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

BALANCE SHEET

Assets as of June 30, 2018

(€ '000s)	Notes	30/06/2018	01/01/2018	31/12/2017
Cash, central banks	4	590,371	420,338	420,351
Financial assets at fair value through profit or loss	1	21,220	13,711	13,711
Hedging derivative instruments	2	24,692	15,629	15,629
Financial assets at fair value through other comprehensive income	3	665,253	363,554	
Available-for-sale financial assets				363,554
Securities at amortized cost				
Loans and receivables due from credit institutions and similar items at amortized cost	4	229,190	281,735	213,433
Loans and receivables due from customers at amortized cost	5	1,644,988	1,430,802	1,430,829
Revaluation adjustment on interest rate risk-hedged portfolios		43		
Held-to-maturity financial assets				
Current tax assets		33	25	25
Deferred tax assets	6	5,298	5,343	5,330
Accruals and other assets	7	622	348	68,657
Intangible assets	8	3,850	4,689	4,689
Property, plant and equipment	8	449	471	471
Goodwill				
TOTAL ASSETS		**3,186,010**	**2,536,643**	**2,536,678**

Liabilities as of June 30, 2018

(€ '000s)	Notes	30/06/2018	01/01/2018	31/12/2017
Central banks		596	368	368
Financial liabilities at fair value through profit or loss	1	21,629	14,267	14,267
Hedging derivative instruments	2	67,204	61,841	61,841
Due to credit institutions	9	2,969,446	2,335,802	2,335,802
Due to banks		11		
Debt securities				
Revaluation adjustment on interest rate hedged portfolios			963	963
Current tax liabilities				
Deferred tax liabilities	6		278	278
Accruals and other liabilities	10	1,822	2,172	2,172
Provisions	11	22	22	19
Equity		**125,280**	**120,930**	**120,968**
Equity, Group share		**125,280**	**120,930**	**120,968**
Share capital and reserves		144,314	138,500	138,500
Consolidated reserves		(18,317)	(17,893)	(17,665)
Reevaluation reserve				
Gains and losses recognised directly in equity		50	747	557
Profit (loss) for the period		(767)	(423)	(423)
Non-controlling interests				
TOTAL LIABILITIES		**3,186,010**	**2,536,643**	**2,536,678**

Income statement

(€ '000s)	Notes	30/06/2018	30/06/2017	31/12/2017
Interest and similar income	12	28,076	16,721	38,342
Interest and similar expenses	12	(24,173)	(13,524)	(31,789)
Fee & Commission Income	13	134	29	73
Fee & Commission Expense	13	(60)	(44)	(95)
Net gains (losses) on financial instruments at fair value through profit or loss	14	1,346	545	141
Net gains or losses on financial instruments at fair value through other comprehensive income	15	(26)	1,636	4,051
Income on other activities				
Expenses on other activities				
NET BANKING INCOME		**5,297**	**5,364**	**10,722**
Operating expenses	16	(4,689)	(4,355)	(8,653)
Net depreciation, amortisation and impairments of tangible and intangible assets	8	(975)	(937)	(1,914)
GROSS OPERATING INCOME		**(368)**	**72**	**156**
Cost of risk	17	(234)		
OPERATING INCOME		**(601)**	**72**	**156**
Net gains and losses on other assets				
INCOME BEFORE TAX		**(601)**	**72**	**156**
Income tax	6	(166)	(113)	(579)
NET INCOME		**(767)**	**(41)**	**(423)**
Non-controlling interests				
NET INCOME GROUP SHARE		**(767)**	**(41)**	**(423)**
Basic earnings per share (in EUR)		(0.53)	(0.03)	(0.31)
Diluted earnings per share (in EUR)		(0.53)	(0.03)	(0.31)

Net income and other comprehensive income

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Net income	**(767)**	**(41)**	**(423)**
Items will be reclassified subsequently to profit or loss	**(697)**	**(213)**	**266**
Revaluation of financial assets at fair value through other comprehensive income recyclable to income	(1,097)	(296)	431
Other items recognized through other comprehensive income recyclable to income			
Related taxes	400	82	(165)
Elements not recyclable in profit or loss	**-**	**-**	**-**
Revaluation in respect of defined benefit plans			
Other items recognized through other comprehensive income not recyclable to income			
Related taxes			
Total gains and losses recognized directly in equity	**(697)**	**(213)**	**266**
COMPREHENSIVE INCOME	**(1,464)**	**(255)**	**(157)**

Consolidated statement of changes in equity

(€ '000s)	Capital	Associated reserves to capital	Consolidated reserves	Gains and losses recognized directly in comprehensive income – Recyclable: Net change in fair value of Financial assets at fair value through other comprehensive income, after tax	Gains and losses recognized directly in comprehensive income – Recyclable: Net change in fair value of cash flow hedging derivatives, after tax	Gains and losses recognized directly in comprehensive income – Not recyclable: Revaluation in respect of defined benefit plans	Gains and losses recognized directly in comprehensive income – Not recyclable: Other items recognized through other comprehensive income not recyclable to income	Net income, Group share	Share-holders' equity - Group share	Share-holders'equity, non-controlling interests	Total share-holders equity
Shareholders' equity at at 1 january 2017	**115,891**	**-**	**(14,314)**	**291**	**-**	**-**	**-**	**(3,352)**	**98,517**	**1**	**98,518**
Increase in share capital	22,609								22,609		22,609
Elimination of treasury shares											
Allocation of profit 2016			(3,352)					3,352	-		-
Dividends 2016 paid											
Sub-total of changes linked to transactions with shareholders	**22,609**	**-**	**(3,352)**	**-**	**-**	**-**	**-**	**3,352**	**22,609**	**-**	**22,609**
Change in fair value through equity				716					716		716
Change in value of through profit or loss				(285)					(285)		(285)
Changes in actuarial gains on retirement benefits											-
Related taxes				(165)					(165)		(165)
Changes in gains and losses recognized directly in equity	**-**	**-**	**-**	**266**	**-**	**-**	**-**	**-**	**266**	**-**	**266**
2017 Net income								(423)	(423)		(423)
Sub-total	**-**	**-**	**-**	**266**	**-**	**-**	**-**	**(423)**	**(157)**	**-**	**(157)**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 31 december 2017	**138,500**	**-**	**(17,665)**	**557**	**-**	**-**	**-**	**(423)**	**120,968**	**-**	**120,969**
Impact of changes in IFRS 9 accounting policies			(228)	190					(38)		(38)
Shareholders' equity at 1 january 2018	**138,500**	**-**	**(17,894)**	**747**	**-**	**-**	**-**	**(423)**	**120,929**	**-**	**120,930**
Increase in share capital	5,814 (1)								5,814		5,814
Elimination of treasury shares											
Allocation of profit 2017			(423)					423			
Dividends 2017 paid											
Sub-total of changes linked to transactions with shareholders	**5,814**	**-**	**(423)**	**-**	**-**	**-**	**-**	**423**	**5,814**	**-**	**5,814**
Changes in fair value through equity				(882)					(882)		(882)
Change in value of through profit or loss				(214)					(214)		(214)
Changes in actuarial gains on retirement benefits											
Related taxes				400					400		400
Changes in gains and losses recognized directly in equity	**-**	**-**	**-**	**(697)**	**-**	**-**	**-**	**-**	**(697)**	**-**	**(697)**
2018 Net income								(767)	(767)		(767)
Sub-total	**-**	**-**	**-**	**(697)**	**-**	**-**	**-**	**(767)**	**(1,464)**	**-**	**(1,464)**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 30 June 2018	**144,314**	**-**	**(18,317)**	**50**	**-**	**-**	**-**	**(767)**	**125,280**	**-**	**125,280**

(1) The share capital of Société Terrioriale - which amounts on June 30th, 2018 to € 144,314,000 consists of 1,443,140 shares. The Agence carried out two capital increases during the first year-half 2018 subscribed on 14th February 2018 to € 3,482k, and on 23th May 2018 for € 2,332k.

Cash flow statement

(€ '000s)	30/06/2018	31/12/2017
Net income before taxes	**(601)**	**156**
+/- Net depreciation and amortisation of tangible and intangible non-current assets	975	1,914
+/- Net provisions and impairment charges		(488)
+/- Expense/income from investing activities	(1,198)	(5,395)
+/- Expense/income from financing activities	257	396
+/- Other non-cash items	623	3,330
= Non-monetary items included in net income before tax and other adjustments	**658**	**(244)**
+/- Cash from interbank operations		
+/- Cash from customer operations	(208,174)	(545,512)
+/- Cash from financing assets and liabilities	10,454	(22,621)
+/- Cash from not financing assets and liabilities	(49)	21
- Income tax paid		
= Decrease/(increase) in cash from operating activities	(197,768)	(568,112)
= CASH FLOW FROM OPERATING ACTIVITIES (A)	**(197,711)**	**(568,200)**
+/- Flows linked to financial assets and investments	(298,529)	(53,142)
+/- Flows linked to investment properties		
+/- Flows linked to tangible and intangible non-current assets	(114)	(520)
= CASH FLOW FROM INVESTING ACTIVITIES (B)	**(298,643)**	**(53,662)**
+/- Cash from or for shareholders	5,342	22,980
+/- Other cash from financing activities	613,373	1,099,684
= CASH FLOW FROM FINANCING ACTIVITIES (C)	**618,715**	**1,122,664**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)		
Increase/(decrease) in cash equivalents (A + B+ C + D)	**122,360**	**500,801**
Cash flow from operating activities (A)	(197,671)	(568,200)
Cash flow from investing activities (B)	(298,643)	(53,662)
Cash flow from financing activities (C)	618,715	1,122,664
Effect of changes in exchange rates on cash and cash equivalents (D)		
Cash and cash equivalents at the beginning of the period	**583,785**	**82,983**
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	583,785	82,983
Cash and cash equivalents at the end of the period	**706,185**	**583,785**
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	706,185	583,785
CHANGE IN NET CASH	**122,401**	**500,801**

NOTES TO THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

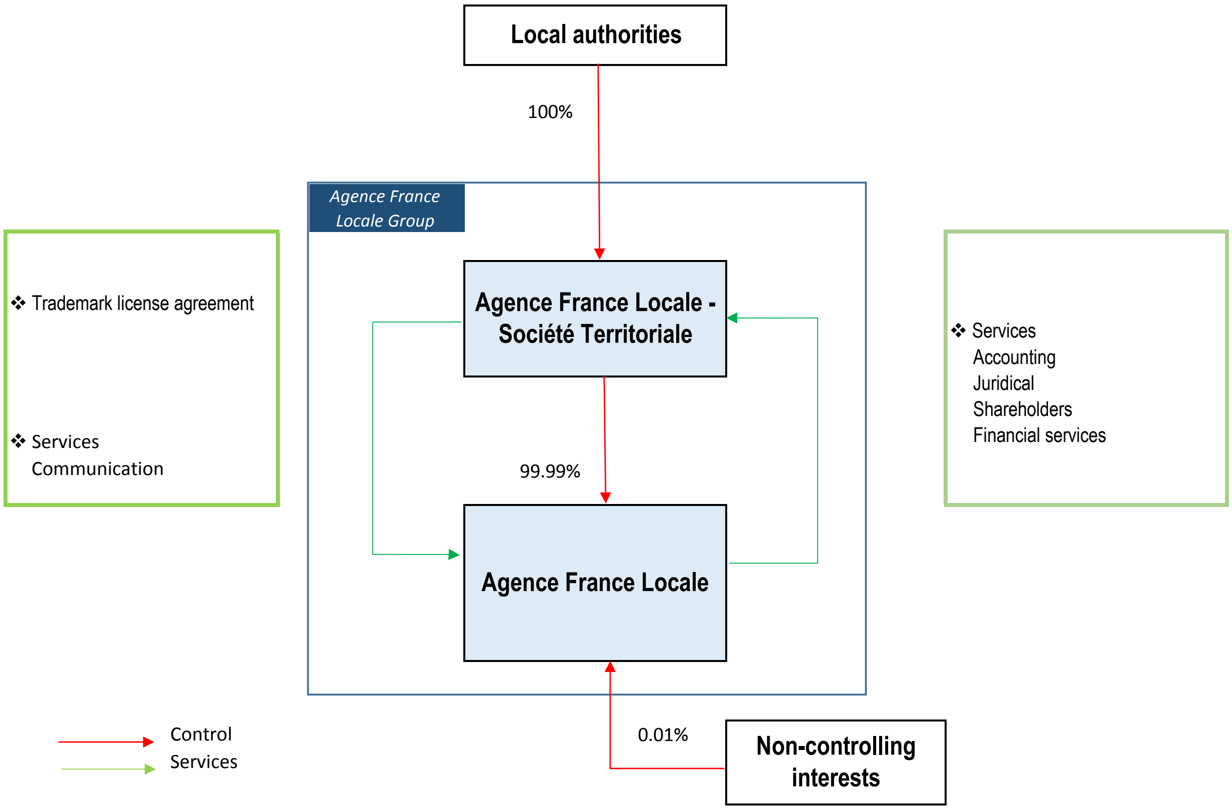
General framework

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 that the membership of the Group AFL. The AFL ST is the parent company of the Agence. Agence is a limited company with an Executive Board and a Supervisory Board.

The diagram below shows the structure of the AFL group:



I - Publication context

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

II - Highlights from the first half

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

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

In the first half of 2018, Société Territoriale's capital raised by €5.8 million to €144.3 million following two capital increases exclusively subscribed by its parent company, Société Territoriale. Following these transactions, the total number of shareholders of Agence France Locale Group has been increased to 259.

In the first half of 2018, the net banking income generated by the business amounted to €5,297k as compared to €5,364k at 30 June 2017 which included capital gains on sales of €2,343k. It mainly corresponds to an interest margin of €3,903k, up from €3,197k recorded over the first half of the previous year, a net capital gains on investment securities disposal of €1,305k after taking in the account of the result of the hedging relationship, €74k of commission income and a result of negative hedge revaluations of €-73k.

The interest margin of €3,903k comes from three items: firstly, an income of €3,672k from the loan portfolio;
secondly, a negative income of €-1,481k from the management of the cash reserve, in a context of deep negative interest rates; and lastly, a positive income of €1,712k associated to interest charges given the reasons stated above, net of hedge accounting.

The €26k capital losses on securities disposals came from the portfolio management of the liquidity reserve over the period. These securities disposals resulted in the termination of interest rate hedges for €1,331k, generating net capital gains of €1,305k for the period.

Net income from hedge accounting came to €1,357k. It comes from two items. First of all, It comes from the sale of interest rate hedging of fixed-income securities and loans reimbursed in advance for €1,430k and secondly €-73k which represents, for instruments still in portfolio at the reporting date, the sum related to unrealized valuation differences between hedged items and hedging instruments. Among these differences, €-110k relate to valuation differential charges on instruments classified as macro-hedges and €37k of products relate to valuations of instruments classified as micro-hedges. This hedge accounting result comes from an accounting practice that leads to an asymmetry in the valuation, on the one hand, of hedging instruments collateralised daily, discounted on the basis of an Eonia curve, and, on the other, of hedged items, discounted on the basis of a Euribor curve, which, pursuant to IFRS standards, leads to the recognition of a hedging ineffectiveness that is recorded in the income statement. However, it should be noted that this corresponds to latent income.

As at 30 June 2018, general operating expenses came to €4,689k as compared to €4,355k as at June 30, 2017. They include €2,465k of personnel expenses, down from €2,575k for the first half of 2017. Administrative expenses amounting to €2,224k remain comparable to €1,813k in the first half of the previous financial year, after restating on June 30, 2017 the effect of a €488k reversal of provisions for risks and charges.

After depreciation, amortization and provisions, amounting to €975k compared with €937k as at June 30, 2017, operating income came to €-368k compared to €72k for the first half of the previous year.

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

After a deferred tax expense of €169 related to the consolidation adjustments, the first half of the 2018 financial year shows a negative net income of €767k, compared with €-41k over the same period during the previous year.

Subsequent events

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

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

The preparation of the financial statements involves making assumptions and estimates that may or may not prove accurate in the future. These estimates, which are based on the information available as at 30 June 2018, call upon the judgement of managers and the parties involved in preparing the financial statements, particularly where assessing the fair value of financial instruments is concerned.

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

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

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

IV - Accounting principles

Application of IFRS basis

In accordance with IFRS 1 "First-time Adoption of IFRS" and pursuant to European Regulation 1606/2002 of July 19, 2002, the financial statements for first year-half 2018 are presented in compliance with the IFRS (International Financial Reporting Standards) published by and as approved by the European Union and in force on that date. The IFRS framework includes IFRS standards and also include International Accounting Standards (IAS) and related interpretations issued by the International Financial Reporting Interpretations Committee) et SIC (Standing Interpretations Committee).

The format used for the summary financial statements is a banking format. It is consistent with Recommendation No. 2017-02 of 2 June 2017 of the French Accounting Standards Authority (Autorité des normes comptables).

IFRS 15 - Revenue from contracts with customers

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

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

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

First-time application of IFRS 9

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

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

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

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

Classification and measurement

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

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

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

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

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

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

Impairment

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

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

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

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

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

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

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

The impairment of expected credit losses on the liquidity reserve had no impact on the opening equity balance. Ex-ante depreciations on financial assets at fair value through equity do not change the net amount of the assets on the balance sheet; The impairment recorded in the opening balance sheet amounting to €-190k only result in an internal transfer to shareholders 'equity, on the one hand, the gains and losses recognized directly in other comprehensive income and the retained earnings, the other.

Hedge accounting

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

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

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

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

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

New accounting standards and interpretations:

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

IFRS 16 - Leases

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

Table of effects related to IFRS 9 first application

	IAS 39 Balance sheet as of 31 December 2017	Reclassifications	Total after Reclassifications	Impact of changes in IFRS 9 accounting policies		IFRS 9 Balance sheet as of 1st January 2018	
				Valuation	Value adjustment for credit losses		
(€ '000s) IAS 39							*(€ '000s) IFRS 9*
Cash, central banks	420,351		420,351		(13)	420,338	Cash, central banks
Financial assets at fair value through profit or loss	13,711		13,711			13,711	Financial assets at fair value through profit or loss
Hedging derivative instruments	15,629		15,629			15,629	Hedging derivative instruments
		363,554	363,554			363,554	Financial assets at fair value through other comprehensive income
Available-for-sale financial assets	363,554	(363,554)	-			-	
			-			-	Securities at amortized cost
Loans and receivables due from credit institutions	213,433	68,310	281,743		(8)	281,735	Loans and receivables due from credit institutions
Loans and advances to customers	1,430,829		1,430,829		(27)	1,430,802	Loans and advances to customers
Revaluation adjustment on interest rate hedged portfolios	-		-			-	Revaluation adjustment on interest rate hedged portfolios
Held-to-maturity financial assets	-		-			-	
Current tax assets	25		25			25	Current tax assets
Deferred tax assets	5,330		5,330		13	5,343	Deferred tax assets
Accruals and other assets	68,657	(68,310)	348			348	Accruals and other assets
Intangible assets	4,689		4,689			4,689	Intangible assets
Property, plant and equipment	471		471			471	Property, plant and equipment
Goodwill						-	Goodwill
TOTAL ASSETS	**2,536,678**	**-**	**2,536,678**	**-**	**(36)**	**2,536,643**	**TOTAL ASSETS**

	IAS 39 Balance sheet as of 31 December 2017	Reclassifications	Total after Reclassifications	Impact of changes in IFRS 9 accounting policies		IFRS 9 Balance sheet as of 1st January 2018	
				Valuation	Value adjustment for credit losses		
(€ '000s) IAS 39							*(€ '000s) IFRS 9*
Central banks	368		368			368	Central banks
Financial liabilities at fair value through profit or loss	14,267		14,267			14,267	Financial liabilities at fair value through profit or loss
Hedging derivative instruments	61,841		61,841			61,841	Hedging derivative instruments
Due to credit institutions	2,335,802		2,335,802			2,335,802	Due to credit institutions
Due to customers	-		-			-	Due to customers
Debt securities	-		-			-	Debt securities
Revaluation adjustment on interest rate hedged portfolios	963		963			963	Revaluation adjustment on interest rate hedged portfolios
Current tax liabilities	-		-			-	Current tax liabilities
Deferred tax liabilities	278		278			278	Deferred tax liabilities
Accruals and other liabilities	2,172		2,172			2,172	Accruals and other liabilities
Provisions	19		19		3 [(1)]	21.48	Provisions
Equity	**120,968**		**120,968**		**(38)**	**120,930**	**Equity**
Equity, Group share	**120,968**		**120,968**		**(38)**	**120,930**	**Equity, Group share**
Share capital and reserves	138,500		138,500			138,500	Share capital and reserves
Consolidated reserves	(17,665)		(17,665)		(228)	(17,893)	Consolidated reserves
Reevaluation reserve	-		-			-	Reevaluation reserve
Gains and losses recognised directly in equity	557		557		190	747	Gains and losses recognised directly in equity
Profit (loss) for the period	(423)		(423)			(423)	Profit (loss) for the period
Non-controlling interests	-		-			-	**Non-controlling interests**
TOTAL LIABILITIES	**2,536,678**	**-**	**2,536,678**	**-**	**(36)**	**2,536,643**	**TOTAL LIABILITIES**

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

Accounting principles applied to the financial statements

Scope of consolidation and control

The AFL Group is structured as follows:

- The Group parent company is AFL ST
- Agence is the only subsidiary as of 30 June 2018

On 30 June 2018, the consolidation scope is composed exclusively of Agency, the subsidiary, on which the AFL ST has exclusive control coming from its holding of 99.99% of the voting rights.

Consolidation methods

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

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

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

Classification and measurement

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

Business model

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

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

For example:

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

The IFRS 9 standard uses three business models:

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

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

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

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

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

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

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

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

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

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

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

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

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

For example:

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

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

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

- early redemption and extension conditions;

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

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

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

Accounting categories

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

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

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

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

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

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

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

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

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

Financial assets at amortized cost

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

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

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

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

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

Financial assets at fair value through profit or loss

This asset category includes:

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

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

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

They are investment portfolio fair value hedging derivatives in a fixed-rate borrower position, which hedged items has been sold, which have been neutralised by fixed-rate lender derivatives. Those contracts, concluded in a clearing house, present positions which are rigorously symmetric in terms of rates and maturities. These financial assets and liabilities, although they are the object of a framework netting agreement, are presented as assets and liabilities because future cash flows payable and receivable differ in the amount of the fixed-rate coupon payable and receivable.

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

Financial assets at fair value through other comprehensive income

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

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

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

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

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

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

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

Recognition date of securities

AFL Group records financial securities on the settlement date.

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

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

Financial information regarding financial instruments

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

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

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

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

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

Stage 1 (Performing assets)

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

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

Stage 2 (Non-performing assets)

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

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

Stage 3 (Doubtfull assets)

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

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

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

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

Estimation of Expected Credit Losses (ECL)

IFRS 9 requires institutions to calculate expected credit losses based on statistics produced from historical data that account for business cycles that affect their counterparties.

Agence France Locale has less than three years of existence at implementation of the standard, it does not have a default data history.

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

- The exposures classification in the 3 phases is a function of the evolution of the ratings of these exposures since their entry in the balance sheet. The ratings used are rating agencies ratings or internal[1] ratings in the case of local governments, possibly supplemented by expert opinion to reflect recent information and future risks. The thresholds used are relative and absolute.

- The calculation of default probabilities (PD) is based on historical default rates ("point in time" default) and cumulated default rates ("through the cycle") published by rating agencies with a historical depth of 35 years. The default rates of the high point and low point of the cycle scenarios are derived from the first and last deciles of the histories; the average default rates are used for the central scenario.

- Beyond 10 years, cumulated default rates are extrapolated using a Weibull statistical law;

- For the liquidity reserve exposures, regulatory default losses (LGD) of the standard approach (45%) are used. For exposures on local authorities, an LGD was calculated by expert opinion;

- The experts decide on future developments in the business cycle and establish the forward-looking vision by defining the weightings of the 3 scenarios (central, low point of the cycle and high point of the cycle). The experts' expectations are underpinned by the macroeconomic, sectoral and geographical studies published by recognized institutions such as the World Bank, the European Central Bank, the economic research of the big banks or the rating agencies.

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

Fixed assets

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

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

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

If evidence of a loss of value is recorded, the recoverable value of the asset is compared with its net book value. In the event of a loss of value, an impairment charge is

Tangible assets

Tangible assets are depreciated linearly over their expected useful life.

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

Intangible assets

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

- Must be identifiable;
- Be controlled by the Company;
- Is likely that the future economic advantages attributable to such an element will go to the Company.

Intangible assets are depreciated linearly over their expected useful life.

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

Debt

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

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

Hedge accounting

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

- The hedging instrument and the instrument hedged must be eligible;

- There must be formal documentation from inception, primarily including the individual identification and characteristics of the hedged item, the hedging instrument, the nature of the hedging relationship and the nature of the hedged risk to assess whether the hedging relationship meets the effectiveness constraints of the hedge.

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

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

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

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

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

Fair value hedge

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

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

The portion relating to the accrued income or expenses of the derivative instrument is recognised in Income and interest expense in the profit and loss statement at the same time as the interest income and expense relating to the hedged item.

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

Cash flow hedge

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

Macro-hedging

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

Determining fair value or market value

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

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

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

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

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

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

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

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

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

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

Level 2 is composed of:

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

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

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

Provisions

Provisions are recorded in balance sheet liabilities when the AFL Group has an obligation towards a third party and that obligation is likely or certain to cause an outflow of funds for the benefit of the third party with no expectation of a counter-payment that is at least equivalent.
Provisions and provision reversals are recorded in profit and loss on the lines that correspond to the nature of the future expenditure involved.

Interest income and expense

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

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

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

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

Cost of risk

The cost of credit risk includes impairment charges and reversals on fixed-income securities, and customer loans and receivables, as well as charges and reversals of

Current tax expense

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

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

Deferred taxes

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

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

Deferred tax is recognised as tax income or expense in the profit and loss statement, except for tax relating to unrealised gains and losses on assets available for sale, and for movements in the value of derivatives classified as cash flow hedges, for which deferred tax is charged directly to equity capital.
IAS 12 prohibits discounting of deferred tax assets and liabilities.

Post-employment benefits

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

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

• an estimated date of payment of the benefit,

• a financial discount rate

• an inflation rate

• assumptions on salary increases, staff turnover

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

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

• The service cost (recognized in "Operating income" in "Other general operating expenses");

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

V - Notes to the Balance Sheet

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

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

Financial assets held for trading

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

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

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

Note 2 - HEDGING DERIVATIVES

Analysis by type of hedge

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

Detail of derivatives designated as fair value hedges

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

Detail of derivatives designated as interest rate hedged portfolios

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

PORTFOLIO

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

Fixed-income securities - Analysis by nature

(€ '000s)	30/06/2018	01/01/2018
Government paper and similar securities	565,414	290,891
Bonds	99,839	72,663
Other fixed income securities		
Net amount in balance sheet	**665,253**	**363,554**
Including depreciation	(413)	(190)
Including net unrealised gains and losses	2,566	(568)

Expected credit losses on debt instruments	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 1rst January 2018	**(190)**	**-**	**-**	**-**
Transfers from 12-month to maturity	-	-	-	-
Transfers from maturity to 12-month	-	-	-	-
Transfers from expected to incurred losses	-	-	-	-
Total transfer movment	**-**			
Movment attributable to financial instruments recognized over the period	**(224)**			
Acquisitions	(322)	-	-	-
Re-estimate of parameters	(10)	-	-	-
Bad debts written off		-	-	-
On sales	109	-	-	-
Expected losses as of 30th June 2018	**(413)**	**-**	**-**	**-**

Fixed-income securities - Analysis by contreparty

(€ '000s)	30/06/2018	01/01/2018
Local public sector	450,842	216,014
Financial institutions and other financial corporations	199,412	132,415
Non-financial corporations	15,000	15,125
Net amount in balance sheet	**665,253**	**363,554**

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

Changes in Financial assets at fair value through other comprehensive income

(€ '000s)	Total amount as of 01/01/2018	Additions	Disposals	Change in fair value recognised in equity	Change in accrued interest	Prem/Disc Amort.	Total amount as of 30/06/2018
Government paper and similar	290,891	1,007,774	(735,735)	3,000	168	(684)	565,414
Bonds	72,663	61,065	(33,020)	(111)	(304)	(454)	99,839
Other fixed income securities	-	-	-	-	-	-	-
TOTAL	**363,554**	**1,068,839**	**(768,755)**	**2,889**	**(136)**	**(1,137)**	**665,253**

Note 4 - RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

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

Receivables on credit institutions

(€ '000s)	30/06/2018	01/01/2018
Loans and receivables		
- on demand and short notice	115,796	163,433
- term	50,000	50,000
Cash collateral paid	63,400	68,310
Securities bought under repurchase agreements		
TOTAL	**229,196**	**281,743**
Impairment for expected losses	(7)	(8)
NET CARRYING AMOUNT	**229,190**	**281,735**

Note 5 - LOANS AND ADVANCES TO CUSTOMERS

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

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

SUMMARY OF PROVISIONS ON SECURITIES, LOANS AND FINANCING COMMITMENTS

(€ '000s)	01/01/2018	Depreciation charges	Reversals amounts not used	Net charge	Utilised	30/06/2018
Financial assets at fair value through other comprehensive income						
Depreciations on performing assets	190	332	(109)	**224**		**413**
Depreciations on non-performing assets						**-**
Depreciations on doubtfull assets						**-**
Total	**190**	**332**	**(109)**	**224**		**413**
Financial assets at amortized cost						
Depreciations on performing assets	48	7		**7**		**55**
Depreciations on non-performing assets		2		**2**		**2**
Depreciations on doubtfull assets						**-**
Total	**48**	**9**	**-**	**9**		**57**
Financing commitments	**3**	**3**	**(2)**	**1**		**4**

Note 6 - DEFERRED TAX

The movement on the deferred tax account is as follows:

(€ '000s)	30/06/2018	01/01/2018
Net asset as at 1st of january	**5,064**	**5,796**
Of which deferred tax assets	5,343	5,909
Of which deferred tax liabilities	278	113
Recognised in income statement	**(166)**	**(579)**
Income statement (charge) / credit	(166)	(579)
Recognised in equity	**400**	**(153)**
Financial assets at fair value through other comprehensive income	400	(165)
Cash flow hedges		
Other		13
Net asset as at	**5,298**	**5,064**
Of which deferred tax assets	5,298	5,343
Of which deferred tax liabilities		278

Deferred tax net assets are attributable to the following items:

(€ '000s)	30/06/2018	01/01/2018
Financial assets at fair value through other comprehensive income	121	
Cash flow hedges		
Losses carried forward	5,051	5,051
Other temporary differences	126	293
TOTAL DEFERRED TAX ASSETS	**5,298**	**5,343**

(€ '000s)	30/06/2018	01/01/2018
Financial assets at fair value through other comprehensive income		278
Cash flow hedges		
Other temporary differences		
TOTAL DEFERRED TAX LIABILITIES	**-**	**278**

Note 7 - OTHER ASSETS AND ACCRUALS

(€ '000s)	30/06/2018	01/01/2018
Other assets		
Deposits	160	67
Other assets	25	83
Impairment		
Total	**185**	**150**
Accruals		
Prepaid charges	383	147
Other deferred income	9	
Transaction to recieve and settlement accounts		
Other accruals	46	51
Total	**437**	**198**
TOTAL OTHER ASSETS AND ACCRUALS	**622**	**348**

Note 8 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible fixed assets	01/01/2018	Additions	Transfers	Disposals	Amort.	Other	30/06/2018
Intangible fixed assets							
IT development costs	8,947	48				22	9,017
Other intangible assets	455	1					455
Intangible assets in progress	102	55				(41)	128
Intangible fixed assets gross amount	**9,504**	**104**	**-**	**-**	**-**	**(19)**	**9,601**
Depreciation and allowances - Intangible fixed assets	(4,815)				(936)		(5,751)
Intangible fixed assets net carrying amount	**4,689**	**104**	**-**	**-**	**(936)**	**(19)**	**3,850**

Tangible fixed assets	01/01/2018	Additions	Transfers	Disposals	Amort.	Other	30/06/2018
Property, plant & equipment	768	18					786
Tangible fixed assets gross amount	**768**	**18**	**-**	**-**	**-**	**-**	**786**
Depreciation and allowances - Tangible fixed assets	(297)				(39)		(336)
Tangible fixed assets net carrying amount	**471**	**18**	**-**	**-**	**(39)**	**-**	**449**

Note 9 - DEBT SECURITIES

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

Note 10 - ACCRUALS AND OTHER LIABILITIES

(€ '000s)	30/06/2018	01/01/2018
Other liabilities		
Miscellaneous creditors	1,153	761
Total	**1,153**	**761**
Accruals		
Transaction to pay and settlement accounts		
Other accrued expenses	633	743
Unearned income		
Other accruals	36	38
Total	**669**	**781**
TOTAL ACCRUALS AND OTHER LIABILITIES	**1,822**	**1,543**

Note 11 - PROVISIONS

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

OFF-BALANCE SHEET

(€ '000s)	30/06/2018	01/01/2018
Commitments given	**300,436**	**238,783**
Financing commitments	263,636	238,783
For credit institutions		
For customers	*263,636*	*238,783*
Guarantee commitments	1,758	
For credit institutions		
For customers	*1,758*	
Commitments on securities	35,042	
Securities to be delivered to the issuance		
Other securities to be delivered	*35,042*	
Commitments received	**52,444**	**2,591**
Financing commitments		
From credit institutions		
Guarantee commitments	2,531	2,591
From credit institutions		
From customers	*2,531*	*2,591*
Commitments on securities	49,914	
Securities receivable	*49,914*	

VI - Notes to the Income Statement

Note 12 - INTEREST INCOME AND EXPENSES

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Interest and similar income	**28,076**	**16,721**	**38,342**
Due from banks		3	5
Due from customers	8,815	5,632	12,547
Bonds and other fixed income securities	743	272	759
Financial assets at fair value through other comprehensive income	*743*	*272*	*759*
Securities at amortized cost			
Income from interest rate instruments	18,517	10,813	25,031
Other interest income			
Interest and similar expenses	**(24,173)**	**(13,524)**	**(31,789)**
Due to banks	(945)	(788)	(1,944)
Due to customers			
Debt securities	(6,869)	(4,774)	(10,694)
Expense from interest rate instruments	(16,360)	(7,962)	(19,151)
Other interest expenses			
Interest margin	**3,903**	**3,197**	**6,552**

Note 13 - NET FEE AND COMMISSION INCOME

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Fee & Commission Income	**134**	**29**	**73**
Interbank transactions			
Customer transactions	92		
Securities transactions			
Forward financial instruments transactions			
Currencies transactions			
Financing commitments and guarantee	43	29	73
Other commissions recieved			
Fee & Commission Expense	**(60)**	**(43)**	**(95)**
Interbank transactions	(1)		(2)
Securities transactions	(4)	(3)	(6)
Forward financial instruments transactions	(55)	(41)	(87)
Currencies transactions			
Financing commitments and guarantee			
Other commissions paid			
Net Fee and Commission income	**74**	**(14)**	**(22)**

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

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

Analysis of net result of hedge accounting

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

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

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

Note 16 - GENERAL OPERATING EXPENSES

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Employee expenses			
Wages and salaries	1,606	1,693	3,178
Post-employment benefit expenses	157	164	321
Other expenses	702	717	1,337
Total Employee expenses	**2,465**	**2,575**	**4,835**
Operating expenses			
Taxes and duties	328	(108)	110
External services	1,896	1,921	3,721
Total Administrative expenses	**2,224**	**1,813**	**3,831**
Charge-backs and reclassification of administrative expenses		(33)	(14)
Total General operating expenses	**4,689**	**4,355**	**8,653**

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

Note 17 - COST OF RISK

(€ '000s)	30/06/2018	30/06/2017	31/12/2017
Net charge to provisions			
for financial assets at fair value through other comprehensive income	(223)		
for financial assets at amortized cost	(9)		
Net charge to provisions			
for financing commitments	(1)		
for guarantee commitments			
Irrecoverable loans written off not covered by provisions			
Recoveries of bad debts written off			
Total Cost of risk	**(234)**	**-**	**-**

VII - Notes to Risk exposure

A - Fair value of financial instruments

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

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

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

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

Fair value of instruments carried at fair value:

	30/06/2018			
	Total	Measured using		
(€ '000s)		Level 1	Level 2	Level 3
Financial assets				
Financial assets at fair value through profit or loss	**21,220**	-	21,220	-
Hedging derivative instruments	**24,692**	-	24,692	-
Government paper and similar securities	565,414	565,414	-	-
Bonds	99,839	99,839	-	-
Other fixed income securities	-	-	-	-
Total Financial assets at fair value through other comprehensive income	**665,253**	**665,253**	**-**	**-**
Total Financial assets	**711,166**	**665,253**	**45,912**	**-**
Financial liabilities				
Financial liabilities at fair value through profit or loss	**21,629**	-	21,629	-
Hedging derivative instruments	**67,204**	-	67,204	-
Total Financial liabilities	**88,833**	**-**	**88,833**	**-**

Fair values of instruments carried at amortised cost:

	30/06/2018				
	Net Carrying value	Fair value	Measured using		
(€ '000s)			Level 1	Level 2	Level 3
Financial assets					
Cash, central banks and issuing institutions	**590,371**	590,371	-	-	590,371
Loans and receivables due from credit institutions	**229,190**	229,190	-	-	229,190
Loans and advances to customers	**1,645,031**	1,645,031	-	-	1,645,031
Total Financial assets	**2,464,592**	**2,464,592**	**-**	**-**	**2,464,592**
Financial liabilities					
Debt securities	**2,969,446**	3,006,472	2,920,212	86,261	-
Total Financial liabilities	**2,969,446**	**3,006,472**	**2,920,212**	**86,261**	**-**

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

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

B - Credit risk exposure

The tables below disclose the maximum exposure to credit risk at 30 June 2018 for financial assets with exposure to credit risk, without taking account of collateral held or other credit risk mitigation.

(€ '000s)	Performing assets	Past due but not impaired	Impairment allowance	Total 30/06/2018
Cash, central banks	590,389		(18)	**590,371**
Financial assets at fair value through profit or loss	21,220			**21,220**
Hedging derivative instruments	24,692			**24,692**
Financial assets at fair value through other comprehensive income	665,253			**665,253**
Loans and receivables due from credit institutions	229,196		(7)	**229,190**
Loans and advances to customers	1,645,020		(32)	**1,644,988**
Revaluation adjustment on interest rate hedged portfolios	43			**43**
Current tax assets	33			**33**
Other assets	185			**185**
Sub-total Assets	**3,176,033**	**-**	**(57)**	**3,175,976**
Financing commitments given	263,636			**263,636**
TOTAL Credit risk exposure	**3,439,670**	**-**	**(57)**	**3,439,612**

Exposure analysis by counterparty

(€ '000s)	Total 30/06/2018
Central banks	540,371
Local public sector	2,459,568
Credit institutions guaranteed by the EEA States	62,314
Credit institutions	301,267
Other financial corporations guaranteed by the EEA States	5,003
Other financial corporations	55,930
Non-financial corporations guaranteed by the EEA States	15,000
Non-financial corporations	160
Total Exposure by counterparty	**3,439,612**

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

Exposure analysis by geographic area

(€ '000s)	Total 30/06/2018
France	2,978,092
Supranational	129,012
Netherlands	87,916
Canada	82,997
Finland	50,534
Germany	48,258
China	25,612
New Zealand	21,201
Japan	7,212
Sweden	5,003
Denmark	3,316
Belgium	459
Total Exposure by country	**3,439,612**

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

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

(€ '000s)	Less than 3 month	3 month to 1 year	1 year to 5 years	more than 5 years	Total	Related receivables and payables	Revaluation	Total 30/06/2018
Cash, central banks	590,371				**590,371**			**590,371**
Financial assets at fair value through profit or loss		739	4,066	14,374	**19,179**	**2,041**		**21,220**
Hedging derivative instruments	33	1	6,482	17,758	**24,275**	**417**		**24,692**
Financial assets at fair value through other comprehensive income								
Government paper and similar securities	5,003	20,006	232,022	304,458	561,488	1,286	2,640	565,414
Bonds		26,294	72,836	504	99,634	279	(74)	99,839
Total Financial assets at fair value through other comprehensive income	**5,003**	**46,300**	**304,858**	**304,962**	**661,122**	**1,565**	**2,566**	**665,253**
Loans and receivables due from credit institutions	179,190	50,000			**229,190**			**229,190**
Loans and advances to customers	28,290	107,261	448,652	1,057,032	**1,641,235**	**5,362**	**(1,609)**	**1,644,988**
Revaluation adjustment on interest rate hedged portfolios							**43**	**43**
Current tax assets	33				**33**			**33**
Other assets	185				**185**			**185**
TOTAL ASSETS								**3,175,976**
Central banks						**596**		**596**
Financial assets at fair value through profit or loss		738	4,064	14,386	**19,189**	**2,440**		**21,629**
Hedging derivative instruments	16	7,849	10,859	44,886	**63,610**	**3,594**		**67,204**
Debt securities		85,763	1,493,654	1,372,858	**2,952,275**	**2,663**	**14,508**	**2,969,446**
Due to credit institutions	11				**11**			**11**
Revaluation adjustment on interest rate hedged portfolios								
Other liabilities	1,153				**1,153**			**1,153**
TOTAL LIABILITIES								**3,060,039**

Agence France Locale has a surplus of long-term liabilities, which reflects its limited transformation goals. The difference in modified duration between assets and liabilities is negative; liabilities are still longer than assets. This situation is related to the business start and should evolve in a balanced situation, which should eventually see liabilities with a slightly shorter average life than assets. At 30th June 2018, assets are composed of short-term securities that will be transformed into medium-to-long-term loans.

D - Interest rate risk: sensitivity to interest rate changes

Exposure to interest rate risk relates to that of the Operational subsidiary, Agence France Locale. The rate risk management policy and its implications on the first half of 2018 are described into the financial report as at 30th June 2018.

Agence France Locale - Société Territoriale

Statutory Auditors' Review Report
on the interim consolidated condensed financial statements

For the six-month period ended June 30, 2018
Agence France Locale - Société Territoriale
41 Quai d'Orsay - 75007 Paris

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 - Société Territoriale

Registered office : 41 Quai d'Orsay - 75007 Paris
Share capital : €.144,314,000

Statutory Auditors' Review Report
on the interim consolidated condensed financial statements

For the six-month period ended June 30, 2018

To the Shareholders,

In our capacity as Statutory Auditors of Agence France Locale - Société Territoriale and in answer 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 consolidated condensed financial statements of Agence France Locale - Société Territoriale prepared in compliance with IFRS (International Financial Reporting Standards) as adopted by the European Union, for the period from January 1, 2018 to June 30, 2018.

These interim consolidated condensed financial statements are the responsibility of the Board of Directors. Our responsibility is to express a conclusion on these interim consolidated 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 consolidated condensed financial statements as at June 30, 2018 are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

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

This report is addressed to your attention in the context described above and is not to be used, circulated, quoted or otherwise referred to for any other purposes.

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

Paris La Défense, September 28th, 2018

KPMG Audit FS I

Ulrich Sarfati
Partner

Paris, September 28th, 2018

Cailliau Dedouit et Associés

Laurent Brun
Partner