Agence France Locale
Half-yearly financial report – June 30, 2019

AGENCE FRANCE LOCALE

La banque
des collectivités

Table of contents

GLOSSARY

ICC	Initial Capital Contribution
ACC	Additional Capital Contribution
ACPR	French Prudential Supervision and Resolution Authority (*Autorité de Contrôle Prudentiel et de Résolution*)
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	Groupings of municipalities (Établissement public de coopération intercommunale)
HQLA	High Quality Liquid Assets
DTA	Deferred tax asset
IMR	Initial margin requirement
LCR	Liquidity Coverage Ratio
LGFA	Local government funding agency
NMI	Net margin of interest
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

HALF-YEARLY ACTIVITY REPORT

I. Background and shareholding model structure

The creation of Agence France Locale was authorized by Act No. 2013-672 of July 26, 2013 for the separation and regulation of banking activities, after which AFL was effectively created on October 22, 2013, the date on which its constituent act 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 the risk appetite framework; 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 AFL-ST, are as follows:

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

1. A robust structure

AFL is an investment financing facility with the status of a bank for local authorities in which they are the exclusive shareholders through Société Territoriale (AFL-ST), the majority shareholder and over 99.9% owner of AFL. Like the local authorities financing agencies in Northern Europe[1], which have existed 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.

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. This means that creditors have the option of calling on several regional and local 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 regional and local authorities in the payment of the

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

amounts due while each of them is limited to its own outstanding loans. 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 and amounts to €10 billion.

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 Société Territoriale 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, in which AFL calls on 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 loans and they are guaranteed a proportionate distribution of calls among them.

The terms of the Société Territoriale Guarantee and the Member Guarantee calls and the procedures for recourse between members are defined by the ST Guarantee (2018.1) 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) and the AFL Articles of Association (Title III), which are accessible on the Group's website at the following link: http://www.agence-france-locale.fr/statuts-et-garanties.

2. 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; and
- 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

After its creation and the granting of its banking license, on January 29, 2015, AFL was awarded the long-term rating of Aa2 by Moody's, one slot below that of the French government, in recognition of the robust model that it embodies. Following the reduction in the State's rating by Moody's on September 18, 2015, AFL's rating was lowered by one slot to Aa3 with a stable outlook. This rating has remained unchanged since.

The AFL EMTN Program is rated Aa3 (stable outlook) by Moody's and AA- (stable outlook) by S&P, placing AFL's bonds in the highest tier of credit quality (high grade).

II. Review of activities in the first half of 2019 and significant events

1. Second rating granted by S&P

On May 20, 2019, the Standard & Poor's rating agency gave AFL a long-term rating of AA- and a short-term rating of A-1+ with a stable outlook, basing its decision on the following items:

- the credit institution's high level of capitalization;
- the strong support from local and regional authorities through the guarantee mechanism; and
- the abundant liquidity combined with efficient access to capital markets.

This double rating enables AFL to consolidate the quality of its brand and consequently its access to the bond and money markets and is a major step in the Group's development, thus helping to sustain the access of member local and regional authorities to financial resources under the best conditions.

2. Changes in prudential requirements to which the AFL Group is subject

With respect to the prudential requirements that are imposed on AFL in respect of banking regulations, AFL is monitored for the use of equity capital at the consolidated level and for liquidity at the lending institution level as well as at the consolidated level. During the first half of 2019, the ACPR notified the AFL Group of its obligation as from June 30, 2019 to hold equity capital that enables it to comply with a total prudential capital requirement of 9.25%, which includes:

- the minimum requirement of 8%; and
- an additional equity capital requirement (Pillar 2) of 1.25%.

In addition, the AFL Group is required to hold:

- 2.5% of equity capital as a capital conservation buffer as of January 1, 2019; and
- 0.25% of equity capital as a countercyclical capital conservation buffer, as of July 1, 2019, applicable to French exposures, following the decision by the *Haut Conseil de Stabilité Financière* (French Financial Stability Board - HCSF).

Excluding the countercyclical buffer, the total solvency requirement is set at 11.75% at July 1, 2019.

It should be noted that since its creation, the AFL Group has established an internal solvency ratio limit of 12.5%, whose effective level at June 30, 2019 was 17.74%.

On June 7, 2019 a large corpus of banking regulations was published in the Official Journal of the EU. More specifically this includes Regulation (EU) 2019/876 of the European Parliament and of the Council of May 20, 2019 amending Regulation (EU) No. 575/2013 (the CRR). This regulation requires the leverage ratio of credit institutions to be higher than 3% and states that public development credit institutions must exclude any exposures resulting from assets that constitute claims on central, regional or local governments from their measurement of total exposures. This provision will enter into force on June 28, 2021.

The AFL Group now requires a 3% minimum leverage ratio measured according to the methodology used by public development banks. At June 30, 2019, the AFL Group's leverage ratio was 7.88%.

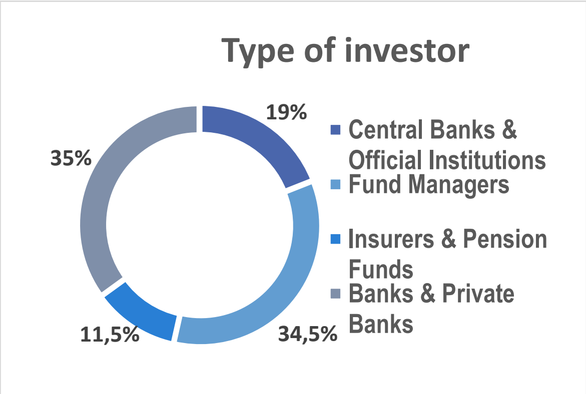
3. AFL's activities on the capital markets

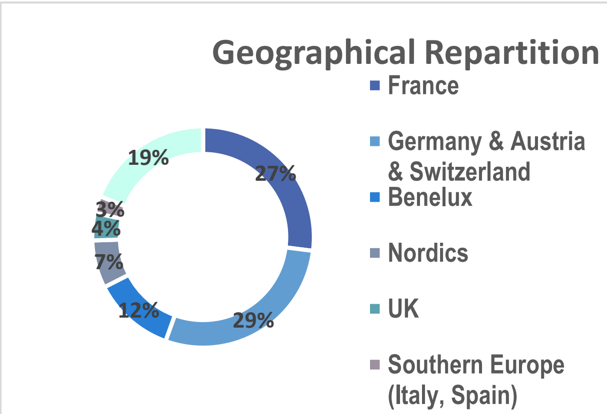
AFL's medium- and long-term loan program for 2019, which was approved by the Supervisory Board on December 13, 2018, was set at €800 million as part of its EMTN[2] program. In addition to this medium- and long-term loan program, there is a drawdown authorization of €200 million for debt securities issued under the ECP program. In this context, based on the required authorizations, AFL issued €633.58 million in bonds during the first half of 2019 and made drawdown under the ECP program.

These issues include a May 2019 seven-year benchmark bond issue of €500 million whose placement demonstrated interest in and understanding of the AFL business model by investors and a high level of confidence in the growth of its activities, which was further driven by the AFL's double rating by the agencies Moody's and Standard & Poor's. For this transaction, the securities were issued with a margin of 32 basis points above the yield curve of French government bonds (OATs).

[2] The update to the Base Prospectus for the €7 billion EMTN Debt Issuance Program was submitted to the *Autorité des Marchés Financiers* (French Financial Markets Authority - AMF) and was given the number 19-196 on May 13, 2019.

The distribution by geographical area and type of investor is represented below:





When this transaction was completed, the AFL had five market-listed benchmark bond issues denominated in euros with a total outstanding amount of €3,250 million.

Meanwhile, in the first half of the financial year, AFL also continued to execute its private placement loan program for a total of €133 million. In particular, AFL completed a private placement of €500 million denominated in Swedish crowns with a maturity of 15 years and a cost corresponding to a margin of 26 basis points against OATs, in line with the objective of optimizing the backing of assets and liabilities and to cope with the strengthening of the long-term credit offer requested by some member local authorities.

As at June 30, 2019, AFL had carried out 79% of its annual financing 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.

4. Membership

During the first half of the 2019 financial year, the AFL Group closed two capital increases, in which 18 new local authorities acquired a stake in AFL-ST, raising the number of shareholders of the Group's parent company to 310.

Among these 18 new local and regional authority members are 1 region (*Occitanie*), 4 *intercommunalities*, and 13 municipalities.

At June 30, 2019, the share capital of AFL-ST rose to €151,905,500 and the share capital of AFL rose to €144,500,000. On the same date, the committed capital reached €177.7 million for a target of €200 million at the end of the 2017-2021 strategic plan.

The table below presents a breakdown of the share capital and voting powers by category of local authority as at June 30, 2019, following the 20th capital increase.

Data in thousand euros	Number	Committed capital	Paid-up	Voting powers
Region	3	25 979	14 739	9,70%
Department	8	25 630	17 046	11,22%
Municipality	227	46 329	42 819	28,19%
EPCI (groupings of municipalities)	72	79 806	77 302	50,89%
Including Metropolitan areas	*12*	*64 007*	*64 055*	*42,17%*
Territorial public entities	*4*	*4 292*	*2 872*	*1,89%*
Urban communities	*5*	*3 414*	*3 414*	*2,25%*
Suburban communities	*20*	*6 903*	*5 812*	*3,83%*
Municipality communities	*31*	*1 190*	*1 149*	*0,76%*
*******	**310**	**177 744**	**151 906**	**100%**

5. Credit production

The first half of 2019 was once again characterized by limited demand from borrowers over the period, albeit higher compared to the same period in 2018, with the production of medium- and long-term loans amounting to €166.3 million at June 30, 2019, compared with €116.9 million in the first half of 2018, for 85 contracts with a weighted average maturity of 18.1 years.

At the end of the six-month period, outstanding customer loans, expressed under French GAAP, amounted to €2,415.0 million in loans made available and €250.6 million in financing commitments, for total commitments of €2,665.6 million, which mainly includes medium- and long-term loans as well as, to a limited extent, overdraft facilities of €24.4 million. Total commitments also include secondary loan repurchases resulting from loans taken out by AFL Group member local authorities with other lending institutions. The repurchases made during the first half of the year amounted to €18.1 million including premiums, compared to €78.9 million in the first half of 2018.

6. Governance – Composition of the Board of Directors of Société Territoriale

In the first quarter of 2019, the composition of the AFL-ST Board of Directors was changed following the decision of the member authorities of the regional bloc to appoint the Occitanie Region, a new AFL Group member, to serve as a member of the AFL-ST Board of Directors.

The Region is represented on the Board of Directors by Claire Fita, President of the Finance Committee. This appointment has the effect of expanding the representation of the Group of Regions on the Board of Directors, as one seat (out of two) remained vacant following the renewal of the Board of Directors in May 2017. Following the appointment, the AFL-ST Board of Directors is composed of 15 members, including 2 individuals who serve as chairman and vice-chairman and the 13 local authority shareholders:

	Specialized committees	
	Audit and Risk Committee	Appointments, Remuneration and Corporate Governance Committee
Jacques Pélissard Chairman of the Board		
Richard Brumm Vice-Chairman of the Board		
Pays de la Loire Region Represented by Laurent Dejoie		
Occitanie Region Represented by Claire Fita		
Department of Essonne Represented by Dominique Echaroux	■	
Department of Savoie Represented by Luc Berthoud		◊
Department of Seine-Saint-Denis Represented by Stéphane Troussel		
Municipality of Conches-en-Ouche Represented by Jérôme Pasco	◊	
City of Grenoble Represented by Hakim Sabri		
Greater Nancy Metropolitan Area Represented by Pierre Boileau	◊	
Lille European Metropolitan Area Represented by Michel Colin		
Lyon Metropolitan Area Represented by Karine Dognin-Sauze		◊
Strasbourg European Metropolitan Area Represented by Caroline Barrière	◊	
Municipality of Roquefort-sur-Soulzon Represented by Bernard Sirgue		■
Toulouse Metropolitan Area Represented by Sacha Briand		

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, 2019, for which comments are given in this report.

1. Individual AFL financial statements according to French GAAP

The first half of 2019 marked a further milestone in net banking income related to loan activity, which is in line with the Company's development trajectory and the objectives of the 2017-2021 strategic plan. The net banking income (NBI) generated by the operations amounted to €5,279,000. It corresponds to an interest margin of €4,643,000, net gains on disposals of investment securities of €409,000, which includes the discontinuation of cash flow hedge accounting and relates to the management of the liquidity reserve, commission expenses of €10,000 and a reversal of an impairment of investment securities of €237,000.

At the same period, as at 30 June 2018,net banking income amounted to €5,189,000, which mainly corresponded to a net interest margin of €3,887,000, and capital gains on disposals of securities of €1,305,000, which includes income from the termination of the hedging relationship, commission income of €78,000 and an impairment of investment securities of €178,000.

The interest margin of €4,643,000 as at June 30, 2019 originates from the three following items:

- the income related to the loan portfolio at €4,153,000, once it was restated for hedges;
- the revenues related to the management of the liquidity reserve (-€1,186,000), due to interest rates deeply anchored in negative territory; and
- the interest expense from debt, which, for the reasons mentioned above, represents a source of income amounting to €1,676,000, once the income from hedging it is taken into account.

During the first half of the year, portfolio management of the liquidity reserve generated €2,874,000 in income from the disposal of investment securities and €2,466,000 in losses from the cancellation of interest rate hedging instruments for securities that were sold, for a net amount of gains on disposals of €409,000, which breaks down into €138,000 in losses on disposals and €547,000 in gains on disposals.

At June 30, 2019, general operating expenses, restated for rebilling and transfers of administrative expenses, represented €5,042,000, compared to €4,674,000 at June 30, 2018. Of this, €2,458,000 is for personnel costs, compared with €2,343,000 for the first half of the previous financial year, and €2,584,000 is for administrative expenses, compared with €2,330,000 for the first half of 2018. This change may be explained by several factors:

- the increase in contributions to the Single Resolution Fund;
- the end of the repayment of VAT on 2014 fixed assets, which ended in 2018;
- the additional cost related to the double rating of AFL; and
- the increase in consulting fees and costs for external services.

With regard to the transfer of administrative expenses, there will be an increase in these expenses related to the double rating of debt issues.

Results at June 30, 2019 included depreciation and amortization of €1,030,000 for the period compared with €1,186,000 for the first half of 2018. The decline corresponds to the end of the amortization of the company's start-up costs, but still includes new depreciation and amortization related to AFL's continued investment expenditures in the infrastructure of its information system.

After depreciation and amortization, operating income at June 30, 2019 was -€793,000 compared to -€670,000 for the first half of 2018.

At June 30, 2019, AFL showed a net loss of €793,000 compared with a loss of €670,000 for the first half of the previous financial year, which was characterized by capital gains on the disposal of securities at a non-recurring level of €1,305,000.

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 16, which entered into force on January 1, 2019.

The difference between the two standards (French GAAP and IFRS) relates mainly to deferred tax assets not recognized in French GAAP, the inefficiencies of interest rate and currency hedging, the recognition of ex-ante impairments of the securities and loan portfolio and the recognition of leases. The difference between the two standards also affects the amortization of start-up costs, but this difference no longer applies to AFL because the amortization period of the company's start-up costs expired on December 16, 2018.

Transition from French GAAP to IFRS

In thousand euros	**June 30, 2019**
Net profit – French GAAP	**-793**
IFRS restatements	
Cancellation of impairment losses/reversals of impairment losses on investment securities	-237
Provisions for impairment IFRS 9	-7
Impact of IFRS 16 on leases	+34
Hedging inefficiency of financial instruments	-103
Activation of deferred tax on other time differences	+74
Other restatements	+2
Net profit under IFRS	**-1,030**

2. AFL financial statements according to IFRS

The first half of 2019 marked a further milestone in net banking income related to loan activity, which is in line with the Company's development trajectory and the objectives of the 2017-2021 strategic plan. The NBI generated by the operations amounted to €4,936,000. This corresponds to a net margin of interest of €4,639,000, net gains on disposals of investment securities of €409,000, commission expenses of €10,000, and a net loss on negative hedge accounting of €103,000.

At the same period, as at 30 June 2018, NBI amounted to €5,277,000, which mainly corresponded to a net interest margin of €3,879,000, and capital gains on disposals of securities of €1,305,000, commission income of €78,000 and an loss from revaluations of hedges of €73,000.

The interest margin of €4,639,000 as at June 30, 2019 originates from the three following items:

- the income related to the loan portfolio at €4,153,000, once it was restated for hedges;
- the income related to the management of the liquidity reserve, a loss of €1,185,000, due to interest rates deeply anchored in negative territory; and
- the interest expense from debt, which, for the reasons mentioned above, represents a source of income amounting to €1,672,000, once the income from hedging it is taken into account.

During the first half of the year, portfolio management of the liquidity reserve generated €2,874,000 in income from the disposal of investment securities and €2,466,000 in losses from the cancellation of interest rate hedging instruments for securities that were sold, for a net amount of gains on disposals of €409,000, which breaks down into €138,000 in losses on disposals and €547,000 in gains on disposals.

Net income from hedge accounting consists of two elements: the cancellation of interest-rate hedges related to securities disposals mentioned above, for -€2,4666,000, and an amount of -€103,000 which represents, for instruments still in the portfolio at the balance sheet date, the sum of the variations from fair value of hedging instruments and the underlying hedged items. Among these variations, +€528,000 relates to differences in valuation on instruments classified as macro-hedges and -€631,000 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 an unrealized result.

As at June 30, 2019, general operating expenses represented €4,887,000, compared to €4,673,000 at June 30, 2018. Amongthis, €2,458,000 is for personnel costs, compared to €2,343,000 in the first half of the previous financial year. General operating expenses also include the administrative expenses, which, restated for charge-backs, amount to €2,429,000 compared to €2,330,000 at June 30, 2018. This change may be explained by several factors:

- the increase in contributions to the Single Resolution Fund;
- the repayment in full of VAT on 2014 fixed assets, which ended in 2018;
- the additional cost related to the double rating of AFL;
- the increase in consulting fees and costs for external services; and
- the impact of the cancellation of the rent paid by AFL in the context of the entry into force of IFRS 16 for leases, which reduced general operating expenses by €155,000.

Depreciation and amortization at June 30, 2019 amounted to €1,146,000 compared to €975,000 at June 30, 2018, an increase of €171,000 following the application of IFRS 16 for the incorporation of €116,000 in additional amortization of the right to use the premises occupied by AFL and AFL's continued investment expenditures in the infrastructure of its information system.

After depreciation and amortization, gross operating income at June 30, 2019 was -€1,097,000 compared to -€371,000 for the first half of the previous financial year.

After allocating the -€7,000 cost of risk related to IFRS 9, the operating loss at June 30, 2019 was €1,104,000 compared to a loss of -€605,000 in the first half of the previous financial year.

After the positive deferred tax asset activation of €74,000 related to the IFRS restatements, the first half of 2019 showed a net loss of €1,030,000 compared to a loss of €771,000 for the first half of the previous financial year, which was, as stated above, characterized by capital gains on the disposal of securities at a non-recurring level of €1,305,000.

First-time application of IFRS 16

Adopted by the European Union on October 31, 2017, IFRS 16 replaces IAS 17 and the interpretations of the recognition of leases.

Under IFRS 16, on the lessee side, operating leases and finance leases are accounted for using a single model, with recognition of:

- an asset representing the right to use the property leased during the term of the agreement;
- in exchange for a liability for the obligation to pay rent; and
- a linear amortization of the asset and decreasing interest expenses in the income statement.

AFL opted for a retrospective application of the standard, recognizing the cumulative effect of the first-time application at January 1, 2019.

AFL activated its real estate lease only, using for the first-time application its remaining term of just over four and a half years as well as the corresponding marginal debt rate applied to rent excluding recoverable taxes.

First-time application accounting impacts

At January 1, 2019, the amount recognized as an asset for right of use was €1,082,000 and is classified in other tangible assets.

The amount recognized as a liability for rental debt was €1,396,000 and is classified in other liabilities.

Deferred taxes are calculated for both the right of use and the debt. They constitute a remaining deferred tax asset of €114,000 at the date of the first-time application of the standard.

The net deferred tax impact on equity related to the transition to IFRS 16 is insignificant and amounted to -€199,000 at January 1, 2019.

IV. Assets as at June 30, 2019 (IFRS)

AFL's assets are mainly composed of loans to local authorities, securities resulting from investing the liquidity reserve, AFL's bank accounts, margin calls made to swap counterparties and hedging derivative instruments. At June 30, 2019, AFL's assets consisted mostly of loans to member local authorities. 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 at the end of the first half of 2019, pending disbursements to come as part of the credit production 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 amounted to 34% as at June 30, 2019 compared to 27% as at December 31, 2018.

Excerpts of main assets (IFRS)

in thousands of euros	June 30, 2019	December 31, 2018
Loans and customer transactions	2,502,043	2,229,911
Securities at fair value through other comprehensive income	661,649	502,487
Assets held at amortized cost	149,051	175,152
Loans and receivables due from credit institutions	104,828	57,101
Margin calls	88,165	52,841
Cash and central banks	413,476	121,650
Hedging derivative instruments	118,321	44,661

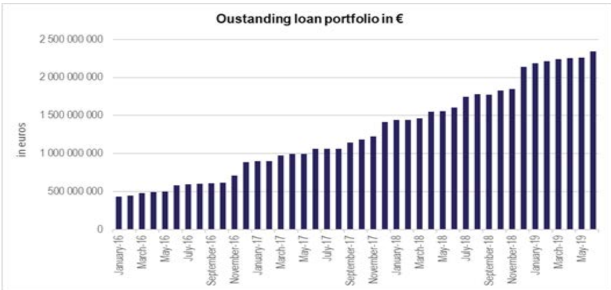
1. Loans to local authorities

AFL exclusively lends to French local authorities that are shareholders of Société Territoriale. The credit portfolio recognized on AFL's balance sheet among assets amounted to €2,502 million at June 30, 2019, compared with €2,229.9 million at December 31, 2018, after taking into account the amortized cost due to hedge accounting of the impact from changes in interest rates. This portfolio must be supplemented by loans signed but not disbursed that appear off the balance sheet, in order to have a complete view of AFL's outstanding loans. At June 30, 2019, the amount of off-balance sheet financing commitments was €250.6 million compared to €365.6 million at December 31, 2018. Accordingly, at June 30, 2019, the total loan commitments to local authorities carried by AFL amounted to €2,752.6 million compared to €2,595.6 million at December 31, 2018, €1,669.6 million at December 31, 2017 and €1,026 million at December 31, 2016.

The monthly change in the outstanding principal of the medium- and long-term loan portfolio is shown in the graph below.

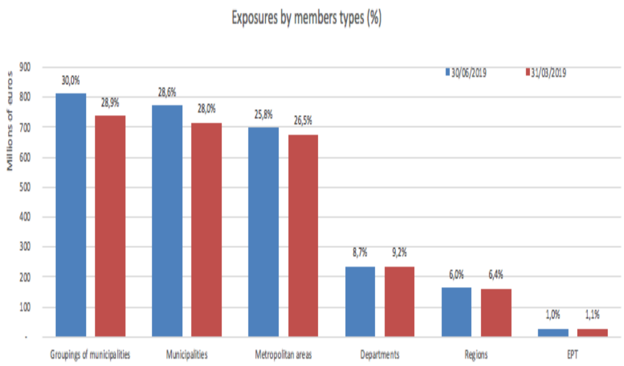
Changes in outstanding loans

Outstanding loans – changes in Global Risk Committee inventory (monthly average)



At June 30, 2019, 84.3% of the loan portfolio consisted of exposures to the entire municipal block compared to 83.4% at December 31, 2018, which is a sign of great stability. The exposure to departments decreased from 9.1% at December 31, 2018 to 8.7% at June 30, 2019 and the exposure to regions decreased from 6.4% to 6%. Finally, the exposure to EPTs was stable at 1% at June 30, 2019 compared with 1.1% at December 31, 2018.

Breakdown of exposures by type of local authority



At June 30, 2019, the residual maturity of outstanding loans was 15 years, stable compared to June 30, 2018.

2. Liquidity reserve

Other assets in the balance sheet mainly include the liquidity reserve that corresponds 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 regulatory requirements, AFL's liquidity policy guidelines and good management practices.

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

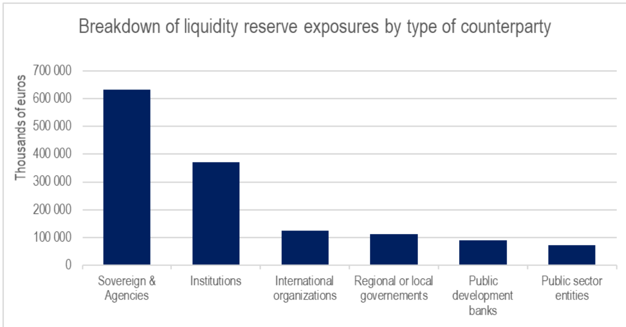
At June 30, 2019, the assets comprising the liquidity reserve amounted to €1,329 million, compared to €856.4 million at December 31, 2018, an amount corresponding to more than 12 months of cash flow requirements. This liquidity reserve is divided into two main segments:

- one segment invested in very short-term instruments, and mainly comprising deposits on *nostro* accounts with Banque de France of €518.3 million; and
- one segment consisting mainly but not exclusively of HQLA-accredited securities, due to their high rating and high degree of liquidity of €810.7 million.

Due to the investments carried out as part of the liquidity reserve, AFL supports a credit risk on the issuers of assets that it acquires or exposures that it takes. However, this credit risk is limited in view of the quality of the counterparties, which all enjoy the best rating levels from the major rating agencies. At June 30, 2019, 82.2% of the liquidity reserve comprised so-called "HQLA" assets mainly on sovereigns and public agencies issuers as shown in the graph below. The other exposures consisted mainly of nostro accounts and a few exposures in securities on the banking sector. The securities acquired as part of the liquidity reserve are issued or guaranteed by the French State, or States of the European Economic Area or third countries with very high credit ratings, or supranational institutions with high ratings, as well as securities issued by financial institutions, some of which are guaranteed by European States.

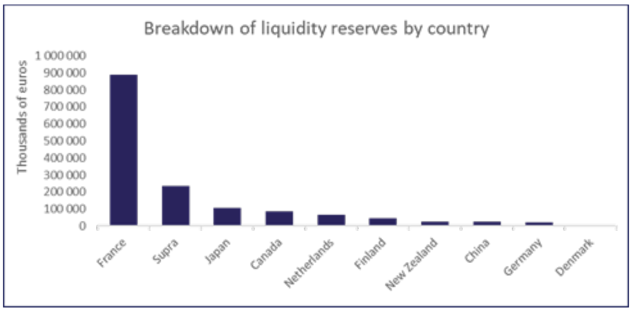
The graphs below show the breakdown of the exposures for the liquidity reserve by type of counterparty, country, rating and risk class.

Breakdown of liquidity reserve exposures by type of counterparty[3]



As shown by the graph below, the assets in the liquidity reserve mainly relate to French issuers, and also European and international issuers, thus contributing to the good resilience of the portfolio in a situation of significant volatility of financial markets.

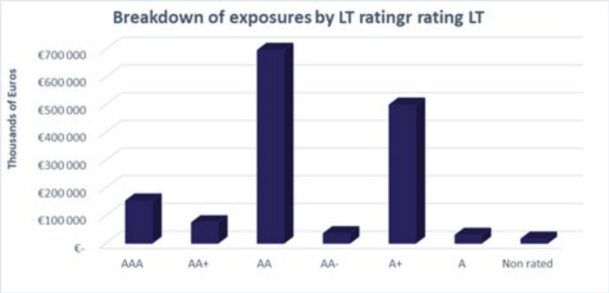
Breakdown of liquidity reserve exposures by country



The exposure carried by AFL in its liquidity reserve has a very high rating.

[3] Promotional banks or public development banks (defined by the Delegated Act on the Liquidity Coverage Ratio, or LCR, of the European Commission of October 10, 2014), represent a category of financial institutions eligible for the HQLA standard, in view of their particular characteristics.

Breakdown of liquidity reserve exposures by rating



3. Margin calls and valuations of hedging swaps

Excluding loans to local authorities and assets in the liquidity reserve, most of the balance of financial assets on AFL's balance sheet consists of margin calls on interest-rate and currency hedging activities which are paid, on the one hand, and mainly to the LCH Clearnet clearing house, given that AFL hedges almost all its production of rate derivatives and on the other hand, to AFL counterparty banks (from which are deducted margin calls received). These margin calls also include guarantee deposits (IMR[4]) with the clearing house amounting to €88.17 million at June 30, 2019 compared to €52.84 million at December 31, 2018. This amount is significantly higher due to the higher natural sensitivity of the balance sheet to lower rates and the flattening of the curve. At the same date, there was no margin call received.

As at June 30, 2019, the fair value of AFL's hedging swaps broke down as follows:

(€ thousands)	Nominal value	Mark to market value
Interest-rate swaps	6,300,649	-61,835
Cross Currency Swaps	373,906	-213
Total	6,674,555	-62,049

- **Securitization**

AFL has no exposure to securitization.

[4] Initial margin requirement

V. Debts and capital as at June 30, 2019 (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 and not amortized in the meantime. Since 2017, liabilities may also include debt securities issued under the AFL's ECP program.

At June 30, 2019, AFL's outstanding debt consisted of five medium- and long-term public issues denominated in euros, for an outstanding amount of €3,250 million, of two private placements denominated in euros for a total of €125 million, one US dollar-denominated private placement of USD 100 million and one Swedish crown-denominated private placement of SEK 500 million.

In addition to these medium- and long-term debt instruments, there are short-term debt securities denominated in US dollars for a total amount of €140 million.

As at June 30, 2019, the debt book value stood at €3,756.7 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, 2018 was €2,996.9 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 18 new local authorities became AFL-ST members during the first half of 2019, the amount of AFL subscribed capital amounted to €144,500,000 at June 30, 2019, compared to €137,200,000 at June 30, 2018.

Excerpts of the main liabilities

In thousands of euros	June 30, 2019	December 31, 2018
Debt securities	3,756,713	2,996,909
Equity	122,149	117,309

VI. Description of the main risks and uncertainties to which the Company is confronted

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 on the basis of the forecasts from the business plan approved by the Supervisory Board of the Company. Although the business plan was built with the utmost attention by AFL on the basis of projections and assumptions that seemed realistic, the non-occurrence of the scenarios cannot be excluded.

- **Risks related to the business model**

Pursuant to Article L. 1611-3-2 of the French General Local and Regional Authorities Code, 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 raising 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.

- **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, a 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, a deterioration in the situation in France would not be without consequences on AFL's conditions of access to 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, to reduced margins on future commitments that reduce the Net Banking Income generated by AFL, to limited production of new assets for AFL, or to production that negatively affects the 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

- **Nature of risks**

Credit risk is the risk incurred in the event of default by a counterparty or counterparties considered to be a group of related clients. Credit risk stems from the inability of the counterparties to which AFL has granted a loan or of other debtors of AFL to meet their financial obligations.

Concentration risk is the risk arising from exposure to a homogeneous group of counterparties, including central counterparties, to counterparties operating in the same economic sector or geographical area, or to the granting of credit for the same activity.

i. Credit and concentration risk related to borrowers

AFL carries out its activities for the exclusive benefit of local and regional authorities[5], public institutions for inter-municipal co-operation with their own taxation, and local public entities that are shareholders of the parent company of AFL. If default by a local or regional authority cannot be ruled out, these counterparties are considered to have a limited risk profile; as a result, the credit transactions carried out have this same profile.

Since AFL can grant loans only to members, this implies a strong concentration of its credit risk for certain types of players. AFL is thus exposed to the possible deterioration

[5] Including overseas local authorities and local authorities with a specific status as indicated in Article 72 of the French Constitution.

of a local or regional authority or the situation of that sector.

ii. Credit and concentration risk related to hedging contracts and cash investments

Due to the cash investments carried out, AFL supports a credit risk on the issuers of securities that it holds in its cash portfolio. AFL is exposed to the inability of the securities issuers in which it has invested to meet their financial obligations.

In addition, in order to limit its exposure to the interest rate and currency risks described below, AFL covers substantially all of its variable rate balance sheet and hedges its foreign currency positions by entering into currency hedging agreements. AFL uses clearing houses in a significant but non-exclusive manner for these derivatives. AFL is exposed to the risk that its counterparties under hedging agreements (banking institutions or clearing houses) will not meet their financial obligations.

▪ Portfolio quality

The quality of AFL's assets may be assessed by RWA (risk weighted asset) weighting, which is the measure used to calculate the solvency ratio.

At June 30, 2019, the risk-weighted allocation of AFL credit exposures revealed a very high quality portfolio, with an average weighting of 15.6%.

▪ Local government loan portfolio

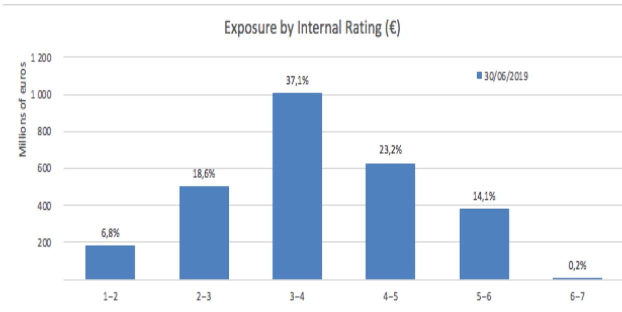
In order to assess and manage credit risk for local authorities, AFL has established an internal rating system for local authorities, with the following objectives:

- to evaluate the financial positions of local authorities, public inter-municipal co-operation institutions and local public entities for membership in the AFL Group through the establishment of a so-called "quantitative" or "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 become members of the AFL Group. This rating system is automated and fed by the economic and financial data published once a year by the General Directorate of Public Finance (the French Ministry of Finance) ; and
- to assess the financial positions of the local authorities applying to AFL for credit using, in addition to the above-mentioned financial rating, a so-called "socio-economic" rating, which can be potentially supplemented by a so-called "qualitative" rating. Lastly, the AFL Credit Committee decides on the final score awarded to the community concerned.

The breakdown by rating of its portfolio of loans to local authorities reveals a portfolio that is already granular and of good quality. As at June 30, 2019, this portfolio was more than 25% exposed to local authorities with ratings ranging from 1 to 2.99 and more than 60% exposed to local authorities with ratings ranging from 1 and 3.99. The

five largest exposures accounted for 24.2% of assets. The largest exposure accounted for 5.1% of assets and the fifth-largest for 4.6%. At June 30, 2019, based on the 2017 rating year, the average loan rating of loans made by AFL to its members, weighted by outstanding amounts, was 3.69 compared with 3.80 at December 31, 2018.

Breakdown of the loan portfolio by local authority rating[6] as at June 30, 2019



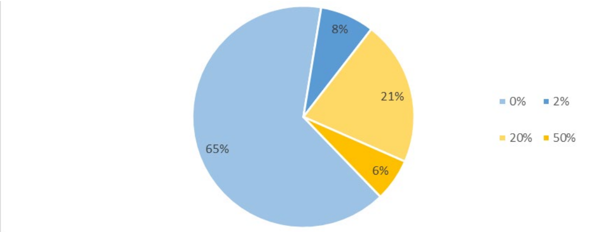
▪ Credit risk related to other exposures

AFL has three other types of exposures:

- securities acquired in connection with the management of its liquidity reserve, in compliance with a prudent investment policy. These are mainly issued or guaranteed by member States of the European Union or supranational institutions;
- the balance of its euro accounts with French banks or Banque de France; and
- derivatives entered into as a hedge against interest rate and currency risk with banks or clearing houses.

[6] Rating based on the 2017 rating year.

Breakdown of exposures excluding loans to local authorities by class of risk weighted at June 30, 2019



The ratings of these exposures are of very high quality, with over 60% of exposures rated equal to or greater than Aa2 on Moody's scale. The graph below highlights the strong concentration of exposure for AFL's liquidity reserve in very low risk classes, 65% of the portfolio being invested in risk classes weighted at 0%, 8% in risk classes weighted at 2%[7] and 21% in risk classes weighted at 20%. The exposure to risk classes weighted at 50% mainly corresponds to nostro accounts.

In order to optimize the management of counterparty risk and the collateral associated with a significant use of hedging instruments, AFL has decided to negotiate its hedging instruments in clearing houses or Central Counterparties (CCPs), within the framework of the European Market Infrastructure Regulation (EMIR) without excluding the holding of exposures in a bilateral format with several of the market's banking establishments. Clearing of over-the-counter (OTC) transactions in Central Counterparty (CCP) clearing houses associated with collateral exchange significantly reduces the counterparty risk associated with the transaction and reduces collateral consumption due to the hedging positions of the instruments on the asset and liability sides of the balance sheet.

As at June 30, 2019, interest rate swaps were cleared at 95% in clearing houses and 5%[8] on a bilateral basis, with a daily collateralization for all instruments from the first euro. Currency hedging swaps remain processed on a bilateral basis.

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

At June 30, 2019, outstanding doubtful or contentious receivables were nil. Under French GAAP, no collective provision and no specific provision was recognized at that date on loans granted to local authorities or on the other assets.

IFRS 9 entered into application on January 1, 2018 and provides for the calculation and recognition of provisions for credit risk ex-ante from the commitment and on all of the Company's exposures. A provision is calculated for defaulting exposure, and for exposures for which the risk has deteriorated or has not significantly deteriorated since the origin. At June 30, 2019, the IFRS 9 provision for impairments for ex-ante credit risk amounted to -€436,000 compared to -€429,000 at December 31, 2018.

3. Other balance sheet risks

- **Liquidity risk**

Nature of risks

AFL has several kinds of liquidity needs: financing of its lending activities to member local and regional authorities, debt servicing, financing of the liquidity requirements related to its liquidity reserve, and financing of the margin calls for the hedging derivatives it concludes to hedge the interest rate and currency risks that it naturally carries on its balance sheet.

AFL is exposed to three dimensions of liquidity risk:

- 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 a risk that a bank will be unable to raise the liquidity necessary to meet its commitments and financing needs related to its development;
- liquidity mismatch risk, also referred to as liquidity price risk: this is a risk of loss in net banking income generated by an increase in refinancing spreads combined with an excessively large transformation position, i.e. a non-congruence between assets and liabilities that most commonly occurs in the form of assets longer than liabilities.

Implemented strategy

AFL has also adopted a very strict liquidity policy whose main objective is ultimately to ensure that it has a sufficient liquidity reserves to maintain its operational activities, in particular its lending activities, for a period of twelve months.

AFL's liquidity policy aims to permanently hold a significant amount of highly liquid assets that can be mobilized at any time to meet its contractual as well as its regulatory

[7] The graph on the breakdown by asset class includes exposure related to hedging swaps in clearing houses, which is weighted at 2%.

[8] Calculation carried out on the basis of the regulatory STAs using the STD method.

commitments; it also provides for a diversified financing strategy and a limitation on transformation.

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

- building of a liquidity reserve made up of liquid assets that can be mobilized to maintain its operational activities for 12 months and its regulatory LCR (Liquidity Coverage Ratio);
- a financing strategy that encourages a diversity of debt instruments (including benchmark issues in euros listed in regulated markets, public issues potentially in foreign currencies, private placements, etc.) as well as the diversity of the investor base, both by type and geographical area;
- in order to reduce its liquidity mismatch risk, AFL strictly monitors the maturity gaps . It tries to limit the average life-to-asset gap between its assets and liabilities to one year and maintain the regulatory NSFR (Net Stable Funding Ratio) at 100%.

As at June 30, 2019, the LCR 30-day liquidity ratio was 2,876.45%, and AFL held a liquidity reserve amount to meet slightly over 12 months of its cash flow[9] requirements. As at June 30, 2019, the gap of ALT was 0.52 years and the NSFR ratio was 189.42%.

Interest rate and currency risks

Interest rate risk includes the risk that AFL will suffer losses due to unfavorable changes in interest rates due to all of its balance sheet and off-balance sheet transactions, in particular in the event of a mismatch between the interest rates generated by its assets and those arising from its liabilities. Interest rate risk includes the risk of refinancing an asset at a higher interest rate than the original interest rate, or the risk of replacing an asset at a lower rate than the original one. In both cases, in the event of a change in interest rates, there may be a negative impact on the net margin of interest that reduces AFL's income.

In order to maintain its financial base for the development of its lending activities, AFL has also set up a hedging policy for interest rate risks in order to limit the exposure of its balance sheet and the volatility of its revenues to unwanted market movements.

AFL's interest rate hedging policy consists of:

- a systematic micro-hedging of fixed-rate debt to be converted into floating-rate debt mainly indexed to the three-month Euribor reference using interest rate swaps;
- micro-hedging of loans contracted at a fixed or floating Euribor six-month or twelve-month rate to convert them into floating-rate loans indexed to the Euribor three-month reference, except for fixed-rate loans corresponding to a limited portion of the balance sheet at most equal to the re-use of prudential capital. The resulting exposure to interest rate risk is influenced by the sensitivity to AFL's net present value rate, which measures the impact of a predefined rate shock on the variation in discounted cash flows of all assets and liabilities on the AFL balance sheet; and
- a macro-hedging of fixed-rate loans that are small or whose depreciation profile is not linear.

The interest rate and foreign exchange hedging strategy resulted in a notional amount of swaps of €7.692 billion at June 30, 2019, of which €1.017 billion was pending compression with the clearing house and classified as a trading portfolio.

Assuming a parallel shift of over 100 basis points in the yield curve, the sensitivity of the net present value of equity at June 30, 2019 was -3.26% for AFL and -3.22% on a consolidated basis for the AFL Group, and -5.88% for AFL and -5.83% on a consolidated basis for the AFL Group, assuming a shift of over 200 basis points in the yield curve.

In the first half of 2019, the sensitivity of AFL's net present value to a change of plus or minus 200 basis points remained below 15% of equity.

Interest rate scenario	AFL (in % of Regulatory Capital)	AFL Group (in % of Regulatory Capital)
+200 bps	-5,88%	-5,83%
+100 bps	-3,26%	-3,22%
-100 bps	4,01%	-3,93%
-200 bps	8,94%	8,72%

Currency risk includes the risk that AFL may incur losses on borrowed or loaned assets in currencies other than the euro. AFL's policy aims to hedge this risk systematically

[9] Estimated by AFL on the basis of AFL's central business plan scenario.

through the implementation of micro-hedging instruments, or cross- currency swaps. As a result, assets and liabilities denominated in currencies other than the euro are systematically swapped into euros at the balance sheet date and until their final maturity.

- **Risks due to the effects of climate change**

Since 1988, the Intergovernmental Panel on Climate Change (IPCC) assess the state of knowledge on global climate change, its impacts and the means to attenuate it and adapt to it. The IPCC published its 5th report in 2014. It shows that climate change has started. The IPCC also assesses how climate change will occur in the medium to long term. It forecasts more serious weather phenomena, disruptions to numerous ecosystems, crises associated with food resources, health dangers, increased water acidity that threatens the balance of numerous ecosystems, population displacements. The impacts of climate change will be very different from one region to another, but they will concern the entire planet. By construction, the financial sector is particularly exposed to the risks related to climate change, as its main function is to feed the economy with capital. Because the security of regions and infrastructures may be affected and the entire planet could be involved, AFL, with its mandate to finance French local authorities, may be affected by the consequences of climate change.

4. Operational risks

- **Nature of risks**

From a regulatory standpoint, operational risk 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.

i. Process risks

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

ii. 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.

iii. Risks related to IT systems

The 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.

iv. 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.

v. Non-compliance risk

Non-compliance 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.

- **Mechanism in place**

In order to prevent the occurrence of these risks and the consequences of their possible occurrence, both of which are high at the start of operations, AFL has internal control and risk management systems. These systems aim to ensure the identification, measurement and early treatment of operational risks.

These systems, which were built in compliance with best market practices, involve regular assessment of risks and the effectiveness of controls to minimize those risks and the implementation of an improvement/remediation action plan 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 implemented a policy for the security of the IT systems and monitoring of essential outsourced services.

To support the internal control framework, the main tools put in place 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 2019, no significant operating loss was incurred. With regard to legal risks, AFL was not involved in any disputes during the period.

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 reports regulatory capital to the ACPR on a consolidated basis only, in accordance with IFRS, for its parent company, Société Territoriale.

As at June 30, 2019, the AFL Group's prudential capital amounted to €121,009,568, in accordance with IFRS. Given the quality of credit of the assets carried by AFL, the solvency ratio reached 17.74% on a consolidated basis and the leverage ratio applicable to public development banks reached 7.88%.

VIII. Outlook for the 2019 financial year and events since the balance sheet date

In line with the 2017-2021 strategic plan, AFL continues its growth with an increase in the size of the balance sheet following the development of its loan activities with member local authorities and the programming of new capital increases allowing the arrival of an increasing number of new local authority members.

1. Financial market operations in the second half of 2019

Since the end of the first half of the financial year, AFL has continued to implement its annual borrowing program and has completed two private placements of €50 million and €75 million, with maturities of 10 and 15 years and at margins of 26 and 25 basis points above the French OAT Treasury Bond curve, respectively.

At August 31, 2019, AFL had completed 95% of its loan program for 2019.

2. Loan production in the second half of 2019

At August 31, 2019, AFL's loan commitments totaled €2,899.22 million and the new commitments made by AFL to member local authorities since the beginning of the year totaled €472.42 million. They consist of €405.38 million in medium- and long-term loans, €18.10 million in loans purchased on the secondary market and €48.94 million in new short-term credit facilities.

3. Membership in the second half of 2019

On July 25, 2019, the AFL Group closed its 21st capital increase. Fourteen new local authorities subscribed to this capital increase, raising the number of the Group's member local authorities to 324 and the paid-up share capital of AFL-ST to €154,116,900. Following the transaction, AFL's share capital increased to €146,600,000.

Per its objectives for 2019, the AFL Group is expected to make a further capital increase in the second half of the year.

Certification of the half-yearly financial report for the six-month period ended June 30, 2019

I, the undersigned Thiébaut Julin, acting in my capacity as Chief Executive Officer, member of the Management Board, and Chief Financial Officer of Agence France Locale, certify that, to my knowledge, the summary financial statements for the six-month period have been prepared in accordance with the applicable accounting standards and are an accurate reflection of the assets, financial position, and income of the Company and all of the companies included in the scope of consolidation, and that the half-yearly activity report included in this half-yearly financial report presents a true picture of the events the first six months of the year and their impact on the financial statements and describes the principal risks and uncertainties for the remaining six months of the year.

Lyon, September 20, 2019

Thiébaut Julin

Chief Executive Officer, member of the Executive Board,

and Chief Financial Officer of Agence France Locale

HALF-YEARLY FINANCIAL STATEMENTS

I. Half-yearly financial statements prepared according to IFRS

AGENCE FRANCE LOCALE

BALANCE SHEET

Assets as of June 30, 2019

(€ '000s)	Notes	30/06/2019	31/12/2018
Cash, central banks	5	413,476	121,650
Financial assets at fair value through profit or loss	1	28,586	26,299
Hedging derivative instruments	2	118,321	44,661
Financial assets at fair value through other comprehensive income	3	661,649	502,487
Securities at amortized cost	4	149,051	175,152
Loans and receivables due from credit institutions and similar items at amortized cost	5	192,993	109,942
Loans and receivables due from customers at amortized cost	6	2,502,043	2,229,911
Revaluation adjustment on interest rate risk-hedged portfolios		15,737	1,873
Current tax assets			
Deferred tax assets	7	5,772	5,671
Accruals and other assets	8	677	380
Intangible assets	9	2,641	3,263
Property, plant and equipment	9	1,366	437
Goodwill			
TOTAL ASSETS		**4,092,312**	**3,221,726**

Liabilities as of June 30, 2018

(€ '000s)	Notes	30/06/2019	31/12/2018
Central banks		115	755
Financial liabilities at fair value through profit or loss	1	28,746	26,747
Hedging derivative instruments	2	180,370	78,300
Debt securities	10	3,756,713	2,996,909
Due to credit institutions		5	9
Due to customers			
Revaluation adjustment on interest rate hedged portfolios			
Current tax liabilities			
Deferred tax liabilities			
Accruals and other liabilities	11	4,128	1,675
Provisions	12	85	23
Equity		**122,149**	**117,309**
Equity, Group share		**122,149**	**117,309**
Share capital and reserves		144,500	138,700
Consolidated reserves		(20,189)	(18,269)
Reevaluation reserve			
Gains and losses recognised directly in equity		(1,132)	(1,411)
Profit (loss) for the period		(1,030)	(1,712)
Non-controlling interests			
TOTAL LIABILITIES		**4,092,312**	**3,221,726**

Income statement

(€ '000s)	Notes	30/06/2019	30/06/2018	31/12/2018
Interest and similar income	13	37,006	28,052	64,339
Interest and similar expenses	13	(32,367)	(24,173)	(56,534)
Fee & Commission Income	14	35	134	289
Fee & Commission Expense	14	(45)	(56)	(119)
Net gains (losses) on financial instruments at fair value through profit or loss	15	(2,567)	1,346	868
Net gains or losses on financial instruments at fair value through other comprehensive income	16	2,874	(26)	863
Income on other activities				
Expenses on other activities				
NET BANKING INCOME		**4,936**	**5,277**	**9,705**
Operating expenses	17	(4,887)	(4,673)	(9,033)
Net depreciation, amortisation and impairments of tangible and intangible assets	9	(1,146)	(975)	(1,984)
GROSS OPERATING INCOME		**(1,097)**	**(371)**	**(1,311)**
Cost of risk	18	(7)	(234)	(191)
OPERATING INCOME		**(1,104)**	**(605)**	**(1,502)**
Net gains and losses on other assets				
INCOME BEFORE TAX		**(1,104)**	**(605)**	**(1,502)**
Income tax	7	74	(166)	(209)
NET INCOME		**(1,030)**	**(771)**	**(1,712)**
Non-controlling interests				
NET INCOME GROUP SHARE		**(1,030)**	**(771)**	**(1,712)**
Basic earnings per share (in EUR)		(0.71)	(0.56)	(1.23)
Diluted earnings per share (in EUR)		(0.71)	(0.56)	(1.23)

Net income and other comprehensive income

(€ '000s)	30/06/2019	30/06/2018	31/12/2018
Net income	**(1,030)**	**(771)**	**(1,712)**
Items will be reclassified subsequently to profit or loss	**278**	**(731)**	**(1,991)**
Revaluation of financial assets at fair value through other comprehensive income recyclable to income	366	(1,118)	(2,756)
Other items recognized through other comprehensive income recyclable to income			
Related taxes	(88)	387	765
Elements not recyclable in profit or loss	**(9)**	**-**	**-**
Revaluation in respect of defined benefit plans	(9)		
Other items recognized through other comprehensive income not recyclable to income			
Related taxes			
Total gains and losses recognized directly in equity	**269**	**(731)**	**(1,991)**
COMPREHENSIVE INCOME	**(760)**	**(1,502)**	**(3,703)**

Consolidated statement of changes in equity

(€ '000s)	Capital	Associated reserves to capital	Consolidated reserves	Gains and losses recognized directly in comprehensive income				Net income, Group share	Share-holders' equity - Group share	Share-holders'equity, non-controlling interests	Total share-holders equity
				Recyclable		Not recyclable					
				Net change in fair value of Financial assets at fair value through other comprehensive income, after tax	Net change in fair value of cash flow hedging derivatives, after tax	Revaluation in respect of defined benefit plans	Other items recognized through other comprehensive income not recyclable to income				
Shareholders' equity at at 1 january 2018	**132,500**	**-**	**(17,842)**	**580**	**-**	**-**	**-**	**(427)**	**114,811**	**-**	**114,811**
Increase in share capital	6,200								6,200		6,200
Elimination of treasury shares											
Allocation of profit 2017			(427)					427			
Dividends 2017 paid											
Sub-total of changes linked to transactions with shareholders	**6,200**	**-**	**(427)**	**-**	**-**	**-**	**-**	**427**	**6,200**	**-**	**6,200**
Change in fair value through equity				(2,404)					(2,404)		(2,404)
Change in value of through profit or loss				(352)					(352)		(352)
Changes in actuarial gains on retirement benefits											
Related taxes				765					765		765
Changes in gains and losses recognized directly in equity	**-**	**-**	**-**	**(1,991)**	**-**	**-**	**-**	**-**	**(1,991)**	**-**	**(1,991)**
2018 Net income								(1,712)	(1,712)		(1,712)
Sub-total	**-**	**-**	**-**	**(1,991)**	**-**	**-**	**-**	**(1,712)**	**(3,703)**	**-**	**(3,703)**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 31 december 2018	**138,700**	**-**	**(18,269)**	**(1,411)**	**-**	**-**	**-**	**(1,712)**	**117,309**	**-**	**117,309**
Impact of changes in IFRS 16 accounting policies			(199)						(199)		(199)
Shareholders' equity at 1 january 2019	**138,700**	**-**	**(18,468)**	**(1,411)**	**-**	**-**	**-**	**(1,712)**	**117,109**	**-**	**117,109**
Increase in share capital	5,800 (1)								5,800		5,800
Elimination of treasury shares											
Allocation of profit 2018			(1,712)					1,712			
Dividends 2018 paid											
Sub-total of changes linked to transactions with shareholders	**5,800**	**-**	**(1,712)**	**-**	**-**	**-**	**-**	**1,712**	**5,800**	**-**	**5,800**
Changes in fair value through equity				223					223		223
Change in value of through profit or loss				143					143		143
Changes in actuarial gains on retirement benefits			(9)						(9)		(9)
Related taxes				(88)					(88)		(88)
Changes in gains and losses recognized directly in equity	**-**	**-**	**(9)**	**278**	**-**	**-**	**-**	**-**	**269**	**-**	**269**
30 June 2019 Net income								(1,030)	(1,030)		(1,030)
Sub-total	**-**	**-**	**(9)**	**278**	**-**	**-**	**-**	**(1,030)**	**(760)**	**-**	**(760)**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 30 June 2019	**144,500**	**-**	**(20,189)**	**(1,132)**	**-**	**-**	**-**	**(1,030)**	**122,149**	**-**	**122,149**

(1) The share capital of Agence France Locale - which amounts on June 30th, 2019 to € 144,500,000 consists of 1,445,00 shares. The Agence carried out two capital increases during the first year-half 2019 subscribed on 27th February 2019 to € 3,500k, and on 23th May 2019 for € 2,300k.

Cash flow statement

(€ '000s)	30/06/2019	31/12/2018
Net income before taxes	**(1,104)**	**(1,502)**
+/- Net depreciation and amortisation of tangible and intangible non-current assets	1,146	1,984
+/- Net provisions and impairment charges	55	
+/- Expense/income from investing activities	(4,445)	(2,392)
+/- Expense/income from financing activities	156	469
+/- Other non-cash items	(922)	1,499
= Non-monetary items included in net income before tax and other adjustments	**(4,010)**	**1,559**
+/- Cash from interbank operations	(15,000)	
+/- Cash from customer operations	(191,120)	(783,180)
+/- Cash from financing assets and liabilities	(31,472)	23,742
+/- Cash from not financing assets and liabilities	656	180
- Income tax paid		
= Decrease/(increase) in cash from operating activities	(236,937)	(759,258)
= CASH FLOW FROM OPERATING ACTIVITIES (A)	**(242,051)**	**(759,201)**
+/- Flows linked to financial assets and investments	(65,404)	(312,442)
+/- Flows linked to investment properties		
+/- Flows linked to tangible and intangible non-current assets	(370)	(525)
= CASH FLOW FROM INVESTING ACTIVITIES (B)	**(65,773)**	**(312,968)**
+/- Cash from or for shareholders	5,800	6,200
+/- Other cash from financing activities	676,586	613,141
= CASH FLOW FROM FINANCING ACTIVITIES (C)	**682,386**	**619,341**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)		
Increase/(decrease) in cash equivalents (A + B+ C + D)	**374,562**	**(452,828)**
Cash flow from operating activities (A)	(242,051)	(759,201)
Cash flow from investing activities (B)	(65,773)	(312,968)
Cash flow from financing activities (C)	682,386	619,341
Effect of changes in exchange rates on cash and cash equivalents (D)		
Cash and cash equivalents at the beginning of the period	**128,757**	**581,585**
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	128,757	581,585
Cash and cash equivalents at the end of the period	**503,319**	**128,757**
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	503,319	128,757
CHANGE IN NET CASH	**374,562**	**(452,828)**

NOTES TO THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

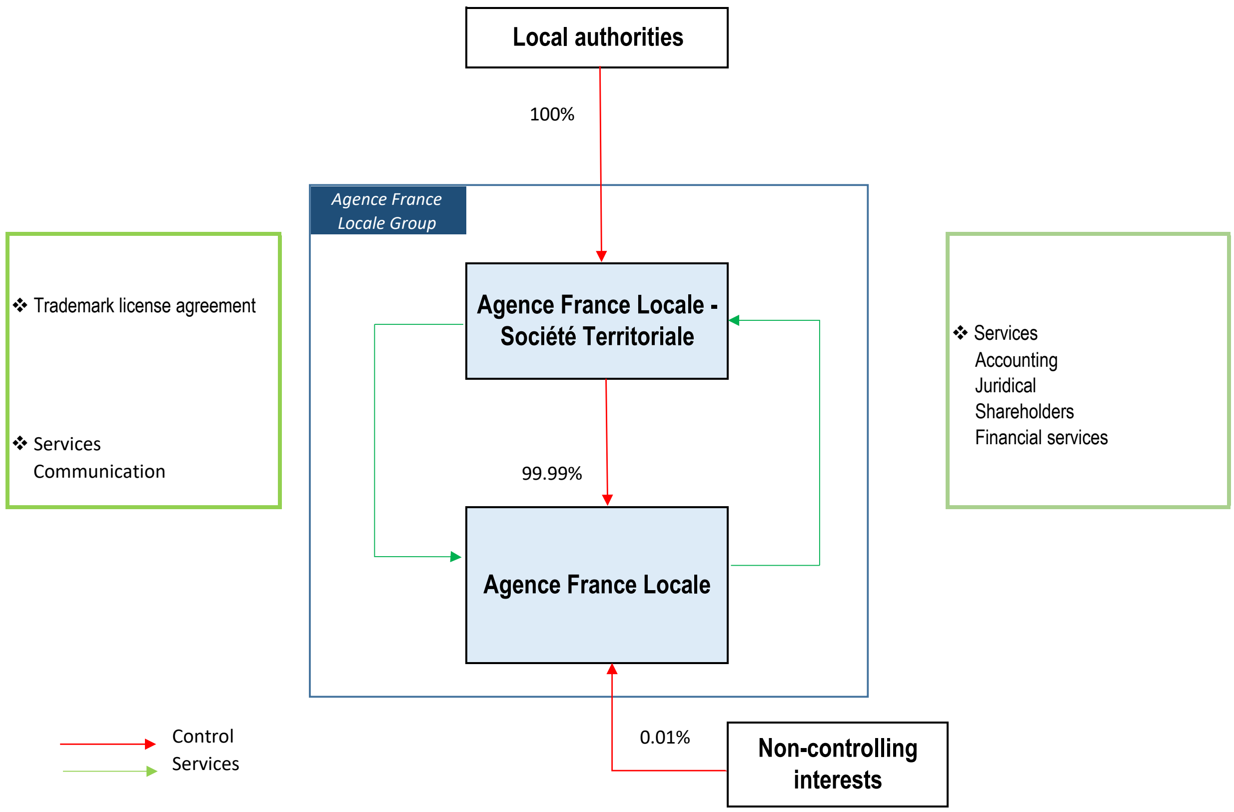
General framework

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 which are members 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 4, 2019.

II - Highlights from the first half

The first half of 2019 is once again characterized by a relatively limited demand from local authorities borrowers over the period, although increasing compared to the same period in 2018, with a production of medium and long-term loans amounting to 166.3 million euros at June 30, 2019, compared with 116.9 million euros in the first half of 2018, for 85 contracts with a weighted average maturity of 18.1 years. AFL's medium and long-term credit generation represents a market share estimated at around 25% of the financing needs of AFL Group members.

During the first half of the year, the AFL issued 3 bond for a total of 633.6 million euros. Following the renewal of a $ 100 million USD 2-year private placement, AFL successfully completed its fifth benchmark bond issue in late May for 500 million euros at 7 years at 32 basis points against OAT, whose distribution has demonstrated interest and understanding by investors for its business model and a high level of confidence in the development of its activities, which is confirmed by the AFL's double rating by Moody's and Standard & Poor's rating agencies.

Finally, the AFL continued to execute its borrowing program for 2019 with a 15-year private placement issued in Swedish krona for an amount of SEK 500 million.

During the first half of 2019, AFL's capital raised by € 5.8 million to € 144.5 million following two capital increases exclusively subscribed by its parent company, Société Territoriale, which itself has increased its capital in two times allowing 18 new local authorities to become members of the AFL Group, rising to 310 the total number of shareholders at June 30, 2019.

The first half of 2019 marks a further increase in net banking income related to the lending activity, which is in line with the Company's development path according to his 2017-2021 strategic plan. The net banking income generated by the activity amounted to € 4,936K. It corresponds to an interest margin of € 4,639K, net capital gains on investment securities disposal of € 409K after taking into account the result of hedging accounting, which relates to the management of the liquidity reserve, commission expenses of € 10K and a result of negative hedge revaluations of € 103k.

These results are comparable to those of the first half of 2018, after which the net banking income amounted to € 5,277K, mainly corresponding to a net interest margin of € 3,879K, and capital gains on the investment securities of € 1,305K, income from commissions of € 78K and a result of negative hedge revaluations of € 73k.

The interest margin of € 4,639K as of 30 june 2019 comes from three items:
- an income of € 4,153K from the loan portfolio once restated to hedge accounting;
- a negative income of € -1,185K from the management of the cash reserve, in a context of deep negative interest rates;
- a positive income of € 1,672K associated to interest charges given the reasons stated above, net of hedge accounting.

During the first half of the year, the portfolio management of the liquidity reserve generated € 2,874K income on the sale of investment securities and € 2,466K in the loss on the cancellation of interest rate hedging instruments on securities which have been the subject of disposals, ie a net amount of gains of disposals of € 409K which breaks down into € 138K of capital losses on disposals and € 547K of capital gains on disposals.

Net income from hedge accounting comes from two items. First of all, it comes from the sale of interest rate hedging of fixed-income securities for €-2,466K and secondly €-103K 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, €+528K relate to valuation differential charges on instruments classified as macro-hedges and €-631K of products relate to valuations of instruments classified as micro-hedges. There are still unrealized differences in valuations between the hedged items and the hedging instruments, one of the components of which 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 unrealized income.

At June 30, 2019, general operating expenses, after deducting transfer of administrative expenses, amounted to € 4,887K compared to € 4,673K as at June 30, 2018. They amounted to € 2,458K in personnel costs compared to € 2,343K for the first half of the previous financial year. General operating expenses also include administrative expenses for € 2,429K net of rebillings compared with € 2,330K for the first half of 2018.

This evolution finds its explanation in several elements:

• Increase in contribution to the Single Resolution Fund;

• The disappearance of the VAT adjustment on 2014 fixed assets that ended in 2018;

• Double rating of the AFL; and

• Increase in the costs of advice and external services ; and

• The retraitement of rental paid by AFL in the context of first time application of IFRS 16 on leases , which reduces general operating expenses by € 155K.

Depreciation and amortization at June 30, 2019 amounted to € 1,146K compared to € 975K as of June 30, 2018, an increase of € 171K following the first application of IFRS 16 with € 116K of additional amortization of the right to use asset for the rental paid by AFL and the AFL's investment expenditure in its information system.

The result at June 30, 2019 includes depreciation charges of € 1,030K for the period compared with € 1,186K for the first half of 2018, which corresponds to the end of the amortization of the costs of establishing the company, but which nevertheless incorporates new depreciation charges related to AFL's investment expenditure in its information system.

After depreciation and amortization, operating income at June 30, 2019 stood at € -1 097K € compared to € -371K € for the first half of 2018.

After € -7K of cost of risk related to IFRS 9, operating income at June 30, 2019 stood at € -1 104K € compared to € -605K € for the first half of 2018.

After a deferred tax income of € 74K related to IFRS restatements, the first half of the 2019 financial year shows a loss of € 1 030K compared to a loss of € 771K for the first half of the previous financial year, a period which as indicated above was characterized by capital gains on sale of securities at a non-recurring level of € 1,305K.

Events after the end of the reporting period

No significant subsequent events occurred on the beginning of the second half 2019 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, 2019 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 the closing date, 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 2019 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).

Accounting principles applied to the financial statements

The accounting principles and methods used to prepare the interim financial statements are identical to those applied at 31 December 2018, exept for principles applicable to lease expenses, as a result of IFRS 16 first time application.

First-time application of IFRS 16
IFRS 16

IFRS 16 – Leases was adopted on 31 October 2017 by the European Union. It replaces IAS 17 – Leases and requires the recognition in the balance sheet of an asset and a liability for all leases where the company is the lessee.

Under IFRS 16, the definition of leases implies the identification of an asset on the one hand and the lessee's control of the right to use that asset on the other. From the point of view of the lessor, the treatments remain substantially unchanged from the current IAS 17 standard.
On the lessee side, operating leases and finance leases are accounted for in a single model, with recognition:

- an asset representing the right-of-use the leased property during the term of the contract,
- in exchange for a liability for the lease obligation to pay,
- a straight-line amortization of assets and degressive interest charges in the income statement.

Options retained for the first-time application of IFRS 16

AFL has elected the following options for first-time application of IFRS 16:

The application of IFRS 16 is retrospective in accordance with IAS 8, which implies applying the principles of IFRS 16 as if the standard had always been applied. However, the standard gives the choice between a fully retrospective application (including the reprocessing of the comparative periods) or a simplified approach with impact accounting only at the date of first application.

AFL opted for a simplified retrospective application with recognition of the cumulative effect of the initial application as of January 1, 2019, according to the following transition arrangements:

- application of the new definition of a lease to all contracts in progress,

- option for the exemptions proposed by IFRS 16 with the exclusion of leases with a remaining term of less than 12 month at the date of first-time application as well as low value (fixed at € 5,000).

AFL has only activated its real estate lease, retaining as a first-time application a remaining term of just over four years and the related interest rate implicit in the lease applied to lease payments including non-recoverable VAT.

Impacts of IFRS 16 on interim accounts

At January 1, 2019, AFL recognized the right-of-use as tangible asset for € 1,082m, classified as Commercial leases.
The additional lease liabilities amounted to € 1,396m and was classified in Other liabilities.
Deferred taxes are calculated on both the right-of-use and the lease liability. They generated a deferred tax asset of € 114k at the date of first application.
The net of deferred tax impact in equity of the first-time application of IFRS 16 was unsignificant and amounted to -€199K as at 1 January 2019.
The impact of the application of IFRS 16 on income statement was folowing:

(€ '000s)	**30/06/19**
Rental expenses reversed (for lease contracts under IFRS 16)	155
Amortization expenses for building right-of-use	-116
Interest charges on lease liabilities	-4
Total impact IFRS 16 in P/L	**35**

Other new accounting standards and interpretations:

IFRIC 23 - Uncertainty over Income Tax Treatments

An entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

The scope of this text is limited to income tax (current / deferred). AFL does not consider it to be a change from current practice. Today a risk is recognized upon the occurrence of a tax restoration. That is the case for the entity itself, a related entity or a recovery of position that is to say a third party entity.

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

It concerns all financial instruments representing "other interests" in an associate or joint venture that is not accounted for using the equity method, including long-term financial assets that are part of the net investment in an associate or joint venture. In the absence of a subsidiary, AFL don't apply this amendment.

IAS 19 Amendment, reduction or liquidation of a plan

It addresses the consequences of a plan amendment, curtailment or settlement on the determination of the cost of services and the net interest. The cost of services and the net interest of the post-modification, reduction or liquidation period are mandatory determined using the actuarial assumptions used to record these events. As of the closing date, AFL does not know any cases within the scope of this amendment.

AFL has not applied early the following standards and interpretations that could concern the company and of which application was not mandatory at June 30, 2019.

V - Notes to the Balance Sheet

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

	30/06/2019		31/12/2018	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Financial assets held for trading	28,586	28,746	26,299	26,747
Financial assets at fair value option through profit or loss				
Total financial assets at fair value through profit or loss	**28,586**	**28,746**	**26,299**	**26,747**

Financial assets held for trading

	30/06/2019		31/12/2018	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Equity instruments				
Debt securities				
Loans and advances				
Derivatives	28,586	28,746	26,299	26,747
Total Financial assets held for trading	**28,586**	**28,746**	**26,299**	**26,747**

	30/06/2019				31/12/2018			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**508,550**	**508,550**	**28,586**	**28,746**	**965,116**	**965,116**	**26,299**	**26,747**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**508,550**	**508,550**	**28,586**	**28,746**	**965,116**	**965,116**	**26,299**	**26,747**
Interest rate contracts	508,550	508,550	28,586	28,746	965,116	965,116	26,299	26,747
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

	30/06/2019		31/12/2018	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Derivatives designated as fair value hedges	115,366	160,471	43,441	73,474
Derivatives designated as cash flow hedges				
Derivatives designated as portfolio hedges	2,956	19,899	1,220	4,825
Total Hedging derivatives	**118,321**	**180,370**	**44,661**	**78,300**

Detail of derivatives designated as fair value hedges

	30/06/2019				31/12/2018			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**3,748,906**	**2,468,128**	**115,366**	**160,471**	**2,968,583**	**2,300,829**	**43,441**	**73,474**
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	**3,748,906**	**2,468,128**	**115,366**	**160,471**	**2,968,583**	**2,300,829**	**43,441**	**73,474**
Interest rate contracts	3,375,000	2,468,128	113,225	158,117	2,875,000	2,300,829	43,441	67,716
FRA								
Cross Currency Swaps	373,906		2,140	2,354	93,583			5,759
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	-	-	-	-	-	-	-	-

Detail of derivatives designated as interest rate hedged portfolios

	30/06/2019				31/12/2018			
	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**	**394,911**	**2,956**	**19,899**	**62,610**	**358,002**	**1,220**	**4,825**
Organised markets	-	-	-	-	-	-	-	-
Interest rate contracts								
Other contracts								
Over-the-counter markets	**62,610**	**394,911**	**2,956**	**19,899**	**62,610**	**358,002**	**1,220**	**4,825**
Interest rate contracts	62,610	394,911	2,956	19,899	62,610	358,002	1,220	4,825
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)	30/06/2019	31/12/2018
Government paper and similar securities	661,649	489,486
Bonds		13,001
Other fixed income securities		
Net amount in balance sheet	**661,649**	**502,487**
Including depreciation	(243)	(229)
Including net unrealised gains and losses	17,717	4,054

Expected credit losses on debt instruments	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 1rst January 2019	**(229)**	**-**	**-**	**-**
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	**(14)**			
Acquisitions	(46)	-	-	-
Re-estimate of parameters	(3)	-	-	-
Bad debts written off		-	-	-
On sales	35	-	-	-
Expected losses as of 30th June 2019	**(243)**	**-**	**-**	**-**

Fixed-income securities - Analysis by contreparty

(€ '000s)	30/06/2019	31/12/2018
Local public sector	621,893	445,417
Financial institutions and other financial corporations	39,756	42,070
Non-financial corporations	-	15,000
Net amount in balance sheet	**661,649**	**502,487**

Fixed income securities held on Financial institutions include € 39,756k 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 31/12/2018	Additions	Disposals	Change in fair value recognised in equity	Change in accrued interest	Prem/Disc Amort.	Total amount as of 30/06/2019
Government paper and similar securities	489,486	742,276	(584,626)	14,391	98	24	661,649
Bonds	13,001	-	(12,469)	7	(477)	(62)	-
Other fixed income securities	-	-	-	-	-	-	-
TOTAL	**502,487**	**742,276**	**(597,094)**	**14,398**	**(379)**	**(38)**	**661,649**

PORTFOLIO

Note 4 - SECURITIES AT AMORTIZED COST

Fixed-income securities - Analysis by nature

(€ '000s)	30/06/2019	31/12/2018
Government paper and similar securities	88,961	88,889
Bonds	60,090	86,262
Other fixed income securities		
Net amount in balance sheet	**149,051**	**175,152**
Including depreciation	(118)	(145)

Expected credit losses on debt instruments	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 1rst January 2019	**(145)**	**-**	**-**	**-**
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	**26**			
Acquisitions		-	-	-
Re-estimate of parameters	12	-	-	-
Bad debts written off		-	-	-
On sales	15	-	-	-
Expected losses as of 30th June 2019	**(118)**	**-**	**-**	**-**

Fixed-income securities - Analysis by contreparty

(€ '000s)	30/06/2019	31/12/2018
Local public sector	22,819	22,822
Financial institutions and other financial corporations	126,232	152,330
Non-financial corporations		
Net amount in balance sheet	**149,051**	**175,152**

Fixed income securities held on Financial institutions include € 33,282k of securities guaranteed by States of the European Economic Area.

Changes in securities at amortized cost

(€ '000s)	Total amount as of 31/12/2018	Additions	Disposals	Change in interest rate reevaluation	Change in accrued interest	Prem/Disc Amort.	Change in inccured losses	Total amount as of 30/06/2019
Government paper and similar securities	88,889	-	-	197	2	(132)	4	88,961
Bonds	86,262	-	(26,129)	89	(41)	(114)	23	60,090
Other fixed income securities	-	-	-	-	-	-	-	-
TOTAL	**175,152**	**-**	**(26,129)**	**287**	**(38)**	**(247)**	**27**	**149,051**

Note 5 - RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	30/06/2019	31/12/2018
Mandatory reserve deposits with central banks	413,489	121,654
Other deposits		
Cash and central banks	**413,489**	**121,654**
Impairment	(13)	(4)
Net amount in balance sheet	**413,476**	**121,650**

Receivables on credit institutions

(€ '000s)	30/06/2019	31/12/2018
Loans and receivables		
- on demand and short notice	89,832	7,103
- term	15,002	50,000
Cash collateral paid	88,165	52,841
Securities bought under repurchase agreements		
Total	**192,999**	**109,944**
Impairment for expected losses	(6)	(2)
Net carrying amount	**192,993**	**109,942**

Note 6 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	30/06/2019	31/12/2018
Short-term credit facilities	24,406	2,954
Other loans	2,477,683	2,227,003
Customers transactions before impairment charges	**2,502,089**	**2,229,957**
Impairment	(46)	(46)
Net carrying amount	**2,502,043**	**2,229,911**
Of which individual impairment	(46)	(46)
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 2019	**(49)**	**(2)**		
Transfers from 12-month to maturity	(0.07)	0.07		
Transfers from maturity to 12-month	(2)	2		
Transfers from expected to incurred losses				
Total transfer movment	**(2)**	**2**		
Movment attributable to financial instruments recognized over the period	**(13)**	**(1)**		
Production and acquisition	(20)			
Re-estimate of parameters	3	(1)		
Bad debts written off				
Repayments	4			
Expected losses as of 30th June 2019	**(64)**	**(1)**		

SUMMARY OF PROVISIONS ON SECURITIES, LOANS AND FINANCING COMMITMENTS

(€ '000s)	31/12/2018	Depreciation charges	Reversals amounts not used	Net charge	Utilised	30/06/2019
Financial assets at fair value through other comprehensive income						
Depreciations on performing assets	229	46	(32)	**14**		**243**
Depreciations on non-performing assets						**-**
Depreciations on doubtfull assets						**-**
Total	**229**	**46**	**(32)**	**14**		**243**
Financial assets at amortized cost						
Depreciations on performing assets	194	22	(34)	**(12)**		**182**
Depreciations on non-performing assets	2	1	(2)	**(1)**		**1**
Depreciations on doubtfull assets						**-**
Total	**196**	**22**	**(36)**	**(13)**		**182**

CLASSIFICATION OF FINANCIAL ASSETS BY RISK LEVEL

(€ '000s)	Gross amount			Depreciations			Net amount
	Buket 1	Buket 2	Buket 3	Buket 1	Buket 2	Buket 3	
Central banks	413,489			(13)			**413,476**
Financial assets at fair value through other comprehensive income	661,892			(243)			**661,649**
Securities at amortized cost	153,485			(121)			**153,364**
Loans and receivables due from credit institutions and similar items at amortized cost	193,882			(6)			**193,876**
Loans and receivables due from customers at amortized cost	2,497,893	4,196		(45)	(1)		**2,502,043**

Note 7 - DEFERRED TAX

The movement on the deferred tax account is as follows:

(€ '000s)	30/06/2019	31/12/2018
Net asset as at 1st of january	**5,671**	**5,116**
Of which deferred tax assets	5,671	5,334
Of which deferred tax liabilities		219
Recognised in income statement	**74**	**(210)**
Income statement (charge) / credit	74	(210)
Recognised in equity	**26**	**765**
Financial assets at fair value through other comprehensive income	(88)	765
Cash flow hedges		
Other	114	
Net asset as at	**5,772**	**5,671**
Of which deferred tax assets	5,772	5,671
Of which deferred tax liabilities		

Deferred tax net assets and liabilities are attributable to the following items:

(€ '000s)	30/06/2019	31/12/2018
Financial assets at fair value through other comprehensive income	458	546
Cash flow hedges		
Losses carried forward	5,031	5,031
Other temporary differences	282	94
TOTAL DEFERRED TAX ASSETS	**5,772**	**5,671**

(€ '000s)	30/06/2019	31/12/2018
Financial assets at fair value through other comprehensive income		
Cash flow hedges		
Other temporary differences		
TOTAL DEFERRED TAX LIABILITIES	**-**	**-**

Note 8 - OTHER ASSETS AND ACCRUALS

(€ '000s)	30/06/2019	31/12/2018
Other assets		
Deposits	68	68
Other assets	49	45
Impairment		
Total	**117**	**113**
Accruals		
Prepaid charges	464	213
Other deferred income	61	1
Transaction to recieve and settlement accounts		
Other accruals	35	53
Total	**560**	**267**
TOTAL OTHER ASSETS AND ACCRUALS	**677**	**380**

Note 9 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible fixed assets	31/12/2018	Additions	Transfers	Disposals	Amort.	Other	30/06/2019
Intangible fixed assets							
IT development costs	9,357	101				125	9,583
Other intangible assets	496						496
Intangible assets in progress	125	259				(125)	259
Intangible fixed assets gross amount	**9,978**	**359**	**-**	**-**	**-**	**-**	**10,337**
Depreciation and allowances - Intangible fixed assets	(6,715)				(981)		(7,697)
Intangible fixed assets net carrying amount	**3,263**	**359**	**-**	**-**	**(981)**	**-**	**2,641**

Tangible fixed assets	31/12/2018	Additions	Transfers	Disposals	Amort.	Other	30/06/2019
Commercial leases						2,095 (1)	2,095
Property, plant & equipment	817	11					828
Tangible fixed assets gross amount	**817**	**11**	**-**	**-**	**-**	**2,095**	**2,923**
Depreciation and allowances - Tangible fixed assets	(380)				(165)	(1,013) (1)	(1,557)
Tangible fixed assets net carrying amount	**437**	**11**	**-**	**-**	**(165)**	**1,082**	**1,366**

(1) These amounts result from the application of IFRS 16 as of January 1, 2019.

Note 10 - DEBT SECURITIES

(€ '000s)	30/06/2019	31/12/2018
Negotiable debt securities	140,048	
Bonds	3,616,665	2,996,909
Other debt securities		
TOTAL	**3,756,713**	**2,996,909**

Note 11 - ACCRUALS AND OTHER LIABILITIES

(€ '000s)	30/06/2019	31/12/2018
Other liabilities		
Deposits received		
Miscellaneous creditors	3,209	817
Total	**3,209**	**817**
Accruals		
Transaction to pay and settlement accounts	341	
Other accrued expenses	546	824
Unearned income		
Other accruals	33	34
Total	**920**	**858**
TOTAL ACCRUALS AND OTHER LIABILITIES	**4,128**	**1,675**

Note 12 - PROVISIONS

(€ '000s)	Balance as of 31/12/2018	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 30/06/2018
Provisions						
Financing commitment execution risks	5	8		(2)		11
Provisions for litigations						
Provisions for employee retirement and similar benefits	19	48			9	75
Provisions for other liabilities to employees						
Other provisions						
TOTAL	**23**	**55**	**-**	**(2)**	**9**	**85**

OFF-BALANCE SHEET

(€ '000s)	30/06/2019	31/12/2018
Commitments given	**281,765**	**365,646**
Financing commitments	250,560	365,646
For credit institutions		
For customers	*250,560*	*365,646*
Guarantee commitments		
For credit institutions		
For customers		
Commitments on securities	31,205	
Securities to be delivered to the issuance		
Other securities to be delivered	*31,205*	
Commitments received	**44,226**	**2,469**
Financing commitments		
From credit institutions		
Guarantee commitments	2,407	2,469
From credit institutions		
From customers	*2,407*	*2,469*
Commitments on securities	41,818	
Securities receivable	*41,818*	

Expected losses on commitments

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	5	-	-	-
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	6			
Charge *Utilised* *Reversal untilised*	8 (2)			
Expected losses as of 31 December 2018	11	-	-	-

VI - Notes to the Income Statement

Note 13 - INTEREST INCOME AND EXPENSES

(€ '000s)	30/06/2019	30/06/2018	31/12/2018
Interest and similar income	**37,006**	**28,052**	**64,339**
Due from banks	8		
Due from customers	13,394	8,815	19,754
Bonds and other fixed income securities	1,129	720	1,830
Financial assets at fair value through other comprehensive income	*1,284*	*720*	*1,957*
Securities at amortized cost	*(155)*		*(127)*
Income from interest rate instruments	22,475	18,517	42,755
Other interest income			
Interest and similar expenses	**(32,367)**	**(24,173)**	**(56,534)**
Due to banks	(484)	(945)	(1,975)
Due to customers			
Debt securities	(10,717)	(6,869)	(16,863)
Expense from interest rate instruments	(21,166)	(16,360)	(37,695)
Other interest expenses			
Interest margin	**4,639**	**3,879**	**7,805**

Note 14 - NET FEE AND COMMISSION INCOME

(€ '000s)	30/06/2019	30/06/2018	31/12/2018
Fee & Commission Income	**35**	**134**	**289**
Interbank transactions			
Customer transactions	0.3	92	178
Securities transactions			
Forward financial instruments transactions			
Currencies transactions			
Financing commitments and guarantee	35	43	111
Other commissions recieved			
Fee & Commission Expense	**(45)**	**(56)**	**(119)**
Interbank transactions	(2)	(1)	(3)
Securities transactions			
Forward financial instruments transactions	(43)	(55)	(117)
Currencies transactions			
Financing commitments and guarantee			
Other commissions paid			
Net Fee and Commission income	**(10)**	**78**	**169**

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

(€ '000s)	30/06/2019	30/06/2018	31/12/2018
Gains/(losses) on Trading book	1	(10)	(0.1)
Net result of hedge accounting	(2,568)	1,357	868
Net result of foreign exchange transactions	(0.5)	(0.4)	0.2
TOTAL	**(2,567)**	**1,346**	**868**

Analysis of net result of hedge accounting

(€ '000s)	30/06/2019	30/06/2018	31/12/2018
Fair value hedges			
Fair value changes in the hedged item attributable to the hedged risk	10,233	(15,868)	(18,948)
Fair value changes in the hedging derivatives	(10,864)	15,906	19,213
Hedging relationship disposal gain	(2,466)	1,429	871
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	14,410	1,007	2,836
Fair value changes in the hedging derivatives	(13,882)	(1,116)	(3,105)
Net result of hedge accounting	**(2,568)**	**1,357**	**868**

Note 16 - NET GAINS (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(€ '000s)	30/06/2019	30/06/2018	31/12/2018
Gains from disposal of fixed income securities	2,972	2,375	3,439
Losses from disposal of fixed income securities	(98)	(2,401)	(2,576)
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	**2,874**	**(26)**	**863**

Note 17 - GENERAL OPERATING EXPENSES

(€ '000s)	30/06/2019	30/06/2018	31/12/2018
Employee expenses			
Wages and salaries	1,592	1,509	2,970
Post-employment benefit expenses	160	155	320
Other expenses	706	679	1,268
Total Employee expenses	**2,458**	**2,343**	**4,558**
Operating expenses			
Taxes and duties	410	307	478
External services	2,070	2,071	4,092
Total Administrative expenses	**2,480**	**2,378**	**4,571**
Charge-backs and reclassification of administrative expenses	(51)	(48)	(96)
Total General operating expenses	**4,887**	**4,673**	**9,033**

Note 18 - COST OF RISK

(€ '000s)	30/06/2019	30/06/2018	31/12/2018
Net charge to provisions	(9)	(233)	(190)
for financial assets at fair value through other comprehensive income	*(14)*	*(224)*	*(86)*
for financial assets at amortized cost	*5*	*(9)*	*(104)*
Net charge to provisions	2	(1)	(2)
for financing commitments	*2*	*(1)*	*(2)*
for guarantee commitments			
Irrecoverable loans written off not covered by provisions			
Recoveries of bad debts written off			
Total Cost of risk	**(7)**	**(234)**	**(191)**

VII - Notes to Risk exposure

A - Fair value of financial instruments

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

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

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

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

Fair value of instruments carried at fair value:

(€ '000s)	30/06/2019 Total	Measured using Level 1	Level 2	Level 3
Financial assets				
Financial assets at fair value through profit or loss	**28,586**	-	28,586	-
Hedging derivative instruments	**118,321**	-	118,321	-
Government paper and similar securities	661,649	661,649	-	-
Bonds	-	-	-	-
Other fixed income securities	-	-	-	-
Total Financial assets at fair value through other comprehensive income	**661,649**	**661,649**	**-**	**-**
Total Financial assets	**808,557**	**661,649**	**146,908**	**-**
Financial liabilities				
Financial liabilities at fair value through profit or loss	**28,746**	-	28,746	-
Hedging derivative instruments	**180,370**	-	180,370	-
Total Financial liabilities	**209,115**	**-**	**209,115**	**-**

Fair values of instruments carried at amortised cost:

(€ '000s)	30/06/2019 Net Carrying value	Fair value	Measured using Level 1	Level 2	Level 3
Financial assets					
Cash, central banks and issuing institutions	**413,476**	413,476	-	-	413,476
Government paper and similar securities	88,961	88,777	88,777		
Bonds	60,090	59,979	59,979		
Other fixed income securities	-	-	-		
Securities at amortized cost	**149,051**	**148,756**	**148,756**		
Loans and receivables due from credit institutions	**192,993**	192,993	-	-	192,993
Loans and advances to customers (*)	**2,517,780**	2,517,780	-	-	2,517,780
Total Financial assets	**3,273,300**	**3,273,005**	**148,756**	**-**	**3,124,249**
Financial liabilities					
Debt securities	**3,756,713**	3,764,482	3,351,864	272,570	140,048
Total Financial liabilities	**3,756,713**	**3,764,482**	**3,351,864**	**272,570**	**140,048**

(*) 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 2019 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 30/06/2019
Cash, central banks	413,489		(13)	**413,476**
Financial assets at fair value through profit or loss	28,586			**28,586**
Hedging derivative instruments	118,321			**118,321**
Financial assets at fair value through other comprehensive income	661,649			**661,649**
Securities at amortized cost	149,169		(118)	**149,051**
Loans and receivables due from credit institutions	192,999		(6)	**192,993**
Loans and advances to customers	2,502,089		(46)	**2,502,043**
Revaluation adjustment on interest rate hedged portfolios	15,737			**15,737**
Current tax assets				
Other assets	117			**117**
Sub-total Assets	**4,082,157**	**-**	**(183)**	**4,081,974**
Financing commitments given	250,560			**250,560**
TOTAL Credit risk exposure	**4,332,716**	**-**	**(186)**	**4,332,533**

Exposure analysis by counterparty

(€ '000s)	Total 30/06/2019
Central banks	413,476
Local public sector	3,413,060
Credit institutions guaranteed by the EEA States	73,038
Credit institutions	345,366
Other financial corporations guaranteed by the EEA States	
Other financial corporations	87,525
Non-financial corporations guaranteed by the EEA States	
Non-financial corporations	68
Total Exposure by counterparty	**4,332,533**

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 30/06/2019
France	3,719,765
Supranational	235,185
Japan	105,117
Canada	86,147
Netherlands	64,800
Finland	45,450
New Zealand	26,178
China	25,629
Germany	20,769
Denmark	3,492
Total Exposure by country	**4,332,533**

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 30/06/2019
Cash, central banks	413,476				**413,476**			**413,476**
Financial assets at fair value through profit or loss		295	4,687	21,275	**26,258**	**2,328**		**28,586**
Hedging derivative instruments	694	19	51,128	63,921	**115,763**	**2,558**		**118,321**
Financial assets at fair value through other comprehensive income								
Government paper and similar securities	112,886	50,078	130,295	349,527	642,787	1,145	17,717	661,649
Bonds								
Total Financial assets at fair value through other comprehensive income	**112,886**	**50,078**	**130,295**	**349,527**	**642,787**	**1,145**	**17,717**	**661,649**
Securities at amortized cost								
Government paper and similar securities		50,604	37,841		88,445	91	425	88,961
Bonds		48,382	11,508		59,890	11	189	60,090
Total Securities at amortized cost		**98,985**	**49,349**		**148,335**	**102**	**614**	**149,051**
Loans and receivables due from credit institutions	192,993				**192,993**			**192,993**
Loans and advances to customers	113,959	172,087	647,403	1,474,240	**2,407,689**	**7,265**	**87,089**	**2,502,043**
Revaluation adjustment on interest rate hedged portfolios							**15,737**	**15,737**
Current tax assets								
Other assets	117				**117**			**117**
TOTAL ASSETS								**4,081,974**
Central banks						**115**		**115**
Financial assets at fair value through profit or loss		295	4,686	21,275	**26,256**	**2,489**		**28,746**
Hedging derivative instruments	2,706	2,063	7,278	160,095	**172,141**	**8,228**		**180,370**
Debt securities	131,319	8,730	2,333,578	1,164,288	**3,637,915**	**2,237**	**116,561**	**3,756,713**
Due to credit institutions	5				**5**			**5**
Revaluation adjustment on interest rate hedged portfolios								
Other liabilities	3,209				**3,209**			**3,209**
TOTAL LIABILITIES								**3,969,158**

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 of June 2019, 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 2019 are described into the financial report as at 30th June 2019.

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, 2019
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 : €.144,500,000

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

For the six-month period ended June 30, 2019

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, 2019 to June 30, 2019.

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, 2019 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 to the paragraph “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 16 “Leases”.

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 24th, 2019

KPMG Audit FS I

Ulrich Sarfati
Partner

Paris, September 24th, 2019

Cailliau Dedouit et Associés

Laurent Brun
Partner

II. Half-yearly financial statements prepared according to French GAAP

AGENCE FRANCE LOCALE

BALANCE SHEET

Assets as of 30th of june 2019

(€ '000s)	Notes	30/06/2019	31/12/2018
Cash and central banks	2	413,489	121,654
Government paper and similar securities	1	732,537	574,048
Receivables on credit institutions	2	104,832	57,103
Loans and advances to customers	4	2,415,000	2,221,404
Bonds and other fixed income securities	1	59,937	99,104
Equities and other variable income securities			
Investments in non-consolidated companies and other long-term investments			
Investments in consolidated companies			
Intangible assets	5	2,641	3,263
Property, plant and equipment	5	400	437
Other assets	6	88,282	52,954
Accruals	6	27,058	32,575
TOTAL ASSETS		**3,844,175**	**3,162,542**

Liabilities as of 30th of june 2019

(€ '000s)	Notes	30/06/2019	31/12/2018
Central banks		115	755
Due to banks	3	5	9
Customer borrowings and deposits			
Debt securities	7	3,653,042	2,972,985
Other liabilities	8	2,499	1,448
Accruals	8	69,244	73,128
Provisions	9	65	17
Subordinated debt			
General banking risk fund (GBRF)			
Equity (excluding GBRF)	10	**119,206**	**114,199**
Share capital		144,500	138,700
Additional paid-in capital			
Reserves and retained earnings			
Revaluation differences			
Regulated provisions and investment subsidies			
Retained earnings (+/-)		(24,501)	(22,622)
Net income for the period (+/-)		(793)	(1,878)
TOTAL LIABILITIES		**3,844,175**	**3,162,542**

INCOME STATEMENT

(€ '000s)	Notes	30/06/2019	30/06/2018	31/12/2018
+ Interest and similar income	12	37,023	28,071	64,375
- Interest and similar expenses	12	(32,380)	(24,184)	(56,547)
+ Income from variable income securities				
+ Fee and commission income	13	35	134.36	289
- Fee and commission expenses	13	(45)	(56)	(119)
+/- Net gains (losses) on held for trading portfolio	15	(2,466)	1,429	871
+/- Net gains (losses) on placement portfolio	15	3,112	(204)	673
+ Other banking income	14			
- Other banking expense	14			
NET BANKING INCOME		**5,279**	**5,189**	**9,542**
- General operating expenses	16	(5,042)	(4,674)	(9,032)
+ Other operating income				
- Depreciation and amortization	5	(1,030)	(1,186)	(2,388)
GROSS OPERATING INCOME		**(793)**	**(670)**	**(1,878)**
- Cost of risk				
OPERATING INCOME		**(793)**	**(670)**	**(1,878)**
+/- Net gains (losses) on fixed assets				
PRE-TAX INCOME ON ORDINARY ACTIVITIES		**(793)**	**(670)**	**(1,878)**
+/- Net extraordinary items				
- Income tax charge				
+/- Net allocation to FGBR and regulated provisions				
NET INCOME		**(793)**	**(670)**	**(1,878)**
Basic earnings per share		(0.55)	(0.49)	(1.35)

OFF-BALANCE SHEET

(€ '000s)

COMMITMENTS GIVEN AND RECEIVED	Notes	30/06/2019	31/12/2018
Commitments given		**281,765**	**365,646**
Financing commitments		250,560	365,646
Guarantee commitments			
Commitments on securities		31,205	
Commitments received		**44,226**	**2,469**
Financing commitments			
Commitments received from credit institutions			
Guarantee commitments		2,407	2,469
Commitments on securities		41,818	
Derivatives	11	**7,691,655**	**7,620,256**

NOTES TO THE HALF YEAR INDIVIDUAL ACCOUNTS

I - Publication context

The half-year financial statements were approved by the Board of Directors as of September 4, 2019.

II - Highlights from the first half

The first half of 2019 is once again characterized by a relatively limited demand from local authorities borrowers over the period, although increasing compared to the same period in 2018, with a production of medium and long-term loans amounting to 166.3 million euros at June 30, 2019, compared with 116.9 million euros in the first half of 2018, for 85 contracts with a weighted average maturity of 18.1 years. AFL's medium and long-term credit generation represents a market share estimated at around 25% of the financing needs of AFL Group members.

During the first half of the year, AFL issued 3 bond for a total of 633.6 million euros. Following the renewal of a $ 100 million USD 2-year private placement, AFL successfully completed its fifth benchmark bond issue in late May for 500 million euros at 7 years at 32 basis points against OAT, whose distribution has demonstrated interest and understanding by investors for its business model and a high level of confidence in the development of its activities, which is confirmed by the AFL's double rating by Moody's and Standard & Poor's rating agencies.

Finally, the AFL continued to execute its borrowing program for 2019 with a 15-year private placement issued in Swedish krona for an amount of SEK 500 million.

During the first half of 2019, AFL's capital raised by € 5.8 million to € 144.5 million following two capital increases exclusively subscribed by its parent company, Société Territoriale, which itself has increased its capital in two times allowing 18 new local authorities to become members of the AFL Group, rising to 310 the total number of shareholders at June 30, 2019.

The first half of 2019 marks a further increase in net banking income related to the lending activity, which is in line with the Company's development path according to his 2017-2021 strategic plan. The net banking income generated by the activity amounted to € 5,279K. It corresponds to an interest margin of € 4,643K, net capital gains on investment securities disposal of € 409K after taking into account the result of hedging accounting, which relates to the management of the liquidity reserve, commission expenses of € 10K and a reversal on impairment of investment securities of € 237K.

These results are comparable to those of the first half of 2018, after which the net banking income amounted to € 5,189K, mainly corresponding to a net interest margin of € 3,887K, and capital gains on the investment securities of € 1,305K after taking into account the result of hedge accounting, income from commissions of € 78K and impairment of investment securities of € 178K.

The interest margin of € 4,643K as of 30 june 20191 comes from three items:
- an income of € 4,153K from the loan portfolio once restated to hedge accounting;
- a negative income of € -1,186K from the management of the cash reserve, in a context of deep negative interest rates;
- a positive income of € 1,676K associated to interest charges given the reasons stated above, net of hedge accounting.

During the first half of the year, the portfolio management of the liquidity reserve generated € 2,874K income on the sale of investment securities and € 2,466K in the loss on the cancellation of interest rate hedging instruments on securities which have been the subject of disposals, ie a net amount of gains of disposals of € 409K which breaks down into € 138K of capital losses on disposals and € 547K of capital gains on disposals.

At June 30, 2019, general operating transfer, after deducting recharges of administrative expenses, amounted to € 5,042K compared to € 4,674K as at June 30, 2018. They amounted to € 2,458K in personnel costs compared to € 2,343K for the first half of the previous financial year and € 2,584K for the administrative expenses compared with € 2,330K for the first half of 2018.

This evolution finds its explanation in several elements:

- Increase in contribution to the Single Resolution Fund;
- The disappearance of the VAT adjustment on 2014 fixed assets that ended in 2018;
- The additional cost related to the double rating of the AFL; and
- Increase in the costs of advice and external services.

Regarding to the administrative expenses transfer, there is an increase in the latter related to the double rating of debt issues.

The result at June 30, 2019 includes depreciation charges of € 1,030K for the period compared with € 1,186K for the first half of 2018, which corresponds to the end of the amortization of the costs of establishing the company, but which nevertheless incorporates new depreciation charges related to AFL's investment expenditure in its information system.

After depreciation and amortization, operating income at June 30, 2019 stood at € -793K € compared to € -670K € for the first half of 2018.

As at June 30, 2019, AFL's net result shows a loss of € 793K compared to a loss of € 670K for the first half of the previous financial year, a period which as indicated above was characterized by capital gains on sale of securities at a non-recurring level of € 1,305K.

Events after the end of the reporting period

No significant subsequent events occurred on the beginning of the second half 2019 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 :
- Ongoing concern principle,
- Segregation of accounting periods,
- Consistency of methods.

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

The accounting principles and methods applied in drawing up these half-yearly financial statements are identical to those applied at 31 December 2018.

Identity of the parent company consolidating the accounts of the Agence as of June 30, 2019

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

IV - Notes to the Balance Sheet

Note 1 - PORTFOLIO

(€ '000s)

30/06/2019	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	731,303	59,937		791,240
Unlisted securities				-
Accrued interest	1,236	11		1,247
Impairment	(3)	(11)		(13)
Net carrying amount	**732,537**	**59,937**	**-**	**792,473**
Residual net Premium/Discount	1,481	(80)		1,401

31/12/2018				
Fixed or variable income securities				
Listed securities	573,027	98,711		671,737
Unlisted securities				-
Accrued interest	1,136	529		1,665
Impairment	(115)	(136)		(251)
Net carrying amount	**574,048**	**99,104**	**-**	**673,151**
Residual net Premium/Discount	(734)	565		(169)

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 30/06/2019	Total 31/12/2018
Government paper and similar securities								
Net amount	112,886	100,751	168,136	349,527	731,300	1,236	732,537	574,048
NET CARRYING AMOUNT	**112,886**	**100,751**	**168,136**	**349,527**	**731,300**	**1,236**	**732,537**	**574,048**
Bonds and other fixed income securities								
Net amount	-	48,418	11,508	-	59,926	11	59,937	99,104
NET CARRYING AMOUNT	**-**	**48,418**	**11,508**	**-**	**59,926**	**11**	**59,937**	**99,104**

Analysis by type of portfolio

Portfolio *(€ '000s)*	Gross amount 31/12/2018	Additions	Disposals	Transfers	Prem/Disc Amort.	Change in accrued interest	Impairment	Total 30/06/2019	Unrealized gains/(losses)
Transaction									
Held-for-sale	673,151	742,276	(622,489)		(285)	(418)	237	792,473	17,918
Investment									
NET CARRYING AMOUNT	**673,151**	**742,276**	**(622,489)**	**-**	**(285)**	**(418)**	**237**	**792,473**	**17,918**
Of which Premium/Discount	(169)	4,117	(2,262)		(285)			1,401	

Note 2 -RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	30/06/2019	31/12/2018
Mandatory reserve deposits with central banks	413,489	121,654
Other deposits		
Cash and central banks	**413,489**	**121,654**

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 30/06/2019	Total 31/12/2018
Credit institutions								
Loans and receivables								
- demand	89,830				89,830	2	89,830	7,103
- time	15,000				15,000	1	15,001	50,000
Securities bought under repurchase agreements								
TOTAL	**104,830**	**-**	**-**	**-**	**104,830**	**2**	**104,831**	**57,103**
Impairment								
NET CARRYING AMOUNT	**104,830**	**-**	**-**	**-**	**104,830**	**2**	**104,831**	**57,103**

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 30/06/2019	Total 31/12/2018
Credit institutions								
Accounts and Overdrafts								
- demand	5				5		5	9
- time								
Securities sold under repurchase agreements								
TOTAL	**5**	**-**	**-**	**-**	**5**	**-**	**5**	**9**

Note 4 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	30/06/2019	31/12/2018
Short-term credit facilities	24,406	2,954
Other loans	2,390,595	2,218,449
Customers transactions before impairment charges	**2,415,000**	**2,221,404**
Impairment		
Net carrying amount	**2,415,000**	**2,221,404**
Of which related receivables	7,265	5,130
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 30/06/2019
Loans and advances to customers	113,959	52,782	119,351	647,403	1,474,240	**2,407,735**	**7,265**	**2,415,000**

Note 5 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible assets	31/12/2018	Additions	Transfers	Disposals	Amort.	Impairments	Other movements	30/06/2019
Intangible assets	**11,976**	**101**					**125**	**12,202**
Start-up costs	2,123							2,123
IT development costs	9,357	101					125	9,583
Software	468							468
Web site	28							28
Intangible assets in progress	**125**	**259**					**(125)**	**259**
Intangible assets amortisation	**(8,838)**				**(981)**			**(9,819)**
Net carrying amount	**3,263**	**359**			**(981)**			**2,641**

Property, plant & equipment	31/12/2018							30/06/2019
Property, plant & equipment	817	11						828
Tangible assets in progress								-
Tangible assets amortization	(380)				(48)			(428)
Net carrying amount	**437**	**11**			**(48)**			**400**

Note 6 - OTHER ASSETS AND ACCRUALS

(€ '000s)	30/06/2019	31/12/2018
Other assets		
Cash collateral paid	88,233	52,909
Other assets	49	45
Impairment		
Net carrying amount	**88,282**	**52,954**
Accruals		
Deferred charges on bond issues	15,166	10,203
Deferred charges on hedging transactions	5,780	6,459
Prepaid charges	464	213
Accrued interest not yet due on hedging transactions	5,587	15,698
Other deferred income	61	1
Other accruals		
TOTAL	**27,058**	**32,575**

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 30/06/2019	Total 31/12/2018
Negotiable debt securities	131,810	8,787			140,598		140,598	
Bonds			2,337,873	1,172,334	3,510,207	2,237	3,512,445	2,972,985
Other debt securities					-		-	
TOTAL	**131,810**	**8,787**	**2,337,873**	**1,172,334**	**3,650,805**	**2,237**	**3,653,042**	**2,972,985**

Note 8 - OTHER LIABILITIES and ACCRUALS

(€ '000s)	30/06/2019	31/12/2018
Other liabilities		
Cash collateral received		
Miscellaneous creditors	2,499	1,448
TOTAL	**2,499**	**1,448**
Accruals		
Transaction to pay and settlement accounts	341	
Premium EMTN issue	2,276	2,501
Unrealised gains on hedging instruments	54,594	52,307
Unearned income		
Accrued expenses on hedging instruments	11,418	11,881
Other accrued expenses		
Other accruals	614	6,439
TOTAL	**69,244**	**73,128**

Note 9 - PROVISIONS

(€ '000s)	Balance as of 31/12/2018	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 30/06/2019
Provisions						
Financing commitment execution risks						
Provisions for other litigations						
Provisions for employee retirement and similar benefits	17	48	-	-	-	65
Provisions for other liabilities to employees						
Other provisions						
TOTAL	**17**	**48**	**-**	**-**	**-**	**65**

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 31/12/2017	**132,500**	**-**	**-**	**-**	**-**	**-**	**(22,769)**	**146**	**109,878**
Change in share capital	6,200								6,200
Change in share premium and reserves									
Allocation of 2017 net profit							146	(146)	
Net income as of 31/12/2018								(1,878)	(1,878)
Other changes									
Balance as of 31/12/2018	**138,700**	**-**	**-**	**-**	**-**	**-**	**(22,622)**	**(1,878)**	**114,199**
Dividend paid for 2017									
Change in share capital	5,800 (1)								5,800
Change in share premium and reserves									
Allocation of 2018 net profit							(1,878)	1,878	
Net income as of 30/06/2019								(793)	(793)
Other changes									
Balance as of 30/06/2019	**144,500**	**-**	**-**	**-**	**-**	**-**	**(24,501)**	**(793)**	**119,206**

(1) The share capital of Agence France Locale which amounts on June 30th, 2019 to € 144,500,000 consists of 1,445,000 shares. The Agence carried out two capital increases during the first year-half 2019 subscribed on 27th February 2019 to € 3,500k, and on 23th May 2019 for € 2,300k.

Note 11 - DERIVATIVES

Outstanding notional and Fair value

	30/06/2019				31/12/2018			
	Hedging transactions		Non-hedging transactions		Hedging transactions		Non-hedging transactions	
(€ '000s)	Outstanding notional	Fair value	Outstanding notional	Fair value	Outstanding notional	Fair value	Outstanding notional	Fair value
FIRM TRANSACTIONS	**6,674,555**	**(62,049)**	**1,017,100**	**(159)**	**5,690,024**	**(33,639)**	**1,930,232**	**(448)**
Organised markets	-	-	-	-	-	-	-	-
Interest rate contracts								
Other contracts								
Over-the-counter markets	**6,674,555**	**(62,049)**	**1,017,100**	**(159)**	**5,690,024**	**(33,639)**	**1,930,232**	**(448)**
Interest rate contracts	6,300,649	(61,835)	1,017,100	(159)	5,596,441	(27,880)	1,930,232	(448)
FRA								
Cross Currency Swaps	373,906	(213)			93,583	(5,759)		
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 30/06/2019	6,217,034	(€ '000s)
Amount of macro-hedge transaction as of 30/06/2019	457,521	(€ '000s)
Amount of trading transaction as of 30/06/2019	1,017,100	(€ '000s)

Notional amount by maturity

	30/06/2019					
	Hedging transactions			Non-hedging transactions		
(€ '000s)	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	**372,445**	**2,665,497**	**3,636,613**	**34,000**	**399,700**	**583,400**
Organised markets	-	-	-	-	-	-
Interest rate contracts						
Other contracts						
Over-the-counter markets	**372,445**	**2,665,497**	**3,636,613**	**34,000**	**399,700**	**583,400**
Interest rate contracts	132,117	2,578,691	3,589,840	34,000	399,700	583,400
FRA						
Cross Currency Swaps	240,328	86,806	46,773			
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)	30/06/2019	30/06/2018	31/12/2018
Interest and similar income	**37,023**	**28,071**	**64,375**
Due from banks	7		
Due from customers	13,412	8,834	19,790
Bonds and other fixed income securities	1,129	720	1,830
from Held-for-sale securities	*1,129*	*720*	*1,830*
from Investment securities			
Income from interest rate instruments	22,475	18,517	42,755
Other interest income			
Interest and similar expenses	**(32,380)**	**(24,184)**	**(56,547)**
Due to banks	(480)	(937)	(1,953)
Due to customers			
Debt securities	(10,717)	(6,869)	(16,863)
Expense from interest rate instruments	(21,183)	(16,378)	(37,731)
Other interest expenses			
Interest margin	**4,643**	**3,887**	**7,828**

Note 13 - Net fee and commission income

(€ '000s)	30/06/2019	30/06/2018	31/12/2018
Commission income	**35**	**134**	**289**
Interbank transactions			
Customer transactions	35	134	289
Securities transactions			
Forward financial instruments transactions			
Currencies transactions			
Financing commitments and guarantee			
Other commissions recieved			
Commission expenses	**(45)**	**(56)**	**(119)**
Interbank transactions	(2)	(1)	(3)
Securities transactions			
Forward financial instruments transactions	(43)	(55)	(117)
Currencies transactions			
Financing commitments and guarantee			
Other commissions paid			
Net fee and commission income	**(10)**	**78**	**169**

Note 14 - Analysis of gains and losses on portfolio transactions

(€ '000s)	**30/06/2019**	**30/06/2018**	**31/12/2018**
Gains/(losses) on Trading book			
Gains/(losses) on forward financial instruments	(2,466)	1,429	871
Gains/(losses) on foreign currency transactions			
Gains or (losses) on trading portfolio	**(2,466)**	**1,429**	**871**
Gains/(losses) from disposal of held-for-sale securities	2,874	(26)	863
Other income/(expenses) from held-for-sale securities			
Impairment (charges) and reversals on held-for-sale securities	237	(178)	(190)
Gains or (losses) on held-for-sale portfolio	**3,112**	**(204)**	**673**

Note 15 - General operating expenses

(€ '000s)	**30/06/2019**	**30/06/2018**	**31/12/2018**
Employee expenses			
Wages and salaries	1,544	1,509	2,970
Post-employment benefit expenses	160	155	320
Other expenses	754	679	1,268
Total Employee expenses	**2,458**	**2,343**	**4,558**
Operating expenses			
Taxes and duties	410	307	478
External services	2,924	2,511	4,552
Total Administrative expenses	**3,333**	**2,817**	**5,030**
Charge-backs and reclassification of administrative expenses	(749)	(487)	(556)
Total General operating expenses	**5,042**	**4,674**	**9,032**

Note 16 - Income tax charge

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

Tax losses amounting to €24.2m at 2019 half-year closing were not recognised as deferred tax assets.

Note 17 - Related parties

There are, on 30 June 2019, 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 S.A.

Statutory Auditors' Review Report on the interim condensed financial statements

For the six-month period ended June 30, 2019
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 : €.144,500,000

Statutory Auditors' Review Report
on the interim condensed financial statements

For the six-month period ended June 30, 2019

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, 2019 to June 30, 2019,
- 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 do not give a true and fair view of the assets and liabilities and of the financial position of the company as at June 30, 2019, and of the results of its operations for the six-month period then ended, in accordance with the accounting rules and principles applicable in France.

II. Specific verification

We have also verified the information presented in the half-yearly management report on the 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 24th, 2019

KPMG Audit FS I

Ulrich Sarfati
Partner

Paris, September 24th, 2019

Cailliau Dedouit et Associés

Laurent Brun
Partner