value

I. Creation, shareholding structure, economic model and Company rating

1. Background and shareholding structure

The creation of Agence France Locale was authorized by Law No. 2013-672 of July 26, 2013 on the separation and regulation of banking activities. Agence France Locale was created on October 22, 2013, when its instrument of incorporation was signed.

The Agence France Locale Group (AFL Group) is organized around a twofold structure consisting of Agence France Locale - Société Territoriale (AFL-ST, the parent company with the status of financial company) and of Agence France Locale (AFL, the subsidiary, a specialized credit institution). The Agence France Locale Group is formed by the combination of these two companies. The purpose of its two-tier governance is to separate the operational management, handled by the specialized credit institution (AFL), from the shareholder representation and financial strategy, handled by Société Territoriale (AFL-ST). This separation of responsibilities makes it possible to avoid any intervention by member local and regional authorities in AFL's day-to-day management activities, ensure stakeholder accountability for their tasks, and have adequate control and monitoring mechanisms.

Accordingly, AFL-ST's Board of Directors has adopted a rule stating that independent members must comprise a majority of the credit institution's Supervisory Board. In so doing, shareholders accept and acknowledge that it is important for banking and financial professionals to be responsible for the oversight of the credit institution.

The main tasks of AFL-ST, the Group's parent company, are as follows:

- representation of shareholders;
- management of the guarantee mechanism;
- appointment of the members of the credit institution's Supervisory Board;
- setting of major strategic guidelines; and
- promotion of the model among local authorities, jointly with AFL, to increase the number of shareholder members.

The main tasks of AFL, a credit institution more than 99.99% owned by Société Territoriale, are as follows:

- day-to-day operational management of financial activities;
- fund-raising on capital markets; and
- granting of credit exclusively to shareholder member local and regional authorities.

2. AFL's business model

A robust structure

Agence France Locale is a specialized credit institution with the status of a bank dedicated to financing the investments of local authorities. These local authorities are its exclusive shareholders through AFL-ST, which owns more than 99.9% of its shares. Like the local authorities financing agencies in Northern Europe, which have existed[1] for several decades, and agencies in New Zealand or Japan, AFL was established to be a long-term player in the financing of local investments. AFL's model is directly inspired by its Nordic counterparts, and it is adapted to the characteristics of the French political and legal system. More specifically, the AFL model is broadly inspired by the Swedish and Finnish agencies, which have been financing local authorities in their respective countries since the end of the 1980s. This model is based on borrowing from the capital markets, through bond issues in particular, to grant simple fixed- or floating-rate loans to local authority shareholders.

[1] The local and regional authority financing agencies in Northern Europe are: Kommunekredit in Denmark created in 1899, BNG and NWB in the Netherlands, created in 1914 and 1954 respectively, KBN in Norway created in 1926, Kommuninvest in Sweden created in 1986 and MuniFin in Finland created in 1989/1993.

The optimization of financing costs is based on AFL's high credit rating, which is built on a solid financial position coupled with a framework based on a two-part first demand guarantee mechanism.

- On the one side, the "Member Guarantees" granted by local authorities that are AFL-ST shareholders to any financial creditor of AFL providing the possibility to call on the local authority shareholders directly as guarantors. The amount of the guarantee is equal to the amounts of the loans outstanding for an initial period exceeding 364 days contracted by each member authority with AFL. As a result, a creditor has the option of calling on several local and regional authorities as guarantors. A local authority whose guarantee has been called by a creditor has the obligation to inform AFL-ST, which may, in turn, call all other member guarantees in proportion to the amount of their credits contracted with AFL. This guarantee is organized to create solidarity between the member local and regional authorities in the payment of the amounts due while each of them is limited to its own outstanding loan. In order to have sufficient liquidity, the amounts borrowed by AFL are intended to be higher than the amounts it lends to members, and the securities issued by AFL are not fully covered by the Member Guarantee mechanism:

    - approximately 70% of the total amount of AFL borrowings issued on the markets is used to provide medium- and long-term loans to members;

    - approximately 30% of the total amount of borrowings issued by AFL on the markets are retained both to ensure AFL's liquidity in accordance with its regulatory obligations and good management practices, and to offer cash credits to members under the conditions and within the limits set by AFL's financial policies.

- On the other, the "Société Territoriale Guarantee" granted by AFL–ST to any financial creditor of AFL providing the possibility to call on AFL-ST as a guarantor, which then makes it the sole counterparty of the creditor. The ceiling of the Société Territoriale Guarantee is set by the Board of Directors. It covers all of the commitments of its AFL subsidiary to its financial creditors. The amount of the guarantee granted by Société Territoriale to the creditors is set by the AFL-ST Board of Directors. It was increased from €3.5 to €5 billion by the AFL-ST Board of Directors on February 16, 2017.

This dual mechanism enables beneficiaries of these guarantees to have the option to (i) call the guarantee of the local authority members of the Group, and/or (ii) be able to activate the AFL-ST Guarantee, which has the advantage of simplicity through the single point of contact that it offers.

It should also be noted that, in compliance with its statutory provisions, the "Société Territoriale Guarantee" may be called on behalf of the financial creditors at the request of AFL under the terms of a protocol between the two companies. The purpose of this mechanism for third parties to call on direct beneficiaries of the "Member Guarantee" is to be able to mobilize guarantees to prevent non-compliance with the regulatory ratios or an event of default.

This system of guarantees is organized to create solidarity between the member local and regional authorities in the payment of the amounts due, while each of them is limited to its own outstanding loan and they are guaranteed an equal distribution of calls among them.

The terms of the ST Guarantee and the Member Guarantee calls and the procedures for recourse between members are defined by the ST Guarantee (2017.1) and Member Guarantee (2014.1 and 2016.1) models, the Memorandum of Understanding for the ST Guarantee, the AFL-ST Articles of Association (Title IV), the AFL Articles of Association (Title III) and the Shareholders' Agreement (Title V, Article 17), all of which are accessible on the Group's website at the following link: http://www.agence-france-locale.fr/statuts-et-garanties.

- **A customer-centric model**

The AFL Group was designed to better serve its customers on three levels:

- firstly, through AFL's unique status as shareholder borrower, which enables local authority borrowers to ensure that their interests are at the heart of the AFL Group's objectives, through its position as shareholder of Société Territoriale. Société Territoriale's responsibility is to pursue the Group's strategy, promote the interests of all borrowers and pool each one's interests for the benefit of all local authorities;
- secondly, since its creation, AFL has chosen to implement online services that combine efficiency and speed and ensure users the highest levels of security;
- finally, the establishment of a team dedicated to the relationships with local authorities sees to it that each of their specific expectations is met.

3. Rating of bonds issued by AFL

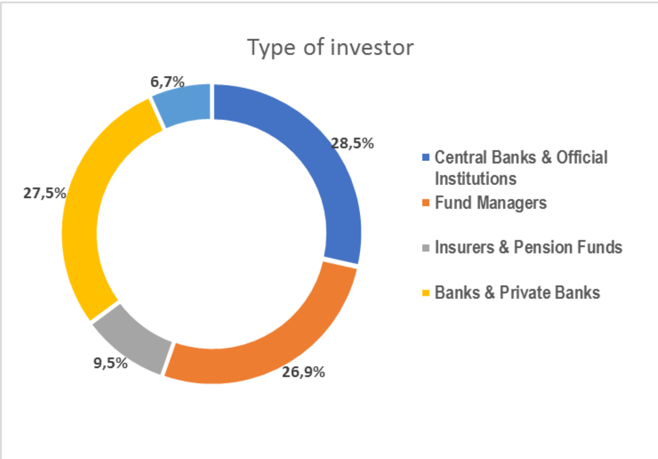
As at June 30, 2018, AFL's rating was Aa3 with Moody's, with a stable outlook. This rating was confirmed on May 9, 2018. The latest report from Moody's on AFL's rating is dated May 15, 2017.
The Agence France Locale EMTN issuance program is also rated by Moody's. The rating of AFL bonds is at the top echelon for quality of credit, namely ("high *grade*"), with an Aa3 rating and a stable outlook. AFL's short-term ECP issue programme, which was rated by the same agency, has the best rating of P-1.

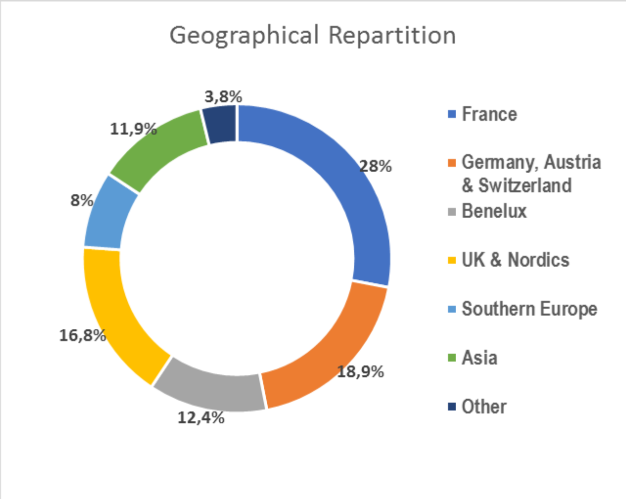
II. Review of activities in the first half of 2018 and significant events

1. AFL's activities on the capital markets

In the first half of 2018, AFL issued three bonds on the capital markets that had longer maturities than the ones that were previously issued. At the beginning of the year, two 10- and 15-year issues were launched in the form of a private placement with respective sizes of €25 million and €100 million and a margin of 25 basis points above the French OAT Treasury Bond curve. On June 12, a 10-year, €500 million benchmark public issue was made at a margin of 30 basis points above the French OAT Treasury Bond curve. The good reception of these three issues by investors once again demonstrates the quality of the AFL brand on the markets and helps it to achieve three objectives: further diversification of the investor base, reduction of transformation into liquidity and strengthening of the credit supply over long periods.

The graphs below show the distribution of the 10-year public issue both geographically and by type of investor:





The diversification of the placement is proof of the interest and deep understanding of the investment community for the AFL business model and demonstrates its confidence in the growth of AFL's business activities.

Under the terms of the transaction, AFL now has four euro-denominated listed benchmark bond issues, for a total outstanding amount of €2.75 billion, providing investors with direct and diversified exposure to the French local government sector.

It should be noted that, since June 2, 2016, AFL bond issues have been eligible for the European Central Bank's Public Sector Purchase Programme (PSPP), thus confirming AFL's place among the public-sector financial institutions whose objectives are identified as being related to public policies. This measure improves access for AFL to a large base of investors for whom eligibility for the European Central Bank's purchase program is a condition of investment.

During the first half of the year, AFL also updated the Base Prospectus for its €3 billion EMTN Debt Issuance Program. In addition, the *Autorité des Marchés Financiers* (AMF) approved the formal request by AFL not to publish financial information on each of the guaranteeing local authorities individually on its website. This authorization was issued on the basis of the omission of information rule concerning the information required by Annex 6 of Regulation (EC) 809/2004 on each Local Authority acting as guarantors for AFL, in accordance with the third paragraph of Article 212-18 of the AMF General Regulation transposing Article 8 of the Prospectus Directive.

AFL is henceforth exempt from publishing individual information about guarantors on its website.

As at June 30, 2018, AFL carried out a significant portion of its annual borrowing program, which allows it to have a very comfortable liquidity position in anticipation of the expected application for credit by its borrowers in the last part of the year in particular.

2. Two capital increases

During the first half of 2018, the AFL Group closed two capital increases, in which 36 local authorities acquired a stake in AFL-ST, raising the number of shareholders of the Group's parent company to 259. Among these 36 new member local and regional authorities one finds the Department of Seine-Saint-Denis, the Municipality of Noisy-le-Grand, the Urban Community of Cannes Pays de Lérins, the Municipality of Chelles, the Urban Community Territory of Côte Ouest, and the Municipality of Bora Bora.

At June 30, 2018, the share capital of AFL-ST rose to €144,314,000 and the share capital of AFL rose to €137,200,000.
Regarding the volume of Initial Capital Contributions (ICC) recorded, the AFL Group notes a continuation of the membership momentum during the first half of the year, which should enable it to achieve its target for 2018 in terms of pledges of ICC, which was set at €18 million in the business plan.

The AFL Group has also continued to relax the terms of membership to encourage more local and regional authorities to join, making it possible for an authority to join on the basis of one or more subsidiary budgets exclusively, without necessarily having to include its main budget in its scope of membership. This amendment to the Articles of Association was approved by the General Meeting of Shareholders of May 17, 2018 and led to the amendment of the Shareholders' Agreement presented in the paragraph on governance.

The table below presents a breakdown of the share capital and voting powers by category of local authority as at June 30, 2018, following the 16th increase of local authorities.

Figures in € thousands	Number	Committed capital	Paid-up	Voting powers
Region	2	13,239	13,239	9.32%
Department	8	25,630	16,796	11.83%
Municipality	189	42,144	39,216	27.62%
EPCI	60	76,690	75,063	52.87%
including Metropolis	*11*	*64,001*	*63,361*	*44.63%*
Local public institutions	*4*	*2,537*	*2,537*	*1.79%*
Urban communities	*5*	*3,414*	*3,414*	*2.40%*
Suburban communities	*15*	*5,645*	*4,718*	*3.32%*
Municipality communities	*25*	*1,093*	*1,033*	*0.73%*
TOTAL	**259**	**157,703**	**144,314**	**100%**

3. Continuation of loan production

AFL is pursuing its objective of producing €620 million in medium- and long-term loans in 2018. As at June 30, 2018, production concluded over the period with member local and regional authorities amounted to €116.9 million, for 64 loan agreements with an average maturity of 14.87 years. There was an acceleration of production over the period preceding the closing of the financial statements on June 30 and afterward. Activity should nevertheless remain mainly concentrated on the second half of the year.

At the end of the first half of the year, exposure to the customers, expressed in French GAAP, amounted to €1,646.6 million in loans made available and €263.6 million in funding commitments, for a total commitment of €1,910.3 million, which also includes cash loans.

In accordance with its business plan, AFL has continued the repurchase of loans taken out by AFL member local authorities with other lending institutions. Repurchases made during the first half of the year amounted €78.9 million, including premiums, for a total amount forecast for 2018 of €100 million.

4. Governance

▪ Amendment of the Shareholders' Agreement

At the AFL-ST General Meeting, its shareholders approved the possibility for a local authority to join AFL-ST on the basis of one or more subsidiary budgets, regardless of the main budget. They also approved the introduction in the AFL-ST Articles of Association of the principle of breakdown of capital securities among the budgets that comprise the scope of membership.

In parallel with the introduction of the principle of the breakdown of shares, an amendment to the Shareholders' Agreement was implemented that allows local authorities new powers to choose the budgets to which they wish to allocate the securities received in the context of the transfer of power.

On June 28, 2018, the AFL-ST Board of Directors noted the completion of the Shareholders' Agreement amendment process, with the majority of AFL-ST shareholders voting in favor of the proposed amendment. These new provisions thus formally entered into force one month later, in accordance with the principles of amendments to the Agreement.

▪ Composition of the management bodies

The composition of the Management Board and Supervisory Board of AFL has not changed since December 31, 2017.

As at June 30, 2018, a recruitment process is underway for the Supervisory Board to co-opt a new independent director, Carol Sirou, to replace Dominique Schmitt, who resigned on December 14, 2017.

At AFL-ST, the Board of Directors approved the appointment of Stéphane Le Ho as Deputy Managing Director of Société Territoriale on January 30, 2018. Stéphane Le Ho continues the tasks he has performed since October 2016 as AFL-ST Director of Development, which include the growth of the Agence France Locale Group through promotion of its business model among local governments and institutions.

As regards the composition of the AFL-ST Board of Directors, no changes have been made since December 31, 2017.

III. Results of the period for AFL

The rules of presentation and methods of accounting valuation are compliant with the regulations in force.

The half-yearly financial statements were prepared according to French GAAP, with no change compared to the previous financial year and in compliance with the provisions of the general charter of accounts for credit institutions. Additional explanations are given in the appendix to the half-yearly financial statements.

AFL has decided to prepare voluntarily financial statements according to IFRS for the period ending on June 30, 2018, for which comments are given in this report.

1. Individual AFL financial statements according to French GAAP

At the end of the first half of 2018, the net income of AFL showed a loss of €670,000.

The NBI generated by the operations during the period amounted to €5,189,000. This corresponds mainly to an interest margin of €3,887,000, capital gains from the sale of investment securities of €1,305,000 that relate to the management of the liquidity reserve, commission income of €74,000, and an impairment of investment securities of -€178,000. These capital gains are net of the cancellation of interest-rate hedging instruments for securities that were sold.

These figures are to be compared to the first half of 2017, after which there was a loss of €329,000 in net income after the reversal of a provision for a tax audit of €488,000. The NBI generated in the first half of 2017 amounted to €5,152,000, corresponding to a net interest margin of €3,148,000, capital gains on disposals of securities of €2,343,000, and an impairment of investment securities of -€327,000.

The interest margin of €3,887,000 as at June 30, 2018 originates from the three following items:

- the income related to the loan portfolio at €3,679,000, once it was restated for hedges;
- revenues related to the management of the liquidity reserve (-€1,505,000), due to interest rates deeply anchored in negative territory; and
- lastly, the interest expense from debt, which, for the reasons mentioned above, represents a source of income amounting to €1,712,000, once the income from hedging it is taken into account.

Capital losses on disposals for €26,000 are due to the management of the liquidity reserve portfolio over the period. These disposals led to the concurrent cancellation of the interest-rate hedges for €1,331,000, leading to the net overall capital gain of €1,305,000 for the period.

As at 30 June 2018, general operating expenses represented €4,674,000, compared to €4,334,000 at June 30, 2017. Of this, €2,343,000 is for personnel expenses, which are down from the first half of the previous year, when they were €2,454,000. Administrative charges amounting to €2,817,000 remain at a level comparable to the €2,422,000 for the first half of the previous fiscal year, after adjustment on June 30, 2017 for the effect of a reversal of provisions for risks and charges of €488,000.

Earning at June 30, 2018 includes depreciation allowances for €1,186,000, compared to €1,147,000 at June 30, 2017.

In accordance with the reporting practices of financial institutions, earnings for the year are presented in the paragraph below in accordance with IFRS and specifically include the provisions relating to IFRS 9, which entered into force on January 1, 2018.

The difference between French GAAP and IFRS mainly relates to deferred tax assets not recognized under French standards, foreign-exchange and interest-rate hedging inefficiencies and the depreciation over five years of start-up costs that are now allowed for those years. In addition, with the first application of IFRS 9, AFL had to recognize ex-ante impairments on its securities and credit portfolio, even though there was no credit risk during the period.

Transition from French GAAP to IFRS

In thousand euros	**June 30, 2018**
Net profit – French GAAP	**-670**
IFRS restatements	
Deprec. and amort. of establishment costs (as a whole in 2014 under IFRS)	211
Cancellation of impairment losses on available-for-sale securities	178
Cost of risk (IFRS 9)	-193
Hedging inefficiency of financial instruments	-84
Activation of deferred tax on other time differences	-168
Other restatements	-6
Net profit under IFRS	**-732**

2. Financial statements according to IFRS

At the end of the first half of 2018, the net income of AFL showed a loss of €732,000. The NBI generated by the operations amounted to €5,277,000. This corresponds mainly to a net margin of interest of €3,879,000, net gains on disposals of available-for-sale securities of €1,305,000, commission income of €74,000, and a net loss on negative hedge accounting of €73,000.

These results are to be compared to the first half of 2017, after which there was a loss of €37,000 in net income after the reversal of a provision for a tax audit

of €488,000. NBI generated for the first half of 2017 amounted to €5,347,000, corresponding to a net interest margin of €3,177,000, capital gains on disposals of securities of €2,343,000, and net income from the negative accounting hedge of -€162,000.
The interest margin of €3,879,000 as at June 30, 2018 originates from the three following items:

- the income related to the loan portfolio at €3,672,000, once it was restated for hedges;
- secondly, income related to the management of the liquidity reserve, a loss of -€1,505,000, due to interest rates deeply anchored in negative territory; and
- lastly, the interest expense from debt, which, for the reasons mentioned above, represents a source of income amounting to €1,712,000, once the income from hedging it is taken into account.

The net -result from hedge accounting is €1,357,000. It consists of two elements, the cancellation of interest-rate hedges related to securities disposals and loan repurchases, for €1,430,000, and an amount of -€73,000 which represents, for instruments still in the portfolio on the date of closure, the sum of the variations from fair value of hedging instruments and the underlying hedged items. Among these variations, -€110,000 relates to differences in valuation on instruments classified as macro-hedges and €37,000 of income relates to valuation differences of instruments classified as micro-hedges. There remain unrealized valuation differences between hedging instruments and the underlying hedged items, one of whose components comes from an accounting practice that leads to an asymmetry in the valuation of hedging instruments collateralized daily and discounted on the basis of an EONIA curve, and of hedged items discounted on the basis of a Euribor curve, which, under IFRS, leads to the recognition of hedging inefficiencies that is recorded in the income statement. It should be noted, however, that this is a latent result.

As at June 30, 2018, general operating expenses represented €4,673,000, compared to €4,334,000 at 30 June 2017. Of this, €2,343,000 is for personnel expenses, which are down from the first half of the previous year, when they were €2,454,000. General operating expenses, also including administrative charges, amounted to €2,378,000, compared to €1,985,000 as at June 30, 2017. When taking into account the reversal of provision for tax audit of €488,000 in expenses as at June 30, 2017, administrative expenses remain stable from one period to another.
Depreciation, amortization and provisions at June 30, 2018 amounted to €975,000, compared to €937,000 as at June 30, 2017 and after the allocation of the cost of risk following the entry into force of IFRS 9, which amounts to €193,000, operating income at June 30, 2018 amounted to -€564,000, compared to €76,000 in the first half of the previous fiscal year.

In fact, the first time application of IFRS 9 and its new provisioning model, which led to the recognition of €193,000 in impairments during the first half of the year, came almost exclusively from the increase in the securities portfolio over the period.

After taking into account the deferred tax of -€168,000 related to consolidation adjustments, the first half of 2018 had a net loss of -€732,000.

The financial statements as at June 30, 2018 reflect the increase in revenues from core AFL activities combined with a stabilization of operating expenses.

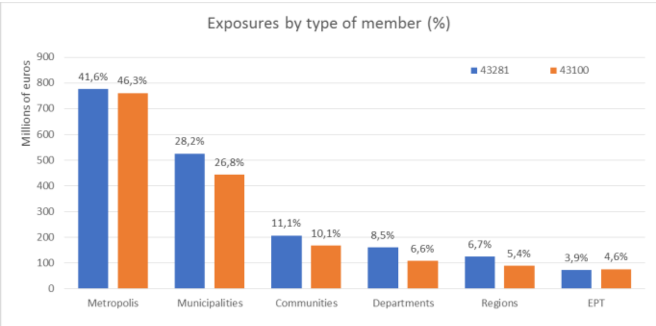
IV. Assets as at June 30, 2018 (IFRS)

AFL's assets are mainly composed of loans to local authorities, securities resulting from investing the liquidity reserve, AFL's bank accounts and margin calls made to swap counterparties. The significant increase in deposits made by AFL with Banque de France and the French State treasury are the result of several fundraising operations carried out during the first half of 2018 and put into these accounts, pending disbursements to come as part of the production of loans over the second part of the year. As a result, the percentage of liquidity net of undisbursed credit commitments compared to the balance sheet total amounts to 36% as at June 30, 2018 compared to 30% as at December 31, 2017.

in thousands of euros	6/30/2018	12/31/2017
Loans and advances to customers	1,644,944	1,430,829
Cash and central banks	590,389	420,351
Assets available for sale	660,679	358,954
Loans and receivables due from credit institutions[2]	226,666	279,543
Of which cash collateral paid	63,400	68,310

1. Loans to local authorities

AFL lends exclusively to French local authorities that are shareholder members. As at June 30, 2018, the loan portfolio to customers on the balance sheet stood at €1,647 million, of which the municipal block comprised a significant portion[3].



The number of medium- and long-term loans in the portfolio is 398 at June 30 and the average maturity of the credits is 16.5 years.

2. Other financial assets

Other assets in the balance sheet mainly include the components of the liquidity reserve that correspond to the portion of the resources not yet distributed in the form of credits and kept for the purpose of liquidity of the credit institution, in accordance with the good management practices of comparable institutions, AFL's liquidity policy guidelines and regulatory requirements.

AFL's liquidity reserve primarily covers the institution's cash requirements, which are generated by credit activities, debt service and margin calls, which for the latter are linked to the significant use of interest rate and currency risk hedging instruments in accordance with AFL's financial policies and management objectives. This liquidity is invested and may be mobilized under any circumstances.

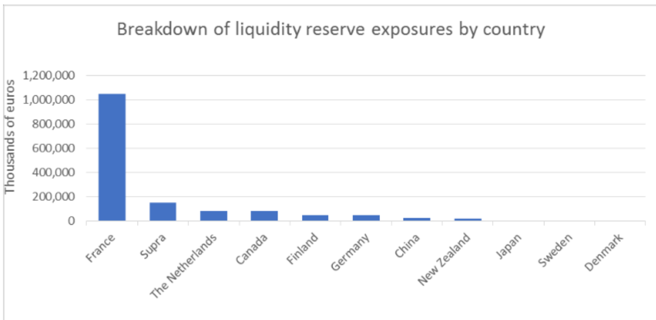
- ### Breakdown

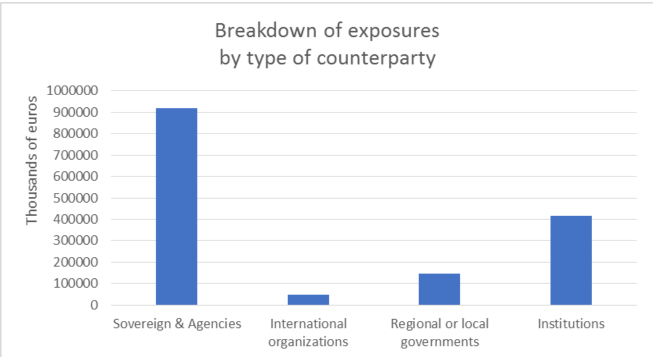
The assets that constitute the liquidity reserve consist mainly of securities issued by France or States of the European Union, regional governments, supranational institutions, public agencies and financial institutions, some of which are guaranteed or held by the European States or other States whose list has been approved by the AFL Credit Committee. The issuers of these securities have an excellent long-term credit rating, which is at least A-. These assets also include deposits with Banque de France and with French banks. In total, as at June 30, 2018, these assets amounted to €1,414 million, compared to €991 million as at December 31, 2017, an amount corresponding to more than 12 months of cash flow requirements.

[2] As a result of changes to the format of IFRS financial statements, guarantee deposits (initial margin requirements) and margin calls (variable margins) are recognized as loans and receivables from credit institutions.
[3]The municipal block includes metropolitan areas, municipalities, communities and EPTs that are territorial public institutions created within the framework of the Greater Paris metropolitan area. The communities are composed of urban communities, suburban communities and municipality communities.

Lastly, and to a lesser extent, these other assets cover margin calls paid to banks that are counterparties of hedging swaps or the LCH Clearnet clearing house.

The breakdown by country and[4] by counterparty of other asset exposures is represented by the two graphs below.





- ### Valuation of hedging swaps

AFL uses interest-rate swaps to cover the interest-rate risk that it bears on its balance sheet. Foreign exchange risk is also hedged by currency swaps. These swaps are either contracted directly with bank counterparties or cleared with LCH Clearnet, which is usually the case for most interest rate swaps. As at June 30, 2018, the fair value of AFL's hedging swaps broke down as follows:

(in thousands of euros)	Nominal value	Mark *to market value*
Interest-rate swaps	7,168,991	-35,711
Currency swaps	93,583	-7,209
Total	**7,262,574**	**-42,920**

As at June 30, 2018, the aggregate amount of margin calls paid pursuant to interest-rate swaps stood at €63.4 million. This amount includes the initial margin requirement and the variable margins still known as variation margins. At the same date, there was no margin call received.

- ### Securitization

AFL has no exposure to securitization.

V. Debts and capital as at June 30, 2018 (IFRS)

AFL's liabilities are mainly composed of bond issues, which have been executed since the beginning of AFL's banking activities in March 2015. Since 2017, liabilities may also include debt securities issued under the AFL's ECP program. However, as at June 30, 2018, there are no outstanding ECPs.
At that date, the debt portfolio consisted of four medium- and long-term public issues denominated in euros, for an outstanding amount of €2.75 billion, two private placements denominated in euros for a total of €125 million and a US$100 million private placement maturing in early 2019. As at June 30, 2018, the debt book value stood at €2,969 million, after taking into account, in the amortized cost, the consequences of the changes in interest rates since the day of issue, under the rules of hedge accounting. The book value of the debt portfolio as of December 31, 2017 was €2,336 million. This increase reflects the increase in the balance sheet following the growth of AFL's activities as well as AFL's cautious strategy of fundraising in anticipation of the credit production period, which is generally concentrated at the end of the year.

At the end of the two capital increases carried out after 36 new local authorities became Société Territoriale members during the first half of 2018, the amount of AFL subscribed capital amounts to €137,200,000 at June 30, 2018, compared to €132,500,000 at June 30, 2017.

[4] Exposures are expressed in the gross regulatory EADs of the IFRS 9 provisions.

Excerpts of the main liabilities

In thousands of euros	6/30/2018	12/31/2017
Debt securities	2,969,446	2,335,802
Equity	118,024	114,856

VI. Risk management

AFL has established a system for managing all of the risks to which it is exposed. These risks, which are of different kinds, include strategic risk, counterparty risk, liquidity risk, market risks and operational risks. This system, which is based on a set of financial policies and procedures, aims to minimize the exposure of AFL's earnings and equity to those risks by hedging them and supervising them so that they remain in line with the institution's appetite for risk.

1. Strategic risk

Risk related to business activity includes the risk that AFL may generate losses, assuming that its expenses are permanently higher than its income. AFL's business plan currently foresees that its expenses should cease to be higher than its income over a medium-term horizon. Although this scenario was built with the utmost attention by AFL on the basis of projections and assumptions that seemed realistic, the occurrence of the scenarios cannot be excluded.

▪ Risks related to the business model

Pursuant to Article L. 1611-3-2 of the CGCT, AFL carries out its activities for the exclusive benefit of members, which excludes any prospect of diversification. AFL is therefore dependent on the demand that exists on the market for financing the local public sector and, to the extent that this demand is lower than anticipated in the business plan or would be referred to other actors or other products, AFL may encounter difficulties in achieving its profitability goals.

▪ Membership risks

Although the creation of AFL is a product of the law and is a response to a strong and constant desire expressed in recent years by a significant number of local and regional authorities, the start-up and development of its activity is exposed to several variables, including interest from local authorities. These variables could delay the acquisition of AFL capital, which is fueled by the initial capital contribution that they pay upon joining AFL-ST, and thus the volume of activity planned by AFL.

i. Political or macroeconomic risks or risks related to the specific financial circumstances of the State where AFL carries out its activities

Since AFL is a financial institution, its businesses are very sensitive to changes in the markets and the economic environment in France, Europe and the rest of the world. Its exposure to the local public sector in France puts AFL at risk of losses arising from possible unfavorable developments in the political, economic and legal situations in France or in Europe, including social instability, changes in public policies, local or national, or the policies of central banks. In addition, deterioration in market confidence in France could lead to unrealized losses in the liquidity portfolio, which has significant exposures to French sovereign risk as a result of spread margins. Finally, deterioration in France's situation would not be without consequence for the conditions for AFL's access to the capital markets.

▪ Risks related to competition

Existing and/or increasing competition in the local public sector financing market, both in France and in Europe, could lead to a failure on the part of AFL to achieve its intended success, reduced margins on future commitments that reduce the Net Banking Income generated by AFL, limited production of new assets for AFL or production that negatively affects activity, financial conditions, cash flows and results of operations in any way.

- **Risks related to regulatory developments**

AFL was approved by the French Prudential Supervision and Resolution Authority (ACPR) on January 12, 2015 as a specialized credit institution. This approval is essential to AFL's activity. It makes AFL subject to a number of regulatory requirements, including the obligation to comply with specific provisions and prudential ratios. This regulatory framework is constantly changing. Changes in the regulatory framework may disrupt the forecasts made by AFL as part of its business plan, strengthen some of its obligations and therefore impact its results.

2. Credit and counterparty risk

- **Credit and counterparty risk management policy**

AFL operates for the exclusive benefit of local authorities, which are shareholders of AFL-ST and guarantors of AFL's financial creditors. Since it can grant loans only to French local authorities, AFL in fact bears a strong concentration of its counterparty risk on a single type of borrower. Nevertheless, although the bankruptcy of a local authority cannot be ruled out, these counterparties have a very limited risk profile, notably due to the existence of the rigorous budgetary rules, which are applied to them. In order to optimize the risk profile of its loan portfolio, AFL has set up a strict policy for the granting of loans based on the adequate calibration of volume to risk, with the evaluation of the risk being based on an internal rating system for each local authority. This local authority internal rating system serves two objectives:

- evaluating the financial position of local authorities that are candidates for acquiring a stake in the capital of AFL-ST through the establishment of a "financial" rating. On a scale of 1 to 7 (1 being the best score and 7 the worst), only local and regional authorities scoring between 1 and 5.99 will be given the option to acquire a stake in the capital of AFL-ST; and

- evaluating the financial position of local authority members who seek loans from AFL, using, along with the aforementioned "financial" rating, a "socio-economic" rating, which may be supplemented by a "qualitative" rating.

At the end of this internal rating process, AFL authorizes itself to finance up to 50% of the total debt of a local authority member, depending on its rating, except in the specific case of small local authorities, where it may lend up to 100% of their total debt.

The counterparty and concentration risk to which AFL is exposed also comes from the investments of its liquidity reserve – a risk that is significantly reduced by its conservative investment policy.

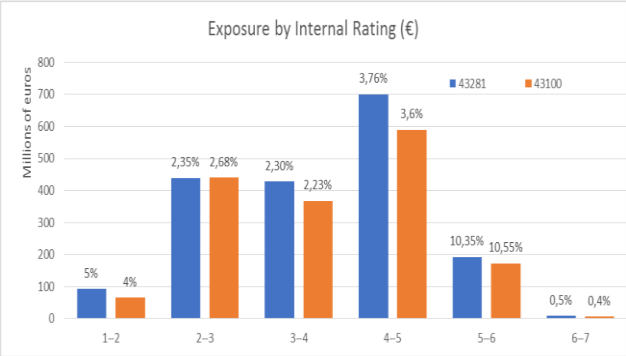
In order to reduce counterparty risk related to interest-rate and foreign-exchange hedging activities, AFL imposes daily collateralization to the first Euro of all swaps that it performs. Furthermore, with the aim of optimizing the management of the consumption of capital and collateral associated with significant use of those instruments, AFL executes most of its interest-rate hedging instruments in a clearing house or Central Counterparty (CCP) in accordance with EMIR (European Market Infrastructure Regulation) rather than in a bilateral format, but it does not totally exclude that practice. The purpose of the clearing of OTC (over-the-counter) transactions in a CCP (Central Counterparty) associated with the exchange of collateral is, firstly, to substantially reduce the consumption of equity capital related to counterparty credit risk, and, secondly, the consumption of collateral due to the opposite hedge positions taken to hedge interest rates of instruments on the asset side and the liability side.

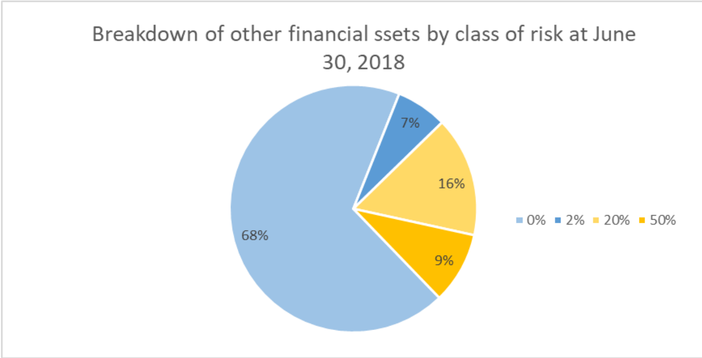
At June 30, 2018, 99.7% of AFL's interest rate swaps were cleared in clearing houses.

- **Credit risk related to local and regional authorities**

As at June 30, 2018, the weighted average rating of AFL's exposure to local authorities [5] was 3.78 according to its internal rating system, compared to 3.75 at December 31, 2017. 28.7% of the exposure was in the rating segment 1-3, compared to 30.8% at December 31, 2017, and 89% was in segment 1-5, unchanged from December 31, 2017.

[5] Local authority exposures include medium- and long-term loans and cash loans. Exposures are expressed in the gross regulatory EADs of the IFRS 9 provisions.



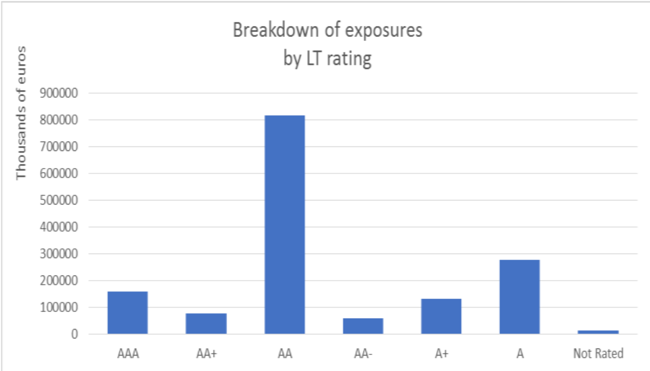


- ## Credit risk related to other exposures

AFL has three other sources of exposure in this area:

- exposures from securities acquired in the portfolio management of its liquidity reserve in accordance with a conservative investment policy. These are mainly issued or guaranteed by States or local authorities of member countries of the European Union or the OECD, or supranational institutions;
- exposures corresponding to the balance in its accounts with Banque de France and its custodian banks;
- and lastly, exposures arising from exposure to derivatives, concluded for hedging interest-rate or foreign-exchange risk.

As of June 30, 2018, the liquidity reserve had a limited risk profile. In fact, 68% corresponds to exposure on counterparties weighted at 0%, 16% to exposures weighted at 20% and 9% to exposures weighted at 50%, represented by commercial banks rated between AA- and A, to which should be added the 7% clearing house exposure weighted at 2%. Exposure to commercial banks corresponds mainly to deposits and securities issued by the banks[6].
The two charts below show the breakdown of the exposures[7] of the other assets by weighting and rating.



- ## Sensitive debt, doubtful debt, disputed debt, depreciation and provisions

AFL does not identify any sensitive, doubtful or disputed debt. Consequently, no depreciation or provision was recognized as at June 30, 2018 for the exposures arising from the loans granted to local authorities or from market transactions.

[6] The risk is weighted according to the standard method pursuant to European Union Regulation 575/2013.

[7] Exposures are expressed in the gross regulatory EADs of the IFRS 9 provisions.

3. Other balance sheet risks

Liquidity risk

The liquidity risk is understood in three separate ways:

- illiquidity risk: this is the risk of a disruption in short-term cash-flow, meaning in particular the risk that AFL will be unable to sell assets easily at a reasonable cost in the market;
- financing risk: this is the risk that AFL will be unable to raise the cash necessary to handle its commitments, i.e. the financing of its exposures under appropriate conditions;
- liquidity transformation risk, also known as liquidity price risk: this is a risk of income loss caused by an increase in refinancing spreads, combined with an excessively large transformation position, i.e. a mismatch of assets and liabilities that generally occurs through having assets longer than liabilities.

AFL has set up a very strict liquidity policy with the long-term objective of ensuring that it always has, including during periods of stress, a sufficient liquidity reserve to maintain all of its operational activities, its loan activities in particular, and to service its debt for a period of 12 months. In the absence of deposits and resources other than market resources, it is crucial for AFL to have an appropriate level of liquidity.

As part of its liquidity policy, AFL has set up a system, which is built around three objectives:

- holding a liquidity reserve that consists of liquid and cashable assets to ensure that AFL's operational activity can be maintained, even under a temporary disruption of capital markets that makes it impossible to seek financing under normal conditions or leads to a very great and unanticipated consumption of collateral resulting from adverse movements in interest rates or foreign exchange rates;
- a financing strategy that favors the diversification of sources and debt instruments. AFL issues both bonds in the bond market and debt securities in the money market and seeks to diversify the distribution by investor category and by geographical zone. In this regard, AFL pays particular attention to the placement of its bond issues with the investment community. Lastly, AFL makes "benchmark" issues denominated in euros, as well as "non-benchmark" issues in euros and potentially in foreign currencies, mainly in the form of private placements;
- with the aim of controlling its liquidity transformation risk, AFL strictly monitors the differences in maturity of its exposures on the asset and liability sides, and limits to one year the average lifetime difference between its assets and its liabilities. AFL also complies with the NSFR (Net Stable Funding Ratio) regulatory ratio, which it has set at a minimum level of 150%.

Lastly, AFL regularly monitors the price of liquidity.

As at June 30, 2018, the LCR regulatory 30-day liquidity ratio stood at 798%. Expressed as a cash flow requirement, the liquidity reserve is estimated at more than 12 months. This high level results from the choice made in June to return to the bond market in anticipation of growing needs related to the production of credit over the last months of the year. The NSFR regulatory transformation ratio was at 227% as at June 30, 2018, and the difference in average lifetime (DVM) reached -1 years, representing a level significantly below the limit of one year.

Interest rate risk

AFL naturally bears interest rate risks both on its exposures on the asset side (loans granted and securities in the liquidity reserve) and on the liability side (bonds issued). AFL also bears interest rate risks on its off-balance-sheet exposures, notably those related to loans signed and not disbursed.

Consequently, AFL has established a policy of hedging interest rate risk to immunize its balance sheet against undesirable market movements.

However, a limited share of fixed-rate loans is not hedged against interest rate risk. The purpose of this share, which represents most of the fixed-rate balance sheet exposure and is financed by equity capital, is to make a stable contribution to AFL's revenues. Exposure to interest rate risk is regularly measured by the sensitivity of the economic value of AFL to QUOI.

AFL's interest rate hedging policy consists of:

- systematic micro-hedging of fixed-rate debts to transform them into EURIBOR 3-month variable-rate debts using interest rate swaps;
- micro-hedging of a significant share of loans and debt securities from the liquidity reserve contracted on a fixed-rate basis to transform them into variable-rate assets. When the fixed-rate loans are small, AFL proceeds with macro-hedging of this loan portfolio;
- micro-hedging of positions indexed on references other than the 3-month EURIBOR, in order to reduce the interest rate basis risk.

The interest rate risk hedging strategy resulted in notional outstanding swaps of €7.3 billion as at June 30, 2018.

Interest rate risk, which is mainly related to the replacement of AFL's equity capital, is governed by the sensitivity of the net present value (NPV) to an interest rate risk whose level at June 30, 2018 amounted to -2.8% assuming a positive parallel translation of the yield curve by more than 100 basis points and -4.98% assuming a positive parallel translation of more than 200 basis points.

During the first half of 2018, the sensitivity of AFL's net present value to a change of plus or minus 200 basis points in the yield curve remained well below 15% of equity capital.

Exchange rate risk

Currency risk includes the risk that AFL may incur losses on its exposures in currencies other than the euro. AFL's policy aims to hedge this risk systematically through the implementation of micro-hedging instruments. Therefore, the assets and liabilities initially denominated in currencies other than the euro are systematically swapped into euros as soon as they are entered onto the balance sheet and until their final maturity. As at June 30, 2018, the notional amount of currency swaps on the AFL balance sheet stood at €93.6 million.

4. Management of other risks

Nature of risks

This consists mainly of operational risk, which, from a regulatory standpoint, includes the risk of loss resulting from inadequate or failed processes, personnel (including internal fraud) and internal systems or external events, whether accidental or not (including external fraud, natural events or terrorist attacks). It is mainly made up of the risks linked to events with a low probability of occurrence but with high impact. In this perimeter, AFL includes legal risk and non-compliance risk.

- Process risks – These risks consist of failures of processes that can cause losses. All of AFL's activities are subject to this risk.

- Risks related to human resources - Because of its model and in the context of the start-up of its activities, AFL relies on a limited number of people to ensure its operations. The loss of one or more persons who are essential to its activity, whether due to outside solicitation or temporary or permanent unavailability (accident, sickness) is therefore likely to have an impact on its activity.

- Risks related to IT systems - IT systems are essential elements for AFL's activities and operations. These elements rely heavily on outsourcing. AFL is exposed to the risk associated with possible infringements on the availability and integrity of its computer systems and data that could, in particular, result from a failure by its external service providers.

- Legal risk – Legal risk is the risk of any dispute with a counterparty resulting from an inaccuracy, shortcoming or insufficiency that may be attributable to AFL. AFL has a range of simple products, in particular fixed- and variable-rate loans, with simple and understandable characteristics. Nevertheless, AFL cannot rule out the fact that a dispute may arise from a distorted understanding with a counterparty.

- Non-compliance risk – This risk covers the risk of judicial, administrative or disciplinary penalties, significant financial loss or reputational damage resulting from non-compliance with the provisions governing banking and financial activities, whether of a legislative or regulatory nature, both domestic and European, whether they are professional or ethical standards or instructions of effective officers given pursuant to the guidelines of the AFL Supervisory Board. AFL is required to comply with such standards and is therefore exposed to the risk of penalties for non-compliance therewith.

- **System in place**

As part of the Basel II recommendations on operational risk, AFL has set up a control and monitoring system with the purpose of preventing, measuring and allowing a prompt handling of risks related to AFL's activities. AFL has opted for the standard method and set up a system compliant with best market practices.

These systems involve regular assessment of the risks and the effectiveness of controls to minimize those risks and the implementation of improvement/remediation action plans where necessary. The systems are based on the four lines of defense of internal controls (business lines – operational risk monitoring function – second-level permanent control – periodic control). In addition, AFL has a policy for the security of IT systems and monitoring of essential outsourced services.

The main operational risk management tools are risk mapping and incident escalation.

The purpose of the risk mapping process is to identify and assess in a coherent manner the main areas of risk for AFL as a whole. It focuses on the main risks, using size of potential impact and frequency of occurrence as criteria. The exercise thus makes it possible to prioritize risks on an objective basis and to ensure coherence of evaluation between the various departments and functions involved.

Operational risk measurement is based on the collection and analysis of incidents, which measures the impact and frequency of occurrence of identified risks. The process requires the systematic reporting of incidents within AFL beyond predefined thresholds.

- **Risk analysis**

In the first half of 2018, no significant operating loss was incurred. With regard to legal risks, AFL was not involved in any disputes during the period under review.

The amount of capital requirements for operational risk amounted to €12.7 million as at June 30, 2018.

VII. Equity capital and prudential ratios

The capital contributions that result from regular capital increases enable AFL to develop all of its operational and financial activities.

Since October 2017, AFL defers regulatory capital to the ACPR on a consolidated basis only, in accordance with IFRS, for its parent company, Société Territoriale.

As at June 30, 2018, prudential capital amounted to €115,722,627, in accordance with IFRS, for Société Territoriale. Given the quality of credit of the assets carried by AFL, the solvency ratio reached 22.88% on a consolidated basis and the leverage ratio reached 3.39%.

The AFL Group has set itself the following prudential limits for liquidity and equity:

- a solvency ratio (Common Equity Tier One at AFL-ST level) at 12.5% minimum (9.879% regulatory limit); and

- a leverage ratio limit for AFL-ST at 3% minimum in anticipation of the implementation of regulations on leverage.

VIII. Prospects for 2018

According to the Local Finance and Public Management Observatory, 2017 saw an improvement in the net savings of French local authorities for the second year in a row since 2014, combined with a limited increase in debt. This situation underlines the adaptability of these authorities, which since 2014 have been subject to a decrease in State transfers and, since the Law on Public Finance Planning for 2018 to 2022, have been asked to participate in the five-year cost-cutting period for public administrations, in the amount of €13 billion.

This improvement in the financial position of local authorities has, for many of them, facilitated an upturn in investment in 2017, which should continue in 2018 and result in an increase in the use of loans, which AFL has already observed in recent months.

1. Loan production in the second half of 2018

At the time of writing, AFL's loan commitments exceeded €2 billion. This development is the result of an increase in production over several months.

At the date of the report (August 31), the new commitments made by AFL to the member local authorities since the beginning of the year amount to €525 million and consist of a production of 95 medium- and long-term loan agreements of €348.4 million and the acquisition of medium- and long-term loans that had been granted by other credit institutions to AFL member local and regional authorities totaling €121.4 million. In addition, €55 million in new cash loan lines were extended. The projected financing needs of the shareholder local authorities make it possible to anticipate medium- and long-term credit production in line with the forecasts announced in the business plan for 2018, which amount to €620 million.

As a result, the continued development of AFL's activities is directly correlated to the pace of new local authority memberships, which, through the subscription of capital within AFL-ST, allow for the consolidation of its equity capital and generate additional credit production potential.

2. Capital increase in the second half of 2018

At June 30, 2018, AFL-ST capital subscribed and paid up by the 259 member local authorities amounted to €144.3 million. At the date of this report, committed capital at the end of the sixteenth capital increase amounted to €157.7 million. This committed capital will be paid up in future capital increases.

By the end of the year, at least one capital increase is planned to allow new memberships by local authorities with AFL-ST and thus maintain the institution's growth momentum. The increase in the number of members and the volume of ICC, which is crucial for the growth of AFL's balance sheet, forms the core of its business model.

Marked by sustained membership growth during the first half of the year, the 2018 target for the ICCs committed should be achieved, thereby consolidating the achievement of the objectives of the 2017-2021 five-year business plan.

AFL will continue the deployment of its strategic plan over the coming months through ongoing collective or individual communication actions to promote its visibility and the dissemination of its original business model, which is entirely dedicated to member local authorities.

Agence France Locale S.A.

Statutory Auditors' Review Report
on the interim condensed financial statements

For the six-month period ended June 30, 2018
Agence France Locale S.A.
Tour Oxygène - 10-12, boulevard Vivier Merle - 69393
Lyon cedex 03

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 S.A.

Registered office : Tour Oxygène - 10-12, boulevard Vivier Merle - 69393 Lyon cedex 03
Share capital : €.137,200,000

Statutory Auditors' Review Report
on the interim condensed financial statements

For the six-month period ended June 30, 2018

To the Shareholders,

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

- the review of the accompanying interim condensed financial statements of Agence France Locale – S.A. for the period from January 1, 2018 to June 30, 2018,
- the verification of the information presented in the half-yearly management report.

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

I. Conclusion on the financial statements

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

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with accordance with the accounting rules and principles applicable in France.

II. Specific verification

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

Paris La Défense, September 28th, 2018

KPMG Audit FS I

Ulrich Sarfati
Partner

Paris, September 28th, 2018

Cailliau Dedouit et Associés

Laurent Brun
Partner

AGENCE FRANCE LOCALE

BALANCE SHEET

Assets as of 30th of june 2018

(€ '000s)	Notes	30/06/2018	31/12/2017
Cash and central banks	2	590,389	420,351
Government paper and similar securities	1	558,844	287,591
Receivables on credit institutions	2	163,265	211,233
Loans and advances to customers	4	1,646,629	1,435,377
Bonds and other fixed income securities	1	99,270	72,100
Equities and other variable income securities			
Investments in non-consolidated companies and other long-term investments			
Investments in consolidated companies			
Intangible assets	5	4,032	5,093
Property, plant and equipment	5	448	469
Other assets	6	63,506	68,480
Accruals	6	24,531	21,591
TOTAL ASSETS		**3,150,916**	**2,522,285**

Liabilities as of 30th of june 2018

(€ '000s)	Notes	30/06/2018	31/12/2017
Central banks		611	391
Due to banks	3	11	
Customer borrowings and deposits			
Debt securities	7	2,963,441	2,347,653
Other liabilities	8	1,808	1,312
Accruals	8	71,119	63,034
Provisions	9	17	17
Subordinated debt			
General banking risk fund (GBRF)			
Equity (excluding GBRF)	10	**113,908**	**109,878**
Share capital		137,200	132,500
Additional paid-in capital			
Reserves and retained earnings			
Revaluation differences			
Regulated provisions and investment subsidies			
Retained earnings (+/-)		(22,622)	(22,769)
Net income for the period (+/-)		(670)	146
TOTAL LIABILITIES		**3,150,916**	**2,522,285**

INCOME STATEMENT

(€ '000s)	Notes	30/06/2018	30/06/2017	31/12/2017
+ Interest and similar income	12	28,071	16,720	38,334
- Interest and similar expenses	12	(24,184)	(13,572)	(31,849)
+ Income from variable income securities				
+ Fee and commission income	13	134	29.31	73
- Fee and commission expenses	13	(56)	(41)	(90)
+/- Net gains (losses) on held for trading portfolio	15	1,429	707	443
+/- Net gains (losses) on placement portfolio	15	(204)	1,308	4,192
+ Other banking income	14			
- Other banking expense	14			
NET BANKING INCOME		**5,189**	**5,152**	**11,102**
- General operating expenses	16	(4,674)	(4,334)	(8,618)
+ Other operating income				
- Depreciation and amortization	5	(1,186)	(1,147)	(2,338)
GROSS OPERATING INCOME		**(670)**	**(329)**	**146**
- Cost of risk				
OPERATING INCOME		**(670)**	**(329)**	**146**
+/- Net gains (losses) on fixed assets				
PRE-TAX INCOME ON ORDINARY ACTIVITIES		**(670)**	**(329)**	**146**
+/- Net extraordinary items				
- Income tax charge				
+/- Net allocation to FGBR and regulated provisions				
NET INCOME		**(670)**	**(329)**	**146**
Basic earnings per share		(0.49)	(0.25)	0.11

OFF-BALANCE SHEET

(€ '000s)

COMMITMENTS GIVEN AND RECEIVED	Notes	30/06/2018	31/12/2017
Commitments given		**298,678**	**238,783**
Financing commitments		263,636	238,783
Guarantee commitments			
Commitments on securities		35,042	
Commitments received		**52,444**	**2,591**
Financing commitments			
Commitments received from credit institutions			
Guarantee commitments		2,531	2,591
Commitments on securities		49,914	
Derivatives	11	**7,262,574**	**5,623,570**

NOTES TO THE INDIVIDUAL HAL YEAR ACCOUNTS

I - Publication context

The half-year financial statements were approved by the Board of Directors as of September 12, 2018.

II - Highlights from the first half

As of June 30, 2018, the credit activity of loans concluded over the period with local authorities amounted to €116.9 million compared to €176.7 million as at June 30, 2017. The strong seasonality shape of the credit activity to local authorities is not declining in the first half of 2018; the activity should remain mainly concentrated on the second half of the year.

In the first half of 2018, the AFL issued 3 bond issues on the capital markets, with longer maturities than those previously issued. At the beginning of the year, two 10- and 15-year issues were issued with the shape of private placement for 25 and 100 million euros and a margin of 25 basis points against the yield curve of French government bonds (OATs). On June 12, a 10-year, 500-million benchmark public issue was made at a margin of 30 basis points over the OAT curve. The good reception of these issues by investors once again demonstrates the quality of the AFL's reputation on the markets.

In the first half of 2018, Agence France Locale's capital raised by €4.7 million to €137.2 million following two capital increases exclusively subscribed by its parent company, Société Territoriale. Following these transactions, the total number of shareholders of Agence France Locale Group has been increased to 259.

In the first half of 2018, the net banking income generated by the business amounted to €5,189k as compared to €5,152k at 30 June 2017 which included capital gains on sales of €2,343k. It mainly corresponds to an interest margin of €3,887k, up from €3,148k recorded over the first half of the previous year, a net capital gains on investment securities disposal of €1,305k after taking in the account of the result of the hedging relationship, €78k of commission income and an impairment on placement securities for €178k.

The interest margin of €3,887k comes from three items: firstly, an income of €3,680k from the loan portfolio once restated to hedge accounting;
secondly, a negative income of €-1,505k from the management of the cash reserve, in a context of deep negative interest rates; and lastly, a positive income of €1,712k associated to interest charges given the reasons stated above, net of hedge accounting.

The €26k capital losses 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 €1,331k, generating net capital gains of €1,305k for the period.

As at 30 June 2018, general operating expenses came to €4,674k as compared to €4,334k as at June 30, 2017. They include €2,343k of personnel expenses, down from €2,454k for the first half of 2017. Administrative expenses amounting to €2,817k remain comparable to €2,422k in the first half of the previous financial year, after restating on June 30, 2017 the effect of €488k reversal of provisions for risks and charges.

After depreciation, amortization and provisions, amounting to €1,186k compared with €1,147k as at June 30, 2017, net income came to €-670k compared to €-329k for the first half of the previous year.

Subsequent events

No significant subsequent events occurred on the beginning of the second half 2018 after the accounts closure date has to be reported.

III - Accounting principles and valuation methods

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

Presentation format

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

Preparation basis

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

- Going concern principle,
- Segregation of accounting periods,
- Consistency of methods.

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

The accounting principles and methods applied in drawing up these half-yearly financial statements are identical to those applied at 31 December 2017.

Identity of the parent company consolidating the accounts of the Agence as of June 30, 2018

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

IV - Notes to the Balance Sheet

Note 1 - PORTFOLIO

(€ '000s)

30/06/2018	Government paper and similar securities	Bonds and other fixed income securities	Equities and other variable income securities	Total
Fixed or variable income securities				
Listed securities	557,672	99,130		656,802
Unlisted securities				-
Accrued interest	1,273	278		1,551
Impairment	(102)	(137)		(239)
Net carrying amount	**558,844**	**99,270**	**-**	**658,114**
Residual net Premium/Discount	3,511	984		4,496

31/12/2017	Government paper and similar securities	Bonds and other fixed income securities	Equities and other variable income securities	Total
Fixed or variable income securities				
Listed securities	286,536	71,555		358,091
Unlisted securities				-
Accrued interest	1,084	576		1,661
Impairment	(29)	(32)		(61)
Net carrying amount	**287,591**	**72,100**	**-**	**359,690**
Residual net Premium/Discount	4,743	1,512		6,255

Government paper and similar securities: analysis by residual maturity

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 30/06/2018	Total 31/12/2017
Government paper and similar securities								
Net amount	5,003	20,003	231,951	300,614	557,570	1,273	558,844	287,591
NET CARRYING AMOUNT	**5,003**	**20,003**	**231,951**	**300,614**	**557,570**	**1,273**	**558,844**	**287,591**
Bonds and other fixed income securities								
Net amount	-	26,274	72,719	-	98,992	278	99,270	72,100
NET CARRYING AMOUNT	**-**	**26,274**	**72,719**	**-**	**98,992**	**278**	**99,270**	**72,100**

Analysis by type of portfolio

Portfolio *(€ '000s)*	Gross amount 31/12/2017	Additions	Disposals	Transfers	Prem/Disc Amort.	Change in accrued interest	Impairment	Total 30/06/2018	Unrealized gains/(losses)
Transaction									
Held-for-sale	359,690	1,068,839	(769,000)		(1,128)	(109)	(178)	658,114	2,168
Investment									
NET CARRYING AMOUNT	**359,690**	**1,068,839**	**(769,000)**	**-**	**(1,128)**	**(109)**	**(178)**	**658,114**	**2,168**
Of which Premium/Discount	6,255	2,638	(3,269)		(1,128)	-	-	4,496	

Note 2 -RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	30/06/2018	31/12/2017
Mandatory reserve deposits with central banks	590,389	420,351
Other deposits		
Cash and central banks	**590,389**	**420,351**

Receivables on credit institutions

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 30/06/2018	Total 31/12/2017
Credit institutions							-	-
Loans and receivables							-	-
- demand	113,265				113,265		113,265	161,233
- time		50,000			50,000		50,000	50,000
Securities bought under repurchase agreements							-	-
TOTAL	**113,265**	**50,000**	**-**	**-**	**163,265**	**-**	**163,265**	**211,233**
Impairment								
NET CARRYING AMOUNT	**113,265**	**50,000**	**-**	**-**	**163,265**	**-**	**163,265**	**211,233**

Note 3 - DUE TO CREDIT INSTITUTIONS

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 30/06/2018	Total 31/12/2017
Credit institutions							-	-
Accounts and Overdrafts					-		-	-
- demand	11				11		11	-
- time					-		-	-
Securities sold under repurchase agreements					-		-	-
TOTAL	**11**	**-**	**-**	**-**	**11**	**-**	**11**	**-**

Note 4 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	30/06/2018	31/12/2017
Short-term credit facilities	18,602	2,172
Other loans	1,628,028	1,433,205
Customers transactions before impairment charges	**1,646,629**	**1,435,377**
Impairment		
Net carrying amount	**1,646,629**	**1,435,377**
Of which related receivables	5,362	2,283
Of which gross doubtful receivables		
Of which gross non-performing doubtful receivables		

Analysis by residual maturity excluding accrued interest

(€ '000s)	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 30/06/2018
Loans and advances to customers	28,297	36,288	70,998	448,652	1,057,032	**1,641,267**	**5,362**	**1,646,629**

Note 5 - BREAKDOWN OF FIXED ASSETS

(€ ‘000s)

Intangible assets	31/12/2017	Additions	Transfers	Disposals	Amort.	Other movements	30/06/2018
Intangible assets	**11,525**	**49**				**22**	**11,595**
Start-up costs	2,123						2,123
IT development costs	8,947	48				22	9,017
Web site	427	1					427
Software	28						28
Intangible assets in progress	**102**	**55**				**(41)**	**116**
Intangible assets amortisation	**(6,533)**				**(1,146)**		**(7,680)**
Net carrying amount	**5,093**	**104**			**(1,146)**	**(19)**	**4,032**

Property, plant & equipment	31/12/2017						30/06/2018
Property, plant & equipment	766	12					784
Tangible assets in progress	-						-
Tangible assets amortization	(297)				(39)		(336)
Net carrying amount	**469**	**12**			**(39)**		**448**

Note 6 - OTHER ASSETS AND ACCRUALS

(€ ‘000s)	30/06/2018	31/12/2017
Other assets		
Cash collateral paid	63,467	68,376
Other assets	39	104
Impairment		
Net carrying amount	**63,506**	**68,480**
Accruals		
Deferred charges on bond issues	11,233	9,238
Deferred charges on hedging transactions	6,610	4,143
Prepaid charges	379	147
Accrued interest not yet due on hedging transactions	6,244	8,063
Other deferred income	67	
Other accruals		
TOTAL	**24,531**	**21,591**

Note 7 - DEBT SECURITIES

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 30/06/2018	Total 31/12/2017
Negotiable debt securities					-		-	8,338
Bonds		85,778	1,500,000	1,375,000	2,960,778	2,663	2,963,441	2,339,315
Other debt securities					-		-	-
TOTAL	**-**	**85,778**	**1,500,000**	**1,375,000**	**2,960,778**	**2,663**	**2,963,441**	**2,347,653**

Note 8 - OTHER LIABILITIES and ACCRUALS

(€ '000s)	30/06/2018	31/12/2017
Other liabilities		
Cash collateral received		
Miscellaneous creditors	1,808	1,312
TOTAL	**1,808**	**1,312**
Accruals		
Transaction to pay and settlement accounts		
Premium EMTN issue	2,730	2,954
Unrealised gains on hedging instruments	50,659	43,222
Unearned income		
Accrued expenses on hedging instruments	9,820	6,335
Other accrued expenses		
Other accruals	7,911	10,523
TOTAL	**71,119**	**63,034**

Note 9 - PROVISIONS

(€ '000s)	Balance as of 31/12/2017	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 30/06/2018
Provisions						
Financing commitment execution risks						
Provisions for other litigations						
Provisions for employee retirement and similar benefits	17	-	-	-	-	17
Provisions for other liabilities to employees						
Other provisions						-
TOTAL	**17**	**-**	**-**	**-**	**-**	**17**

Note 10 - CHANGES IN EQUITY

(€ '000s)	Share capital	Legal reserve	Share premiums	Statutory reserve	Translation, revaluation	Translation, revaluation subsidies	Retained earnings	Net income	Total equity
Balance as of 31/12/2016	**111,000**	**-**	**-**	**-**	**-**	**-**	**(20,127)**	**(2,642)**	**88,231**
Change in share capital	21,500								21,500
Change in share premium and reserves									
Allocation of 2016 net profit							(2,642)	2,642	
Net income as of 31/12/2017								146	146
Other changes									
Balance as of 31/12/2017	**132,500**	**-**	**-**	**-**	**-**	**-**	**(22,769)**	**146**	**109,878**
Dividend paid for 2017									
Change in share capital	4,700 (1)								4,700
Change in share premium and reserves									
Allocation of 2017 net profit							146	(146)	
Net income as of 30/06/2018								(670)	(670)
Other changes									
Balance as of 30/06/2018	**137,200**	**-**	**-**	**-**	**-**	**-**	**(22,622)**	**(670)**	**113,908**

(1) The share capital of Agence France Locale which amounts on June 30th, 2018 to € 137,200,000 consists of 1,372,000 shares. The Agence carried out two capital increases during the first year-half 2018 subscribed on 14th February 2018 to € 2,500k, and on 23th May 2018 for € 2,200k.

Note 11 - DERIVATIVES

Outstanding notional and Fair value

(€ '000s)	30/06/2018				31/12/2017			
	Hedging transactions		Others than Hedging transactions		Hedging transactions		Others than Hedging transactions	
	Outstanding notional	Fair value	Outstanding notional	Fair value	Outstanding notional	Fair value	Outstanding notional	Fair value
FIRM TRANSACTIONS	**5,038,966**	**(42,512)**	**2,223,608**	**(409)**	**3,875,642**	**(46,213)**	**1,747,928**	**(556)**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**5,038,966**	**(42,512)**	**2,223,608**	**(409)**	**3,875,642**	**(46,213)**	**1,747,928**	**(556)**
Interest rate contracts	4,945,383	(35,303)	2,223,608	(409)	3,773,605	(36,275)	1,747,928	(556)
FRA								
Cross Currency Swaps	93,583	(7,209)			102,036	(9,938)		
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Exchange rate options								
Other options								
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Caps, floors								
Foreign currency option								
Crédit derivatives								
Other options								

Amount of micro-hedge transaction as of 30/06/2018	4,657,700	(€ '000s)
Amount of macro-hedge transaction as of 30/06/2018	381,266	(€ '000s)
Amount of trading transaction as of 30/06/2018	2,223,608	(€ '000s)

Notional amount by maturity

(€ '000s)	30/06/2018					
	Hedging transactions			Others than Hedging transactions		
	Less than 1 year	1 year to 5 years	more than 5 years	Less than 1 year	1 year to 5 years	more than 5 years
FIRM TRANSACTIONS	**147,709**	**1,865,466**	**3,025,790**	**35,608**	**822,474**	**1,365,526**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts						
Other contracts						
Over-the-counter markets	**147,709**	**1,865,466**	**3,025,790**	**35,608**	**822,474**	**1,365,526**
Interest rate contracts	54,126	1,865,466	3,025,790	35,608	822,474	1,365,526
FRA						
Cross Currency Swaps	93,583					
Other contracts						
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**
Exchange rate options						
Other options						
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**
Caps, floors						
Foreign currency option						
Crédit derivatives						
Other options						

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.

V - Notes to the Income statement

Note 12 - Interest income and expenses

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Interest and similar income	**28,071**	**16,720**	**38,334**
Due from banks		3	5
Due from customers	8,834	5,651	12,584
Bonds and other fixed income securities	720	252	714
from Held-for-sale securities	*720*	*252*	*714*
from Investment securities			
Income from interest rate instruments	18,517	10,813	25,031
Other interest income			
Interest and similar expenses	**(24,184)**	**(13,572)**	**(31,849)**
Due to banks	(937)	(817)	(1,966)
Due to customers			
Debt securities	(6,869)	(4,774)	(10,694)
Expense from interest rate instruments	(16,378)	(7,981)	(19,188)
Other interest expenses			
Interest margin	**3,887**	**3,148**	**6,485**

Note 13 - Net fee and commission income

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Commission income	**134**	**29**	**73**
Interbank transactions			
Customer transactions	134	29	73
Securities transactions			
Forward financial instruments transactions			
Currencies transactions			
Financing commitments and guarantee			
Other commissions recieved			
Commission expenses	**(56)**	**(41)**	**(90)**
Interbank transactions	(1)		(2)
Securities transactions			
Forward financial instruments transactions	(55)	(41)	(87)
Currencies transactions			
Financing commitments and guarantee			
Other commissions paid			
Net fee and commission income	**78**	**(11)**	**(17)**

Note 14 - Analysis of gains and losses on portfolio transactions

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Gains/(losses) on Trading book			
Gains/(losses) on forward financial instruments	1,429	707	443
Gains/(losses) on foreign currency transactions			
Gains or (losses) on trading portfolio	**1,429**	**707**	**443**
Gains/(losses) from disposal of held-for-sale securities	(26)	1,636	4,051
Other income/(expenses) from held-for-sale securities			
Impairment (charges) and reversals on held-for-sale securities	(178)	(327)	140
Gains or (losses) on held-for-sale portfolio	**(204)**	**1,308**	**4,192**

Note 15 - General operating expenses

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Employee expenses			
Wages and salaries	1,509	1,587	2,980
Post-employment benefit expenses	155	162	317
Other expenses	679	705	1,295
Total Employee expenses	**2,343**	**2,454**	**4,592**
Operating expenses			
Taxes and duties	307	(124)	87
External services	2,511	2,545	4,496
Total Administrative expenses	**2,817**	**2,422**	**4,583**
Charge-backs and reclassification of administrative expenses	(487)	(542)	(557)
Total General operating expenses	**4,674**	**4,334**	**8,618**

A reversal of provision was made during the first half-year for € 488K. This reversal was recorded as a reduction of taxes and duties for the period.

Note 16 - Income tax charge

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

Tax losses amounting to €23.0m at 2018 half-year closing were not recognised as deferred tax assets.

Note 17 - Related parties

There are, on 30 June 2018, 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.

AGENCE FRANCE LOCALE IFRS GAAP

BALANCE SHEET

Assets as of June 30, 2018

(€ '000s)	Notes	30/06/2018	01/01/2018	31/12/2017
Cash, central banks	4	590,371	420,338	420,351
Financial assets at fair value through profit or loss	1	21,220	13,711	13,711
Hedging derivative instruments	2	24,692	15,629	15,629
Financial assets at fair value through other comprehensive income	3	660,679	358,964	
Available-for-sale financial assets				358,964
Securities at amortized cost				
Loans and receivables due from credit institutions and similar items at amortized cost	4	226,659	279,535	211,233
Loans and receivables due from customers at amortized cost	5	1,644,988	1,430,802	1,430,829
Revaluation adjustment on interest rate risk-hedged portfolios		43		
Held-to-maturity financial assets				
Current tax assets		7		
Deferred tax assets	6	5,338	5,323	5,310
Accruals and other assets	7	590	369	68,678
Intangible assets	8	3,838	4,689	4,689
Property, plant and equipment	8	448	469	469
Goodwill				
TOTAL ASSETS		**3,178,875**	**2,529,829**	**2,529,864**

Liabilities as of June 30, 2018

(€ '000s)	Notes	30/06/2018	01/01/2018	31/12/2017
Central banks		596	368	368
Financial liabilities at fair value through profit or loss	1	21,629	14,267	14,267
Hedging derivative instruments	2	67,204	61,841	61,841
Due to credit institutions	9	2,969,446	2,335,802	2,335,802
Due to banks		11		
Debt securities				
Revaluation adjustment on interest rate hedged portfolios			963	963
Current tax liabilities				
Deferred tax liabilities	6		205	205
Accruals and other liabilities	10	1,950	1,543	1,543
Provisions	11	22	21	19
Equity		**118,016**	**114,818**	**114,856**
Equity, Group share		**118,016**	**114,818**	**114,856**
Share capital and reserves		137,200	132,500	132,500
Consolidated reserves		(18,280)	(17,853)	(17,628)
Reevaluation reserve				
Gains and losses recognised directly in equity		(133)	598	411
Profit (loss) for the period		(771)	(427)	(427)
Non-controlling interests				
TOTAL LIABILITIES		**3,178,875**	**2,529,829**	**2,529,864**

Income statement

(€ '000s)	Notes	30/06/2018	30/06/2017	31/12/2017
Interest and similar income	12	28,052	16,701	38,296
Interest and similar expenses	12	(24,173)	(13,524)	(31,789)
Fee & Commission Income	13	134	29	73
Fee & Commission Expense	13	(56)	(41)	(90)
Net gains (losses) on financial instruments at fair value through profit or loss	14	1,346	545	141
Net gains or losses on financial instruments at fair value through other comprehensive income	15	(26)	1,636	4,051
Income on other activities				
Expenses on other activities				
NET BANKING INCOME		**5,277**	**5,347**	**10,682**
Operating expenses	16	(4,673)	(4,334)	(8,619)
Net depreciation, amortisation and impairments of tangible and intangible assets	8	(975)	(937)	(1,913)
GROSS OPERATING INCOME		**(371)**	**76**	**149**
Cost of risk	17	(234)		
OPERATING INCOME		**(605)**	**76**	**149**
Net gains and losses on other assets				
INCOME BEFORE TAX		**(605)**	**76**	**149**
Income tax	6	(166)	(113)	(576)
NET INCOME		**(771)**	**(37)**	**(427)**
Non-controlling interests				
NET INCOME GROUP SHARE		**(771)**	**(37)**	**(427)**
Basic earnings per share (in EUR)		(0.56)	(0.03)	(0.32)
Diluted earnings per share (in EUR)		(0.56)	(0.03)	(0.32)

Net income and other comprehensive income

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Net income	**(771)**	**(37)**	**(423)**
Items will be reclassified subsequently to profit or loss	**(731)**	**(205)**	**254**
Revaluation of financial assets at fair value through other comprehensive income recyclable to income	(1,118)	(284)	398
Other items recognized through other comprehensive income recyclable to income			
Related taxes	387	80	(144)
Elements not recyclable in profit or loss	**-**	**-**	**-**
Revaluation in respect of defined benefit plans			
Other items recognized through other comprehensive income not recyclable to income			
Related taxes			
Total gains and losses recognized directly in equity	**(731)**	**(205)**	**254**
COMPREHENSIVE INCOME	**(1,502)**	**(242)**	**(169)**

Consolidated statement of changes in equity

(€ '000s)	Capital	Associated reserves to capital	Consolidated reserves	Gains and losses recognized directly in comprehensive income – Recyclable – Net change in fair value of Financial assets at fair value through other comprehensive income, after tax	Gains and losses recognized directly in comprehensive income – Recyclable – Net change in fair value of cash flow hedging derivatives, after tax	Gains and losses recognized directly in comprehensive income – Not recyclable – Revaluation in respect of defined benefit plans	Gains and losses recognized directly in comprehensive income – Not recyclable – Other items recognized through other comprehensive income not recyclable to income	Net income, Group share	Share-holders' equity - Group share	Share-holders'equity, non-controlling interests	Total share-holders equity
Shareholders' equity at at 1 january 2017	**111,000**	**-**	**(14,263)**	**157**	**-**	**-**	**-**	**(3,365)**	**93,529**	**-**	**93,529**
Increase in share capital	21,500								21,500		21,500
Elimination of treasury shares											
Allocation of profit 2016			(3,365)					3,365	-		-
Dividends 2016 paid											
Sub-total of changes linked to transactions with shareholders	**21,500**	**-**	**(3,365)**	**-**	**-**	**-**	**-**	**3,365**	**21,500**	**-**	**21,500**
Change in fair value through equity				684					684		684
Change in value of through profit or loss				(285)					(285)		(285)
Changes in actuarial gains on retirement benefits											-
Related taxes				(144)					(144)		(144)
Changes in gains and losses recognized directly in equity	**-**	**-**	**-**	**254**	**-**	**-**	**-**	**-**	**254**	**-**	**254**
2017 Net income								(427)	(427)		(427)
Sub-total	**-**	**-**	**-**	**254**	**-**	**-**	**-**	**(427)**	**(173)**	**-**	**(173)**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 31 december 2017	**132,500**	**-**	**(17,628)**	**411**	**-**	**-**	**-**	**(427)**	**114,856**	**-**	**114,856**
Impact of changes in IFRS 9 accounting policies			(226)	187					(38)		(38)
Shareholders' equity at 1 january 2018	**132,500**	**-**	**(17,853)**	**598**	**-**	**-**	**-**	**(427)**	**114,817**	**-**	**114,817**
Increase in share capital	4,700 (1)								4,700		4,700
Elimination of treasury shares											
Allocation of profit 2017			(427)					427			
Dividends 2017 paid											
Sub-total of changes linked to transactions with shareholders	**4,700**	**-**	**(427)**	**-**	**-**	**-**	**-**	**427**	**4,700**	**-**	**4,700**
Changes in fair value through equity				(903)					(903)		(903)
Change in value of through profit or loss				(214)					(214)		(214)
Changes in actuarial gains on retirement benefits											
Related taxes				387					387		387
Changes in gains and losses recognized directly in equity	**-**	**-**	**-**	**(731)**	**-**	**-**	**-**	**-**	**(731)**	**-**	**(731)**
2018 Net income								(771)	(771)		(771)
Sub-total	**-**	**-**	**-**	**(731)**	**-**	**-**	**-**	**(771)**	**(1,502)**	**-**	**(1,502)**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 30 June 2018	**137,200**	**-**	**(18,280)**	**(133)**	**-**	**-**	**-**	**(771)**	**118,016**	**-**	**118,016**

(1) The share capital of Agence France Locale which amounts on June 30th, 2018 to € 137,200,000 consists of 1,372,000 shares. The Agence carried out two capital increases during the first year-half 2018 subscribed on 14th February 2018 to € 2,500k, and on 23th May 2018 for € 2,200k.

Cash flow statement

(€ '000s)	30/06/2018	31/12/2017
Net income before taxes	**(605)**	**149**
+/- Net depreciation and amortisation of tangible and intangible non-current assets	975	1,913
+/- Net provisions and impairment charges		(488)
+/- Expense/income from investing activities	(1,138)	(5,339)
+/- Expense/income from financing activities	257	396
+/- Other non-cash items	627	3,318
= Non-monetary items included in net income before tax and other adjustments	**722**	**(199)**
+/- Cash from interbank operations		
+/- Cash from customer operations	(208,174)	(545,512)
+/- Cash from financing assets and liabilities	10,454	(22,621)
+/- Cash from not financing assets and liabilities	291	(44)
- Income tax paid		
= Decrease/(increase) in cash from operating activities	(197,428)	(568,177)
= CASH FLOW FROM OPERATING ACTIVITIES (A)	**(197,312)**	**(568,227)**
+/- Flows linked to financial assets and investments	(298,589)	(52,195)
+/- Flows linked to investment properties		
+/- Flows linked to tangible and intangible non-current assets	(103)	(518)
= CASH FLOW FROM INVESTING ACTIVITIES (B)	**(298,691)**	**(52,713)**
+/- Cash from or for shareholders	4,700	21,500
+/- Other cash from financing activities	613,373	1,099,684
= CASH FLOW FROM FINANCING ACTIVITIES (C)	**618,073**	**1,121,184**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)		
Increase/(decrease) in cash equivalents (A + B+ C + D)	**122,070**	**500,244**
Cash flow from operating activities (A)	(197,312)	(568,227)
Cash flow from investing activities (B)	(298,691)	(52,713)
Cash flow from financing activities (C)	618,073	1,121,184
Effect of changes in exchange rates on cash and cash equivalents (D)		
Cash and cash equivalents at the beginning of the period	**581,585**	**81,341**
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	581,585	81,341
Cash and cash equivalents at the end of the period	**703,655**	**581,585**
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	703,655	581,585
CHANGE IN NET CASH	**122,070**	**500,244**

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS ACCORDING TO IFRS STANDARDS

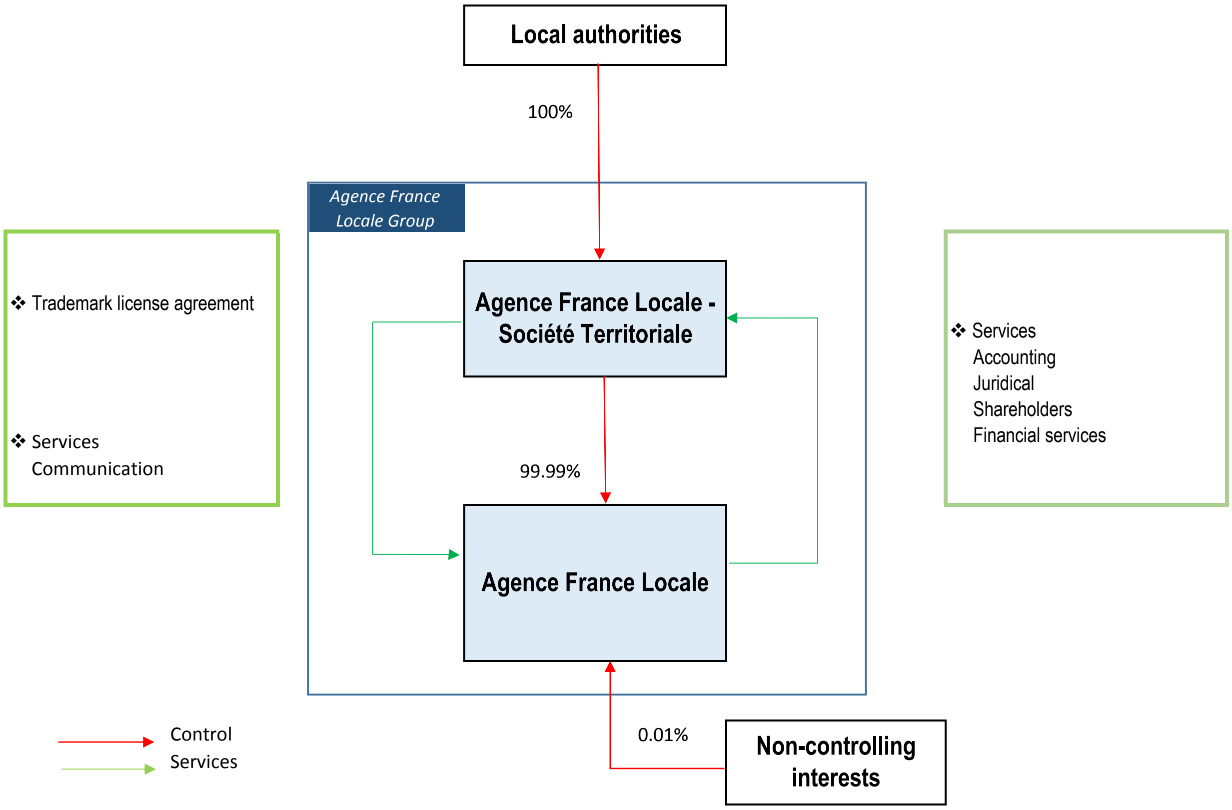
General framework

AFL (« Agence ») presentation

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

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

The diagram below shows the structure of the AFL group:



I - Publication context

The half-year financial statements were approved by the Board of Directors as of September 12, 2018.

II - Highlights from the first half

As of June 30, 2018, the credit activity of loans concluded over the period with local authorities amounted to €116.9 million compared to €176.7 million as at June 30, 2017. The strong seasonality shape of the credit activity to local authorities is not declining in the first half of 2018; the activity should remain mainly concentrated on the second half of the year.

In the first half of 2018, the AFL issued 3 bond issues on the capital markets, with longer maturities than those previously issued. At the beginning of the year, two 10- and 15-year issues were issued with the shape of private placement for 25 and 100 million euros and a margin of 25 basis points against the yield curve of French government bonds (OATs). On June 12, a 10-year, 500-million benchmark public issue was made at a margin of 30 basis points over the OAT curve. The good reception of these issues by investors once again demonstrates the quality of the AFL's reputation on the markets.

In the first half of 2018, Agence France Locale's capital raised by €4.7 million to €137.2 million following two capital increases exclusively subscribed by its parent company, Société Territoriale. Following these transactions, the total number of shareholders of Agence France Locale Group has been increased to 259.

In the first half of 2018, the net banking income generated by the business amounted to €5,277k as compared to €5,347k at 30 June 2017 which included capital gains on sales of €2,343k. It mainly corresponds to an interest margin of €3,879k, up from €3,177k recorded over the first half of the previous year, a net capital gains on investment securities disposal of €1,305k after taking in the account of the result of the hedging relationship, €78k of commission income and a result of negative hedge revaluations of €-73k.

The interest margin of €3,879k comes from three items: firstly, an income of €3,672k from the loan portfolio;
secondly, a negative income of €-1,505k from the management of the cash reserve, in a context of deep negative interest rates; and lastly, a positive income of €1,712k associated to interest charges given the reasons stated above, net of hedge accounting.

The €26k capital losses 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 €1,331k, generating net capital gains of €1,305k for the period.

Net income from hedge accounting came to €1,357k. It comes from two items. First of all, It comes from the sale of interest rate hedging of fixed-income securities and loans reimbursed in advance for €1,430k and secondly €-73k which represents, for instruments still in portfolio at the reporting date, the sum related to unrealized valuation differences between hedged items and hedging instruments. Among these differences, €-110k relate to valuation differential charges on instruments classified as macro-hedges and €37k of products relate to valuations of instruments classified as micro-hedges. This hedge accounting result 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 2018, general operating expenses came to €4,673k as compared to €4,334k as at June 30, 2017. They include €2,343k of personnel expenses, down from €2,454k for the first half of 2017. Administrative expenses amounting to €2,378k remain comparable to €1,985k in the first half of the previous financial year, after restating on June 30, 2017 the effect of €488k reversal of provisions for risks and charges.

After depreciation, amortization and provisions, amounting to €975k compared with €937k as at June 30, 2017, operating income came to €-371k compared to €76k for the first half of the previous year.

The first application of IFRS 9 and its new credit losses impairment model led to the recognition of €234 of impairment losses in the first half of the year, wich comes exclusively from the increase in the securities portfolio, without any credit risk being incurred on the period.

After a deferred tax expense of €166 related to the consolidation adjustments, the first half of the 2018 financial year shows a negative net income of €771k, compared with €-37k over the same period during the previous year.

Subsequent events

No significant subsequent events occurred on the beginning of the second half 2018 after the accounts closure date has to be reported.

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

Agence France Locale has decided to publish voluntary financial statement according to IFRS standards. The accounting standards is constantly the French GAAP standards according to legislation applicable in France.

The condensed interim financial statements for the half-year ended June 30, 2018 were prepared in accordance with IAS 34, Interim financial reporting wich identify accounting and valuation principles to be applied to a half-year financial report.

The preparation of the financial statements involves making assumptions and estimates that may or may not prove accurate in the future. These estimates, which are based on the information available as at 30 June 2018, 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

Application of IFRS basis

In accordance with IFRS 1 "First-time Adoption of IFRS" and pursuant to European Regulation 1606/2002 of July 19, 2002, the financial statements for first year-half 2018 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. 2017-02 of 2 June 2017 of the French Accounting Standards Authority (Autorité des normes comptables).

IFRS 15 - Revenue from contracts with customers

IFRS 15 - Revenue from contracts with customers replaces the current standards and interpretations relating to the recognition of profits. It is retrospectively applicable as of 1 January 2018, subject to its adoption by the European Union.

According to IFRS 15, the recognition of income from ordinary activities must reflect the transfer of goods and services promised to customers for an amount corresponding to the compensation that the entity expects to receive for the said goods and services. This new standard is not expected to have a significant impact on the accounts.

The activity of the AFL, focused on credit to local authorities is not involved by the first application of IFRS 15 as of January 1, 2018. This new standard is not expected to have a significant impact on the accounts.

First-time application of IFRS 9

IFRS 9 - Financial Instruments was endorsed on November 22, 2016 by the European Union. This standard is applicable retrospectively from 1 January 2018.

IFRS 9 replaces IAS 39 and defines the new rules for the classification and measurement of financial assets and liabilities, the new methodology for impairment for credit risk of financial assets and the treatment of hedging transactions, except Macro-hedging transactions for which a separate draft is under study by the IASB.

AFL has chosen the option offered by IFRS 9 to apply the new standard relating to fair value hedge accounting and to continue to apply IAS 39 "Carve-out", such as adopted by the European Union for macro-hedging.

The impacts of the first application of IFRS 9 on the balance sheet as at January 1, 2018 are as follows:

Classification and measurement

Loans and receivables from customers and credit institutions that were financial assets measured at amortized cost under IAS 39 continue to qualify for an amortized cost valuation in accordance with IFRS 9. Detailed analyzes conducted for all loans have shown that the cash flows associated with these assets consist solely of payments related to principal and its interest (SPPI test - according to the provisions of IFRS 9).

The early repayment of loans clause applied to customer loans continue to be consistent with the basic nature of the contractual cash flows since the amount of the prepayment is essentially the principal amount outstanding and the interest thereon as well. that, where applicable, a reasonable compensatory allowance. From this point of view, the loans meet the criteria for amortized cost accounting.

First application of IFRS 9 did not lead to any reclassification among all loans and receivables at amortized cost other than that required by the new ANC 2017-02 recommendation, where guarantee deposits paid that were recorded in accruals and other assets at December 31, 2017 (€68.3 million) were reclassified as at January 1, 2018 as loans and receivables to credit institutions.

All debt securities belonging to the liquidity reserve are managed within the AFL as collect and sales model. Given its conservative financial policy, the AFL did not include in its portfolio any securities whose contractual terms did not meet the definition of a basic financial asset (SPPI) within the defenition of IFRS 9. All debt instruments of the liquidity reserve is recorded in the category of Financial assets at fair value through comprehensive income. The accounting principles remain unchanged from IAS 39 with a recycling of unrealized capital gains or losses from equity to the profit and loss account in the event of a sale.

The recognition of financial liabilities remains unchanged under IFRS 9 and has no impact on the accounts of Agence France Locale.

Financial assets measured at fair value through profit or loss under IAS 39 (derivatives) continue to be measured at fair value through profit or loss in accordance with IFRS 9.

Impairment

IFRS 9 modifies the credit risk impairment model from a provisioning of inccured losses to an expected credit loss impairment (ECL). This new approach aims to anticipate as soon as possible the recognition of expected credit losses without waiting for an objective event of inccured loss.

Under IAS 39, impairments on initial recognition were expressly prohibited. An asset or group of assets could be impaired only if:

· there was objective evidence of impairment resulting from one or more events having occurred since the initial recognition of the asset (i.e. loss events); and

· these loss events had an impact on the estimated cash flows of the financial asset.

IFRS 9 now requires that entities recognize impairments at an earlier stage than under IAS 39, i.e., from the date of initial recognition of the financial instrument. Accordingly, application of the new IFRS 9 provisioning model leads for the first time AFL to record impairment on loans carried at amortized cost or securities at fair value through OCI recyclable to income and on loan or guarantee commitments given.

The impact of first-time application of IFRS 9 on opening equity related to the implementation of the new impairment model is €-51k before tax (€-38k after tax).

This impact of credit risk impairment on opening equity concerns loans to local authorities, loans and receivables from credit institutions and financing commitments given on the basis of a calculation of one year expected losses.

The impairment of expected credit losses on the liquidity reserve had no impact on the opening equity balance. Ex-ante depreciations on financial assets at fair value through equity do not change the net amount of the assets on the balance sheet; The impairment recorded in the opening balance sheet amounting to €-187k only result in an internal transfer to shareholders 'equity, on the one hand, the gains and losses recognized directly in other comprehensive income and the retained earnings, the other.

Hedge accounting

The AFL adopts IFRS 9 for fair value hedge accounting and remains under IAS 39 "Carve-out", as adopted by the European Union for the accounting of macro-hedges.

To qualify for fair value hedge accounting in accordance with IAS 39, hedging was to be highly effective prospectively and retrospectively.

IAS 39 defined a hedge as highly effective if the offsetting between changes in the fair value or cash flows of the hedging instrument and the hedged item was between 80% and 125%. The AFL performed efficiency tests to demonstrate that the compensation remained within this range. This definition of effectiveness remains the same under IFRS 9: it is the measurment of changes in the fair value or cash flows of the hedging instrument offset changes in the fair value or cash flows of the hedging instrument. However, IFRS 9 removed the quantitative thresholds in favor of a more qualitative approach where there is an economic relationship between the hedging instrument and the hedged item. The hedged item varies inversely with each other as a consequence of the same risk, which is the risk hedged.

IFRS 9 provides that in fair value hedges, if the critical conditions (such as nominal amount, maturity and underlying) of the hedging instrument and the hedged item are in perfect or close agreement , the entity could rely on a qualitative assessment of these essential conditions to conclude that the value of the hedging instrument and that of the hedged item generally vary in opposite directions under the same risk and that, as a result, there is an economic relation between the hedged item and the hedging instrument.

All fair value hedge derivatives contracted by the AFL are replication swaps in which the characteristics of the contracts such as nominal amount, maturity, currency and also the rate of the fixed leg of the swaps are strictly identical to those of underlyings hedged. Thus, the possibilities offered by IFRS 9 in terms of hedge accounting do not call into question the treatment that has been done so far within the AFL. For replication swaps, IFRS 9 allows to do not quantitative prospectively test .

New accounting standards and interpretations:

AFL has not applied early the following standards and interpretations that could concern the Group and of which application was not mandatory at 1 January 2018:

IFRS 16 - Leases

IFRS 16 has been published on November 9, 2017. It replaces IAS 17 - Leases. In view of the new requirements, lessees will have to recognise the assets and liabilities stemming from finance leases and operating leases in their balance sheets. The date of application is 1 January 2019. The assessment of potential impacts on the Group's financial statements is still ongoing. This new standard is not expected to have a significant impact on the financial statements.

Table of effects related to IFRS 9 first application

(€ '000s) IAS 39	IAS 39 Balance sheet as of 31 December 2017	Reclassifications	Total after Reclassifications	Impact of changes in IFRS 9 accounting policies		IFRS 9 Balance sheet as of 1st January 2018	(€ '000s) IFRS 9
				Valuation	Value adjustment for credit losses		
Cash, central banks	420,351		420,351		(13)	420,338	Cash, central banks
Financial assets at fair value through profit or loss	13,711		13,711			13,711	Financial assets at fair value through profit or loss
Hedging derivative instruments	15,629		15,629			15,629	Hedging derivative instruments
		358,964	358,964			358,964	Financial assets at fair value through other comprehensive income
Available-for-sale financial assets	358,964	(358,964)	-			-	
			-			-	Securities at amortized cost
Loans and receivables due from credit institutions	211,233	68,310	279,543		(8)	279,535	Loans and receivables due from credit institutions
Loans and advances to customers	1,430,829		1,430,829		(27)	1,430,802	Loans and advances to customers
Revaluation adjustment on interest rate hedged portfolios	-		-			-	Revaluation adjustment on interest rate hedged portfolios
Held-to-maturity financial assets	-		-			-	
Current tax assets	-		-			-	Current tax assets
Deferred tax assets	5,310		5,310		13	5,323	Deferred tax assets
Accruals and other assets	68,678	(68,310)	369			369	Accruals and other assets
Intangible assets	4,689		4,689			4,689	Intangible assets
Property, plant and equipment	469		469			469	Property, plant and equipment
Goodwill						-	Goodwill
TOTAL ASSETS	**2,529,864**	**-**	**2,529,864**	**-**	**(35)**	**2,529,829**	**TOTAL ASSETS**

(€ '000s) IAS 39	IAS 39 Balance sheet as of 31 December 2017	Reclassifications	Total after Reclassifications	Impact of changes in IFRS 9 accounting policies		IFRS 9 Balance sheet as of 1st January 2018	(€ '000s) IFRS 9
				Valuation	Value adjustment for credit losses		
Central banks	368		368			368	Central banks
Financial liabilities at fair value through profit or loss	14,267		14,267			14,267	Financial liabilities at fair value through profit or loss
Hedging derivative instruments	61,841		61,841			61,841	Hedging derivative instruments
Due to credit institutions	2,335,802		2,335,802			2,335,802	Due to credit institutions
Due to customers	-		-			-	Due to customers
Debt securities	-		-			-	Debt securities
Revaluation adjustment on interest rate hedged portfolios	963		963			963	Revaluation adjustment on interest rate hedged portfolios
Current tax liabilities	-		-			-	Current tax liabilities
Deferred tax liabilities	205		205			205	Deferred tax liabilities
Accruals and other liabilities	1,543		1,543			1,543	Accruals and other liabilities
Provisions	19		19		3 [1]	21.48	Provisions
Equity	**114,856**		**114,856**		**(38)**	**114,818**	**Equity**
Equity, Group share	**114,856**		**114,856**		**(38)**	**114,818**	**Equity, Group share**
Share capital and reserves	132,500		132,500			132,500	Share capital and reserves
Consolidated reserves	(17,628)		(17,628)		(226)	(17,853)	Consolidated reserves
Reevaluation reserve	-		-			-	Reevaluation reserve
Gains and losses recognised directly in equity	411		411		187	598	Gains and losses recognised directly in equity
Profit (loss) for the period	(427)		(427)			(427)	Profit (loss) for the period
Non-controlling interests	-		-			-	**Non-controlling interests**
TOTAL LIABILITIES	**2,529,864**	**-**	**2,529,864**	**-**	**(35)**	**2,529,829**	**TOTAL LIABILITIES**

[1] The provisions recognized in the opening balance sheet are the consequence of the provisioning of a calculation of expected losses at one year maturity on the financing commitments granted.

Accounting principles applied to the financial statements

Classification and measurement

On initial recognition, financial assets are classified at amortized cost, at fair value through other comprehensive income, or at fair value through profit of loss, according to the type of instrument (debt or equity), the characteristics of their contractual cash flows and how the entity manages its financial instruments (its business model).

Business model

The entity's business model represents the way in which it manages its financial assets to produce cash flow. Judgment must be exercised to assess the business model.

The choice of business model must take into account all information regarding the manner in which cash flows were generated in the past, along with all other relevant information.

For example:

- the way in which the performance of financial assets is assessed and presented to the main company directors;
- risks which have an impact on the business model's performance, in particular the way in which these risks are managed;
- the way in which directors are paid (for example, if pay is based on the fair value of assets under management or on the contractual cash flows received);
- the frequency of, volume of and reason for sales.

The IFRS 9 standard uses three business models:

- a business model whose objective is to hold financial assets in order to receive contractual cash flows ("hold to collect model"). This model, under which the concept of "holding" is relatively similar to holding to maturity, remains valid if disposals occur under the following conditions:

o the disposals are due to an increase in credit risk;

o the disposals occur just before maturity and at a price that reflects the contractual cash flows that are still owed;

o other disposals may also be compatible with the "hold to collect" model's objectives if they are in frequent(even if their value is significant) or if their value is insignificant when considered both individually and overall (even if they are frequent).

AFL applies "collect" business model for its local authorities lending activities.

- a mixed management model in which assets are managed with the objective of both collecting the contractual cash flows and selling the financial assets ("collect and sales model").

L'AFL AFL applies the "collect and sale" model to its portfolio management activities in the liquidity reserve.

- a model specific to other financial assets, particularly trading assets, in which the collection of contractual flows is incidental and whose main objective is to sell the assets.

AFL does not apply this business model and does not have a trading portfolio.

Types of contractual cash flows: the SPPI (Solely Payments of Principal and Interest) test

A financial asset is classified as generating solely payments of principal and interest if, on specific dates, it gives rise to cash flows that are solely payments of principal and interest on the outstanding amount due. The SPPI test should be performed for each financial asset on initial recognition.

The principal amount is defined as the financial asset's fair value at its acquisition date. Interest is the consideration for the time value of money and the credit risk incurred on the principal amount, as well as other risks such as liquidity risk, administrative costs and the profit margin.

The instrument's contractual terms must be taken into account to assess whether contractual cash flows are solely payments of principal and interest. All elements that may cast doubts as to whether only the time value of money and credit risk are represented must therefore be analyzed.

For example:

Any contractual option that creates risk exposure or cash-flow volatility that is not consistent with a basic lending arrangement, such as exposure to fluctuations in the price of stocks or of a market index, or the introduction of leverage, would make it impossible to categorize contractual cash flows as SPPI.

- the applicable interest rate features (for example, consistency between the rate refixing period and the interest calculation period);

If a clear determination cannot be made through qualitative analysis, a quantitative analysis (a benchmark test) is carried out. This test involves comparing the contractual cash flows for the asset in question with the contractual cash flows of a benchmark asset.

- early redemption and extension conditions;

For the borrower or lender, a contractual option permitting prepayment of financial instruments does not violate the SPPI test for contractual cash flows if the prepayment amount mainly represents the unpaid amounts of principal and interest and, if applicable, a reasonable additional compensation for the early termination of the contract.

Basic financial assets (those that generate SPPI) are debt instruments such as fixed-rate loans, variable-rate loans without an interest rate tenor mismatch or that are not linked to a security or to a market index, and fixed-rate or variable-rate debt securities.

Non-SPPI financial assets include, for example, convertible bonds or mandatory convertible bonds with a fixed conversion ratio.

Accounting categories

Debt instruments (loans, receivables or debt securities) may be valued at amortized cost, at fair value through other comprehensive income recyclable to income or at fair value through profit and loss.

A debt instrument is valued at amortized cost if it meets the following two conditions:

- the asset is held under a business model where the objective is to collect contractual cash flows; and
- the contractual terms of the financial asset define it as basic (SPPI) within the meaning of the standard.

A debt instrument is valued at fair value through other comprehensive income if it meets the following two conditions:

- the asset is held under a business model where the objective is both to collect contractual cash flows and to sell financial assets; and
- the contractual terms of the financial asset define it as basic (SPPI) within the meaning of the standard.

All other financial assets are recorded at fair value through profit or loss. These financial assets include financial assets held for trading purposes, financial assets at fair value through profit or loss and non-basic (non-SPPI) assets.

Recognition at fair value through profit or loss as an option for financial assets only applies in the case of the elimination or significant reduction of an accounting mismatch. This option enables the elimination of accounting mismatches stemming from the application of different valuation rules to instruments managed in accordance with a single strategy.

Embedded derivatives are no longer recognized separately to their host contract when these are financial assets, such that the entire hybrid instrument must now be recognized at fair value through profit or loss.

Debts, which are not classified as financial liabilities at fair value, are initially recorded at cost, which is the fair value of the amounts borrowed net of transaction costs. At the closing date, they are measured at amortized cost using the effective interest rate method and recorded in the balance sheet under "Debts due to credit institutions" or "Debt securities".

Financial assets at amortized cost

Financial assets at amortized cost include loans and receivables due from credit institutions and customers.

Loans and receivables from credit institutions are broken down according to their initial maturity or their nature: demand debts (demand deposits, ordinary accounts) or term deposits (term accounts).

They are recognized, after their initial recognition, at amortized cost using the effective interest rate method and may be subject to an impairment, if any.

The effective interest rate is the rate that exactly discounts estimated future cash flows (payments or receipts) to the carrying amount of the loan at inception. This rate includes any discounts recorded in respect of loans granted at below-market rates, as well as any external transaction income or costs directly related to the issue of the loans, which are treated as an adjustment to the effective yield on the loan.

When loans are extended under conditions that are less favorable than market conditions, a discount corresponding to the difference between the nominal value of the loan and the sum of future cash flows discounted at the market interest rate is deducted from the nominal value of the loan. The market interest rate is the rate applied by the vast majority of local financial institutions at a given time for instruments and counterparties with similar characteristics.This premium is spread over the life of the loans through the calculation of a new effective interest rate.

Financial assets at fair value through profit or loss

This asset category includes:

• financial assets held for trading, i.e. securities acquired or issued principally for the purpose of selling them in the near term;

• financial assets that the Group has chosen to recognize at fair value through profit or loss at inception using the fair value option available under IFRS 9.

The Agence does not hold financial assets at fair value through profit or loss as such.

They are investment portfolio fair value hedging derivatives in a fixed-rate borrower position, which hedged items has been sold, which have been neutralised by fixed-rate lender derivatives. Those 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.

These assets are measured at fair value at the date of initial recognition and at each balance sheet date. Changes in fair value over the period, interest, dividends, and gains or losses on disposals on these instruments are recognized in “Net gains or losses on financial instruments at fair value through profit or loss”.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are initially recognized at fair value, plus any transaction costs.

- Debt instruments measured at fair value through other comprehensive income recyclable to income

On the balance sheet date, they are carried at their fair value and changes in fair value (excluding accrued interest) are recorded under "Gains and losses recognized directly in other comprehensive income recyclable to income”.

In the event of disposal, these changes in fair value are not transferred to income but directly to retained earnings under equity.

These instruments are subject to IFRS 9 impairment requirements. If they are sold, these changes in fair value are taken to income.

Interest income accrued or received on debt instruments is recorded under “Interest and similar income” based on the effective interest rate method.

Upon disposal of these securities, unrealized gains or losses previously recognized in equity are recycled in the income statement within "Net gains or losses on at fair value through other comprehensive income".

Recognition date of securities

AFL records financial securities on the settlement date.

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

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

Financial information regarding financial instruments

Information relating to the risk management as required by IFRS 7 are disclosed into annual management report.

Impairment of assets at amortized cost and at fair value through other comprehensive income, and provisioning of loan and guarantee commitments

Debt instruments classified as financial assets at amortized cost or at fair value through other comprehensive income, loan commitments and financial guarantee contracts are impaired or covered by a provision for expected credit losses (ECL) as of the date of initial recognition.

These financial instruments are divided into three categories depending on the increase in credit risk observed since their initial recognition.

An impairment or a provision is recognized on outstanding amounts in each category, as follows:

Stage 1 (Performing assets)

· these are performing loans for which credit risk has not increased materially since the initial recognition of the financial instrument;

· the impairment or the provision for credit risk corresponds to 12-month expected credit losses;

Stage 2 (Non-performing assets)

· performing loans for which credit risk has increased materially since the initial recognition of the financial instrument are transferred to this category;

· the impairment or the provision for credit risk is determined on the basis of the financial instrument’s lifetime expected credit losses;

Stage 3 (Doubtfull assets)

· non-performing loans within the meaning of IFRS 9 are transferred to this category. These are loans for which there is objective evidence of impairment loss due to an event which represents a credit risk occurring after the initial recognition of the instrument in question. In particular, objective evidence of impairment includes any payments that are past due by at least three months, or regardless of whether any payment has been missed, the observation of financial hardship experienced by the counterparty leading to the expectation that some or all of the amounts owed may not be recovered or to the initiation of legal proceedings;

· these events are liable to lead to the recognition of incurred credit losses, that is, expected credit losses for which the probability of occurrence has become certain.

. the impairment or the provision for credit risk is calculated based on the financial instrument's lifetime expected credit losses on the basis of the recoverable amount of the receivable, i.e., the present value of estimated recoverable future cash flows taking into account the impact of any collateral;

Depreciation charges and reversals amounts are registred in "Cost of risk" in income statement.

Estimation of Expected Credit Losses (ECL)

IFRS 9 requires institutions to calculate expected credit losses based on statistics produced from historical data that account for business cycles that affect their counterparties. Agence France Locale has less than three years of existence at implementation of the standard, it does not have a default data history.

To overcome this lack of data, and considering the low level of risk represented by its exposures, AFL has decided to base its ECL method on external public data and on the documented opinion of its experts:

- The exposures classification in the 3 phases is a function of the evolution of the ratings of these exposures since their entry in the balance sheet. The ratings used are rating agencies ratings or internal[1] ratings in the case of local governments, possibly supplemented by expert opinion to reflect recent information and future risks. The thresholds used are relative and absolute.
- The calculation of default probabilities (PD) is based on historical default rates ("point in time" default) and cumulated default rates ("through the cycle") published by rating agencies with a historical depth of 35 years. The default rates of the high point and low point of the cycle scenarios are derived from the first and last deciles of the histories; the average default rates are used for the central scenario.
- Beyond 10 years, cumulated default rates are extrapolated using a Weibull statistical law;
- For the liquidity reserve exposures, regulatory default losses (LGD) of the standard approach (45%) are used. For exposures on local authorities, an LGD was calculated by expert opinion;
- The experts decide on future developments in the business cycle and establish the forward-looking vision by defining the weightings of the 3 scenarios (central, low point of the cycle and high point of the cycle). The experts' expectations are underpinned by the macroeconomic, sectoral and geographical studies published by recognized institutions such as the World Bank, the European Central Bank, the economic research of the big banks or the rating agencies.

The process is framed by two committees. The “Comité expert provisions” deals with the parameters used in the calculation of provisions: it sets the probability of realization of scenarios of evolution of the economic cycle and validates the calculations of probabilities of default and losses in case of default. The “Comité de crédit provisions” scans line by line exposures and validates their treatment in terms of impairment.

Fixed assets

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.

After initial recognition fixed assets are valued at their nominal value less accumulated depreciation and possible impairment losses.

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

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".

Debts due to credit institutions are broken down according to their initial maturity or their nature: demand debts (demand deposits, ordinary accounts) or term deposits (term accounts).

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 to assess whether the hedging relationship meets the effectiveness constraints of the hedge.

The hedging relationship satisfies the effectiveness constraints of the hedge if there is an economic link between the hedged item and the hedging instrument.

For an economic link to exist, the value of the hedging instrument and that of the hedged item must generally vary inversely with each other as a result of same risk, which is the risk covered.

The effectiveness of the hedge is the extent to which changes in the fair value or cash flows of the hedging instrument offset changes in the fair value or cash flows of the hedged item.

Depending on the factors involved, the method of assessing the effectiveness of the hedge may consist of a qualitative or quantitative assessment.

For example, when the critical terms (such as the nominal amount, maturity and underlying) of the hedging instrument and the hedged item match or are closely aligned, it might be possible for an entity to conclude on the basis of a qualitative assessment of those critical terms that the hedging instrument and the hedged item have values that will generally move in the opposite direction because of the same risk and hence that an economic relationship exists between the hedged item and the hedging instrument

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 potential ineffectiveness of the hedge is recognized directly in the income statement. The relative ineffectiveness of the bi-curve valuation of collateralised derivatives is taken into account in the efficiency calculations.

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.

In case of interruption of the hedging relationship (management decision, non-compliance with the effectiveness criteria or sale of the hedged item before maturity), the hedging derivative is transferred to the trading portfolio. The amount of revaluation recorded in the balance sheet for the hedged item is amortized over the remaining life of the original hedge. If the hedged item is sold before maturity or redeemed early, the cumulative amount of the revaluation is recognized in the income statement for the period.

Cash flow hedge

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

AFL 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 (IAS 39 carve-out). 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:

- 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.
- 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.

Provisions

Provisions are recorded in balance sheet liabilities when the AFL 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

Current tax expense

The current income tax expense is calculated using a 33 1/3% rate which is the effective tax rate for the 30 June 2018 period.

The Agence and its parent company AFL ST form a fiscal integration group since January 1, 2015, AFL ST is fiscal group head.

Deferred taxes

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

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.

V - Notes to the Balance Sheet

Note 1 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30/06/2018		01/01/2018	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Financial assets held for trading	21,220	21,629	13,711	14,267
Financial assets at fair value option through profit or loss				
Total financial assets at fair value through profit or loss	**21,220**	**21,629**	**13,711**	**14,267**

Financial assets held for trading

	30/06/2018		01/01/2018	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Equity instruments				
Debt securities				
Loans and advances				
Derivatives	21,220	21,629	13,711	14,267
Total Financial assets held for trading	**21,220**	**21,629**	**13,711**	**14,267**

	30/06/2018				01/01/2018			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**1,111,804**	**1,111,804**	**21,220**	**21,629**	**873,964**	**873,964**	**13,711**	**14,267**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**1,111,804**	**1,111,804**	**21,220**	**21,629**	**873,964**	**873,964**	**13,711**	**14,267**
Interest rate contracts	1,111,804	1,111,804	21,220	21,629	873,964	873,964	13,711	14,267
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

	30/06/2018		01/01/2018	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Derivatives designated as fair value hedges	23,151	64,206	13,690	59,768
Derivatives designated as cash flow hedges				
Derivatives designated as portfolio hedges	1,541	2,997	1,939	2,073
Total Hedging derivatives	**24,692**	**67,204**	**15,629**	**61,841**

Detail of derivatives designated as fair value hedges

	30/06/2018				01/01/2018			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**2,968,583**	**1,689,117**	**23,151**	**64,206**	**2,352,036**	**1,221,321**	**13,690**	**59,768**
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	**2,968,583**	**1,689,117**	**23,151**	**64,206**	**2,352,036**	**1,221,321**	**13,690**	**59,768**
Interest rate contracts	2,875,000	1,689,117	23,151	56,997	2,250,000	1,221,321	13,690	49,831
FRA								
Cross Currency Swaps	93,583			7,209	102,036			9,938
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	-	-	-	-	-	-	-	-

Detail of derivatives designated as interest rate hedged portfolios

	30/06/2018				01/01/2018			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**62,610**	**318,656**	**1,541**	**2,997**	**42,950**	**259,334**	**1,939**	**2,073**
Organised markets	-	-	-	-	-	-	-	-
Interest rate contracts								
Other contracts								
Over-the-counter markets	**62,610**	**318,656**	**1,541**	**2,997**	**42,950**	**259,334**	**1,939**	**2,073**
Interest rate contracts	62,610	318,656	1,541	2,997	42,950	259,334	1,939	2,073
FRA								
Cross Currency Swaps								
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	-	-	-	-	-	-	-	-

PORTFOLIO

Note 3 - FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Fixed-income securities - Analysis by nature

(€ '000s)	30/06/2018	01/01/2018
Government paper and similar securities	561,407	286,877
Bonds	99,272	72,087
Other fixed income securities		
Net amount in balance sheet	**660,679**	**358,964**
Including depreciation	(411)	(187)
Including net unrealised gains and losses	2,326	(787)

Expected credit losses on debt instruments	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 1rst January 2018	**(187)**	**-**	**-**	**-**
Transfers from 12-month to maturity	-	-	-	-
Transfers from maturity to 12-month	-	-	-	-
Transfers from expected to incurred losses	-	-	-	-
Total transfer movment	**-**			
Movment attributable to financial instruments recognized over the period	**(224)**			
Acquisitions	(322)	-	-	-
Re-estimate of parameters	(10)	-	-	-
Bad debts written off		-	-	-
On sales	109	-	-	-
Expected losses as of 30th June 2018	**(411)**	**-**	**-**	**-**

Fixed-income securities - Analysis by contreparty

(€ '000s)	30/06/2018	01/01/2018
Local public sector	446,268	211,424
Financial institutions and other financial corporations	199,412	132,415
Non-financial corporations	15,000	15,125
Net amount in balance sheet	**660,679**	**358,964**

Fixed income securities held on Financial institutions include € 82,316k of securities guaranteed by States of the European Economic Area.

Changes in Financial assets at fair value through other comprehensive income

(€ '000s)	Total amount as of 01/01/2018	Additions	Disposals	Change in fair value recognised in equity	Change in accrued interest	Prem/Disc Amort.	Total amount as of 30/06/2018
Government paper and similar	286,877	1,007,774	(735,735)	2,977	189	(675)	561,407
Bonds	72,087	61,065	(33,020)	(109)	(298)	(454)	99,272
Other fixed income securities	-	-	-	-	-	-	-
TOTAL	**358,964**	**1,068,839**	**(768,755)**	**2,868**	**(109)**	**(1,128)**	**660,679**

Note 4 - RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	30/06/2018	01/01/2018
Mandatory reserve deposits with central banks	590,389	420,351
Other deposits		
Cash and central banks	**590,389**	**420,351**
Impairment	(18)	(13)
Net amount in balance sheet	**590,371**	**420,338**

Receivables on credit institutions

(€ '000s)	30/06/2018	01/01/2018
Loans and receivables		
- on demand and short notice	113,265	161,233
- term	50,000	50,000
Cash collateral paid	63,400	68,310
Securities bought under repurchase agreements		
TOTAL	**226,666**	**279,543**
Impairment for expected losses	(7)	(8)
NET CARRYING AMOUNT	**226,659**	**279,535**

Note 5 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	30/06/2018	01/01/2018
Short-term credit facilities	18,602	2,172
Other loans	1,626,419	1,428,657
Customers transactions before impairment charges	**1,645,020**	**1,430,829**
Impairment	(32)	(27)
Net carrying amount	**1,644,988**	**1,430,802**
Of which individual impairment	(32)	(27)
Of which collective impairment		

Expected credit losses on loans and financing commitments	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 1rst January 2018	**(51)**			
Transfers from 12-month to maturity	0.05	(0.05)		
Transfers from maturity to 12-month				
Transfers from expected to incurred losses				
Total transfer movment	**0.05**	**(0.05)**		
Movment attributable to financial instruments recognized over the period	(8)	(2)		
Production and acquisition	(7)			
Re-estimate of parameters	(2)	(2)		
Bad debts written off				
Repayments	1			
Expected losses as of 30th June 2018	**(59)**	**(2)**		

SUMMARY OF PROVISIONS ON SECURITIES, LOANS AND FINANCING COMMITMENTS

(€ '000s)	01/01/2018	Depreciation charges	Reversals amounts not used	Net charge	Utilised	30/06/2018
Financial assets at fair value through other comprehensive income						
Depreciations on performing assets	187	332	(109)	**224**		**411**
Depreciations on non-performing assets						**-**
Depreciations on doubtfull assets						**-**
Total	**187**	**332**	**(109)**	**224**		**411**
Financial assets at amortized cost						
Depreciations on performing assets	48	7		7		**55**
Depreciations on non-performing assets		2		2		**2**
Depreciations on doubtfull assets						**-**
Total	**48**	**9**	**-**	**9**		**57**
Financing commitments	**3**	**3**	**(2)**	**1**		**4**

Note 6 - DEFERRED TAX

The movement on the deferred tax account is as follows:

(€ '000s)	30/06/2018	01/01/2018
Net asset as at 1st of january	**5,118**	**5,826**
Of which deferred tax assets	5,324	5,887
Of which deferred tax liabilities	205	61
Recognised in income statement	**(166)**	**(577)**
Income statement (charge) / credit	(166)	(577)
Recognised in equity	**386**	**(132)**
Financial assets at fair value through other comprehensive income	386	(144)
Cash flow hedges		
Other		13
Net asset as at	**5,338**	**5,118**
Of which deferred tax assets	5,338	5,324
Of which deferred tax liabilities		205

Deferred tax net assets are attributable to the following items:

(€ '000s)	30/06/2018	01/01/2018
Financial assets at fair value through other comprehensive income	181	
Cash flow hedges		
Losses carried forward	5,031	5,031
Other temporary differences	126	292
TOTAL DEFERRED TAX ASSETS	**5,338**	**5,323**

(€ '000s)	30/06/2018	01/01/2018
Financial assets at fair value through other comprehensive income		205
Cash flow hedges		
Other temporary differences		
TOTAL DEFERRED TAX LIABILITIES	**-**	**205**

Note 7 - OTHER ASSETS AND ACCRUALS

(€ '000s)	30/06/2018	01/01/2018
Other assets		
Deposits	67	67
Other assets	32	104
Impairment		
Total	**99**	**171**
Accruals		
Prepaid charges	379	147
Other deferred income	67	
Transaction to recieve and settlement accounts		
Other accruals	46	51
Total	**491**	**198**
TOTAL OTHER ASSETS AND ACCRUALS	**590**	**369**

Note 8 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible fixed assets	01/01/2018	Additions	Transfers	Disposals	Amort.	Other	30/06/2018
Intangible fixed assets							
IT development costs	8,947	48				22	9,017
Other intangible assets	455	1					455
Intangible assets in progress	102	55				(41)	116
Intangible fixed assets gross amount	**9,504**	**104**	**-**	**-**	**-**	**(19)**	**9,589**
Depreciation and allowances - Intangible fixed assets	(4,815)				(936)		(5,751)
Intangible fixed assets net carrying amount	**4,689**	**104**	**-**	**-**	**(936)**	**(19)**	**3,838**

Tangible fixed assets	01/01/2018	Additions	Transfers	Disposals	Amort.	Other	30/06/2018
Property, plant & equipment	766	18					784
Tangible fixed assets gross amount	**766**	**18**	**-**	**-**	**-**	**-**	**784**
Depreciation and allowances - Tangible fixed assets	(297)				(39)		(336)
Tangible fixed assets net carrying amount	**469**	**18**	**-**	**-**	**(39)**	**-**	**448**

Note 9 - DEBT SECURITIES

(€ '000s)	30/06/2018	01/01/2018
Negotiable debt securities		8,330
Bonds	2,969,446	2,327,472
Other debt securities		
TOTAL	**2,969,446**	**2,335,802**

Note 10 - ACCRUALS AND OTHER LIABILITIES

(€ '000s)	30/06/2018	01/01/2018
Other liabilities		
Miscellaneous creditors	1,281	761
Total	**1,281**	**761**
Accruals		
Transaction to pay and settlement accounts		
Other accrued expenses	633	743
Unearned income		
Other accruals	36	38
Total	**669**	**781**
TOTAL ACCRUALS AND OTHER LIABILITIES	**1,950**	**1,543**

Note 11 - PROVISIONS

(€ '000s)	Balance as of 01/01/2018	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 30/06/2018
Provisions						
Financing commitment execution risks	3	3		(2)		4
Provisions for litigations						
Provisions for employee retirement and similar benefits	19					19
Provisions for other liabilities to employees						
Other provisions						
TOTAL	**21**	**3**	**-**	**(2)**	**-**	**22**

OFF-BALANCE SHEET

(€ '000s)	30/06/2018	01/01/2018
Commitments given	**298,678**	**238,783**
Financing commitments	263,636	238,783
For credit institutions		
For customers	*263,636*	*238,783*
Guarantee commitments		
For credit institutions		
For customers		
Commitments on securities	35,042	
Securities to be delivered to the issuance		
Other securities to be delivered	*35,042*	
Commitments received	**52,444**	**2,591**
Financing commitments		
From credit institutions		
Guarantee commitments	2,531	2,591
From credit institutions		
From customers	*2,531*	*2,591*
Commitments on securities	49,914	
Securities receivable	*49,914*	

VI - Notes to the Income Statement

Note 12 - INTEREST INCOME AND EXPENSES

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Interest and similar income	**28,052**	**16,701**	**38,296**
Due from banks		3	5
Due from customers	8,815	5,632	12,547
Bonds and other fixed income securities	720	252	714
Financial assets at fair value through other comprehensive income	*720*	*252*	*714*
Securities at amortized cost			
Income from interest rate instruments	18,517	10,813	25,031
Other interest income			
Interest and similar expenses	**(24,173)**	**(13,524)**	**(31,789)**
Due to banks	(945)	(788)	(1,944)
Due to customers			
Debt securities	(6,869)	(4,774)	(10,694)
Expense from interest rate instruments	(16,360)	(7,962)	(19,151)
Other interest expenses			
Interest margin	**3,879**	**3,177**	**6,507**

Note 13 - NET FEE AND COMMISSION INCOME

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Fee & Commission Income	**134**	**29**	**73**
Interbank transactions			
Customer transactions	92		
Securities transactions			
Forward financial instruments transactions			
Currencies transactions			
Financing commitments and guarantee	43	29	73
Other commissions recieved			
Fee & Commission Expense	**(56)**	**(41)**	**(90)**
Interbank transactions	(1)		(2)
Securities transactions			
Forward financial instruments transactions	(55)	(41)	(87)
Currencies transactions			
Financing commitments and guarantee			
Other commissions paid			
Net Fee and Commission income	**78**	**(11)**	**(17)**

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

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Gains/(losses) on Trading book	(10)	(1)	(1)
Net result of hedge accounting	1,357	546	140
Net result of foreign exchange transactions	(0.4)	1	1
TOTAL	**1,346**	**545**	**141**

Analysis of net result of hedge accounting

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Fair value hedges			
Fair value changes in the hedged item attributable to the hedged risk	(15,868)	13,644	17,281
Fair value changes in the hedging derivatives	15,906	(13,501)	(17,208)
Hedging relationship disposal gain	1,429	707	443
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	1,007	(2,296)	(2,054)
Fair value changes in the hedging derivatives	(1,116)	1,990	1,678
Net result of hedge accounting	**1,357**	**546**	**140**

Note 15 - NET GAINS (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Gains from disposal of fixed income securities	2,375	2,873	5,933
Losses from disposal of fixed income securities	(2,401)	(1,237)	(1,881)
Gains from disposal of variable income securities			
Other income/(expenses) from Financial assets at fair value through other comprehensive income			
Impairment (charges) and reversals on Financial assets at fair value through other comprehensive income			
Gains or (losses) on Financial assets at fair value through other comprehensive income	**(26)**	**1,636**	**4,051**

Note 16 - GENERAL OPERATING EXPENSES

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Employee expenses			
Wages and salaries	1,509	1,587	2,980
Post-employment benefit expenses	155	162	317
Other expenses	679	705	1,295
Total Employee expenses	**2,343**	**2,454**	**4,592**
Operating expenses			
Taxes and duties	307	(124)	87
External services	2,071	2,108	4,032
Total Administrative expenses	**2,378**	**1,985**	**4,118**
Charge-backs and reclassification of administrative expenses	(48)	(105)	(91)
Total General operating expenses	**4,673**	**4,334**	**8,619**

A €488k provision for liabilities & charges has been reversed during 2017. This reversal was recorded as a reduction of taxes for this period.

Note 17 - COST OF RISK

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Net charge to provisions			
for financial assets at fair value through other comprehensive income	(224)		
for financial assets at amortized cost	(9)		
Net charge to provisions			
for financing commitments	(1)		
for guarantee commitments			
Irrecoverable loans written off not covered by provisions			
Recoveries of bad debts written off			
Total Cost of risk	**(234)**	**-**	**-**

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:

	30/06/2018			
	Total	Measured using		
(€ '000s)		Level 1	Level 2	Level 3
Financial assets				
Financial assets at fair value through profit or loss	**21,220**	-	21,220	-
Hedging derivative instruments	**24,692**	-	24,692	-
Government paper and similar securities	561,407	561,407	-	-
Bonds	99,272	99,272	-	-
Other fixed income securities	-	-	-	-
Total Financial assets at fair value through other comprehensive income	**660,679**	**660,679**	**-**	**-**
Total Financial assets	**706,592**	**660,679**	**45,912**	**-**
Financial liabilities				
Financial liabilities at fair value through profit or loss	**21,629**	-	21,629	-
Hedging derivative instruments	**67,204**	-	67,204	-
Total Financial liabilities	**88,833**	**-**	**88,833**	**-**

Fair values of instruments carried at amortised cost:

	30/06/2018				
	Net Carrying value	Fair value	Measured using		
(€ '000s)			Level 1	Level 2	Level 3
Financial assets					
Cash, central banks and issuing institutions	**590,371**	590,371	-	-	590,371
Loans and receivables due from credit institutions	**226,659**	226,659	-	-	226,659
Loans and advances to customers	**1,645,031**	1,645,031	-	-	1,645,031
Total Financial assets	**2,462,061**	**2,462,061**	**-**	**-**	**2,462,061**
Financial liabilities					
Debt securities	**2,969,446**	3,006,472	2,920,212	86,261	-
Total Financial liabilities	**2,969,446**	**3,006,472**	**2,920,212**	**86,261**	**-**

The fair value of loans and receivables to customers includes the outstanding capital and the revaluation in interest rates of the loans hedged on the closing date.

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 2018 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 30/06/2018
Cash, central banks	590,389		(18)	**590,371**
Financial assets at fair value through profit or loss	21,220			**21,220**
Hedging derivative instruments	24,692			**24,692**
Financial assets at fair value through other comprehensive income	660,679			**660,679**
Loans and receivables due from credit institutions	276,666		(7)	**276,659**
Loans and advances to customers	1,645,026		(32)	**1,644,994**
Revaluation adjustment on interest rate hedged portfolios	43			**43**
Current tax assets	7			**7**
Other assets	99			**99**
Sub-total Assets	**3,218,822**	**-**	**(57)**	**3,218,765**
Financing commitments given	263,636			**263,636**
TOTAL Credit risk exposure	**3,482,459**	**-**	**(57)**	**3,482,401**

Exposure analysis by counterparty

(€ '000s)	Total 30/06/2018
Central banks	540,371
Local public sector	2,454,954
Credit institutions guaranteed by the EEA States	62,314
Credit institutions	348,763
Other financial corporations guaranteed by the EEA States	5,003
Other financial corporations	55,930
Non-financial corporations guaranteed by the EEA States	15,000
Non-financial corporations	67
Total Exposure by counterparty	**3,482,401**

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 geographic area

(€ '000s)	Total 30/06/2018
France	3,022,242
Supranational	128,626
Netherlands	87,400
Canada	82,997
Finland	50,534
Germany	48,258
China	25,612
New Zealand	21,201
Japan	7,212
Sweden	5,003
Denmark	3,316
Total Exposure by country	**3,482,401**

As credits are solely granted to French local authorities, the largest exposure is to France.
Exposures to other countries (EEA, North America, Asia and Oceania) 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	Related receivables and payables	Revaluation	Total 30/06/2018
Cash, central banks	590,371				**590,371**			**590,371**
Financial assets at fair value through profit or loss		739	4,066	14,374	**19,179**	**2,041**		**21,220**
Hedging derivative instruments	33	1	6,482	17,758	**24,275**	**417**		**24,692**
Financial assets at fair value through other comprehensive income								
Government paper and similar securities	5,003	20,006	232,022	300,642	557,672	1,273	2,462	561,407
Bonds		26,294	72,836		99,130	278	(136)	99,272
Total Financial assets at fair value through other comprehensive income	**5,003**	**46,300**	**304,858**	**300,642**	**656,802**	**1,551**	**2,326**	**660,679**
Loans and receivables due from credit institutions	226,659	50,000			**276,659**			**276,659**
Loans and advances to customers	28,291	107,266	448,652	1,057,032	**1,641,240**	**5,362**	**(1,609)**	**1,644,994**
Revaluation adjustment on interest rate hedged portfolios							**43**	**43**
Current tax assets	7				**7**			**7**
Other assets	99				**99**			**99**
TOTAL ASSETS								**3,218,765**
Central banks						**596**		**596**
Financial assets at fair value through profit or loss		738	4,064	14,386	**19,189**	**2,440**		**21,629**
Hedging derivative instruments	16	7,849	10,859	44,886	**63,610**	**3,594**		**67,204**
Debt securities		85,763	1,493,654	1,372,858	**2,952,275**	**2,663**	**14,508**	**2,969,446**
Revaluation adjustment on interest rate hedged portfolios								**0**
Other liabilities	1,281				**1,281**			**1,281**
TOTAL LIABILITIES								**3,060,156**

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. At 30th June 2018, 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 2018 are described into the financial report as at 30th June 2018.

Agence France Locale S.A.

Statutory Auditors' Review Report
on the interim condensed financial statements in accordance with IFRSs

For the six-month period ended June 30, 2018
Agence France Locale S.A.
Tour Oxygène - 10-12, boulevard Vivier Merle - 69393
Lyon cedex 03

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 S.A.

Registered office : Tour Oxygène - 10-12, boulevard Vivier Merle - 69393 Lyon cedex 03
Share capital : €.137,200,000

Statutory Auditors' Review Report
on the interim condensed financial statements in accordance with IFRSs

For the six-month period ended June 30, 2018

To the Shareholders,

In our capacity as Statutory Auditors of Agence France Locale S.A. and in accordance to your request made in the context of your willingness to produce an extended financial information to investors, we conducted a review of the accompanying interim condensed financial statements of Agence France Locale S.A. prepared in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union, for the period from January 1, 2018 to June 30, 2018.

These interim condensed financial statements are the responsibility of the Management Board. Our responsibility is to express a conclusion on these interim 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 interim condensed financial statements as at June 30, 2018 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.

Without qualifying the opinion expressed above, we draw your attention to the note IV "Accounting principles" of the interim condensed financial statements which presents the impacts of the change in accounting policy induced by the implementation of IFRS 9 "Financial Instruments".

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.

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 28th, 2018	Paris, September 28th, 2018
KPMG Audit FS I	Cailliau Dedouit et Associés
Ulrich Sarfati *Partner*	Laurent Brun *Partner*