AFL

La banque des collectivités

Annual report for the period from January 1 to December 31, 2020

Key figures at December 31, 2020 - IFRS

Outstanding credit on the balance sheet

€3,8 billion

Deposits in central banks and credit institutions

€799 million

Net income

+€2,30 million

Net banking income

€13,76 million

Operating expenses

€11,25 million

Common Equity Tier 1 ratio

15.13%

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GLOSSARY

ICC	Initial Capital Contribution
ACC	Additional Capital Contribution
ACPR	French Prudential Supervision and Resolution Authority
AFL	Agence France Locale
AFL-ST	Agence France Locale - Société Territoriale
ALM	Asset and Liability Management
AMF	Autorité des Marchés Financiers (French Financial Markets Authority)
ASW	Asset Swap
ECB	European Central Bank
CFO	Cash flow from operations
RAC	Audit and Risk Committee
CBPP	Covered Bond Purchase Program
ICC	Internal Control Committee
CET1	Common Equity Tier One
FGTC	French General Tax Code
GRC	Global Risk Committee
SRB	Single Resolution Board
CAVC	Corporate added-value contribution
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)
LPE	Local public entity
Public territorial entities	Territorial public entities
SRF	Single resolution fund
DRGF	Deposit and Resolution Guarantee Fund
OTG	Own tax group
HQLA	High Quality Liquid Assets
DTA	Deferred tax asset
IMR	Initial margin requirement
LCR	Liquidity Coverage Ratio
AFL	Amending Finance Law
LGFA	Local government funding agency
NIM	Net interest margin
ESM	European Stability Mechanism
NSFR	Net Stable Funding Ratio
PEPP	Pandemic Emergency Purchase Programme
OAT	Obligations Assimilables du Trésor (French Treasury bonds)
NBI	Net banking income

GOP	Gross operating income
NI	Net income
RRD	Recovery and Resolution Directive
RWA	Risk Weighted Asset
SaaS	Software as a Service
OIR	Opportunity interest rate
NDS	Negotiable debt securities
TL-TRO	Targeted longer-term refinancing operations
NPV	Net Present Value

I. Company activity

1. Background and shareholding model structure

Authorized by Law No. 2013-672 of July 26, 2013 on the separation and regulation of banking activities and created on October 22, 2013, AFL began its operational activities in March 2015, after obtaining, in January 2015, authorization to act a specialized credit institution from the Autorité de Contrôle Prudentiel et de Résolution and a rating by the Moody's agency.

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, the management of guarantees and the definition of strategic guidelines, handled by Société Territoriale (AFL-ST). This separation of responsibilities makes it possible to prevent conflicts of interest that may appear in the form of 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:
- Granting of credit exclusively to shareholder member regional and local authorities,
- Fund-raising on capital markets, and
- Day-to-day operational management of financial activities.

1.1 A robust structure

AFL is an investment financing facility for local authorities in which they are the exclusive shareholders through Société Territoriale (AFL-ST), the majority shareholder and over 99.99% 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. Whilst integrating French law constraints, the AFL model is broadly inspired by the Nordic agencies, and more specifically the Swedish and Finnish agencies, which have been financing local authorities in their respective countries since the end of the 1980s. This model, based on pooling the needs of local authorities and their credit ratings, enables them, by grouping together, to have sufficient size to borrow in the capital markets, through bond issues in particular, in order to grant simple fixed- or floating-rate loans to local authority shareholders.

The optimization of financing costs in the capital markets is based on AFL's high credit rating, which is built on prudent financial policies, the quality of its balance sheet assets and a dual mechanism of explicit and irrevocable first-demand guarantees.

On the one hand, 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 this guarantee is intended to be equal to the amounts of outstanding loans with a duration of more than 364 days contracted by each member local authority with the AFL. As a result, a creditor has the option of calling on several regional and local authorities as guarantors. A local authority

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

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 amounts due while each of them is limited to its own outstanding medium- to long-term loan. In order to have sufficient liquidity, the amounts borrowed by AFL are intended to be higher than the amounts it lends to members, and the securities issued by AFL are not fully covered by the Member Guarantee mechanism:

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

  - As a result, almost 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 loans to members under the conditions and within the limits set by AFL's financial policies,

- On the other hand, the "ST Guarantee" granted by AFL-ST for the benefit of any financial creditor of the AFL which enables the creditor(s) to call directly upon AFL-ST. The ceiling of the "S&T Guarantee" is set by the Board of Directors. It was increased from €5 billion to €10 billion by the Board of Directors on September 28, 2018. It covers all of the commitments of its AFL subsidiary to its beneficiary creditors. As of December 31, 2020, the amount of guaranteed securities issued by AFL, corresponding to debt issues and financial transactions with counterparties, amounted to €6.3 billion.

This two-part mechanism allows the beneficiaries of[2] these guarantees to have both the option of (i) calling on the local authorities that are Group members as guarantors, and/or (ii) being able to operate the "ST Guarantee" which offers the advantage of simplicity in the form of a one-stop shop.

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

1.2 A very conservative liquidity policy

AFL has adopted a liquidity policy with three objectives:

- The construction of a sufficient liquidity reserve to maintain operational activities, in particular lending activities, for a period of twelve months; this reserve is largely made up of liquid assets that can be mobilized for the regulatory liquidity coverage ratio (LCR);
- A funding strategy that encourages a diversity of debt instruments (including benchmark issues in euros traded in regulated markets, including Sustainable Bonds, public issues 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 price risk, AFL strictly monitors the maturity gaps. It has undertaken to limit the difference in average maturity between its assets and liabilities to one and a half years until March 20, 2022, the year of repayment of its first benchmark issue and one year thereafter.

With regard to access to liquidity, it should be noted that AFL has a line of credit with the Banque de France, available at any time, through the mobilization of receivables from local authorities that AFL carries on its balance sheet, via the TRiCP (Traitement Informatique des Créances Privées - Data Processing of Private Claims) system and corresponding to an amount of nearly 70% of its outstanding loans.

1.3 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 borrowers to ensure that their interests are at the heart of the AFL Group's objectives, through its position as shareholder of AFL-ST. AFL-ST's responsibility is to pursue the Group's strategy, defend the interests of all borrowers and pool each one's interests for the benefit of all local authorities.

[2] The guarantee models are accessible on the AFL Group's internet site: www.agence-France-locale.fr

Secondly, since its creation, AFL has chosen to implement online services that combine efficiency and speed and ensure users the highest levels of security to better meet the needs of its member borrowers.

Finally, a team dedicated to the relationships with local authorities sees to it that each of their specific expectations is met.

1.4 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 remained unchanged.

AFL debt also received a long-term AA- rating, stable outlook, and a short-term A-1+ rating, stable outlook, from S&P Global Ratings Europe Limited (S&P) on May 20, 2019. AFL's bond issuance program is equally rated by Moody's and S&P.

2. Review of activities over 2020 and highlights

2.1. Evolution of the situation in the face of the health crisis

- Continuity of missions since the start of the health crisis:

The AFL has shown that in a context of crisis, its economic and operating model is perfectly suited to continue all its missions and meet the needs of its borrowers. AFL has a very high level of resilience in terms of liquidity and solvency, which is based on prudent financial policies and an organization that intrinsically allows all of its employees to operate remotely.

- Organization in the face of the health crisis:

Starting March 16, 2020 all AFL employees were put on teleworking schedules until the end of the first official confinement period. At the same time, a crisis unit was set up, and it met on a regular basis to keep abreast of current events and ensure that measures evolve in line with events and government instructions.

Due to the move initially planned for March 27, 2020 to a Flex office-type structure and to strategic organizing choices for IT systems in SaaS (software as a service) mode, all employees had the ability to connect without difficulty to all of their business applications from the morning of March 16, 2020. The bank has not experienced any significant malfunction since that date and no specific action has been taken as teleworking was set up for all employees.

This period was followed by a relaxation of the system as from May 11, 2020, in accordance with the provisions of the Government, on the basis of the publication of a de-confinement plan. Since May 11, 2020, to prevent psychosocial risks among its employees, the AFL chose to open its offices, initially for only seven positions and with strict barrier measures, then from June 2, 2020, for all employees wishing to return to the premises.
AFL then announced that the physical return to the office of its employees would take place on September 1, 2020, on a mandatory basis, alternating between teleworking and face-to-face meetings every other week. However, due to the health situation, AFL decided at the end of October 2020 to reinforce measures to protect the health of its employees with the systematic use of teleworking for staff while maintaining limited access to its offices, for a maximum of seven to eight employees, in order to prevent psychosocial risks among its employees.

- Financial forecasts:

In a press release published on June 10, 2020, AFL announced that, given the uncertainties surrounding the economic and financial conditions following the Covid-19 crisis and their severity and duration, it was difficult at that stage to accurately estimate the impact of the crisis on its future financial statements. For this reason, since all effects caused by the crisis are not necessarily known, and in anticipation of better visibility, AFL suspended its forecasts for 2020.

In a press release dated September 29, 2020, the AFL announced the resumption of its forecasts, considering that all the measures taken at both governmental and European Union level made it possible to re-forecast its results for 2020 and 2021, based on realistic and conservative assumptions. In this press release, AFL stated that in a still very uncertain and volatile health and economic environment, the realization of these forecasts was likely to be affected by the materialization of both endogenous and exogenous factors, known or unknown, and over which AFL did not necessarily have control.

- European initiatives to support business recovery:

Even though the first measures following the health crisis were initially taken at the national level by each country in Europe depending on specific situations, Europe was very quickly able to develop initiatives at several levels in response to the unprecedented effects of the health crisis on economies and capital markets.

From a monetary, fiscal and budgetary standpoint, Europe was able to demonstrate its responsiveness and its ability to support citizens, businesses and all member countries.

First, on March 18, 2020 the European Central Bank launched the Pandemic Emergency Purchase Programme, for an initial amount of €750 billion, an initiative to prevent any liquidity and refinancing risk for the euro zone caused by the dislocation of the capital markets. Faced with the risk of a halt in economic activity and the risk of bankruptcy of many companies, the ECB wanted, through this program, to support banking systems and encourage them to maintain their loans to companies and households. The ECB decided to increase this program twice, an additional €600 billion at the Board of Governors meeting on June 4, 2020 and €500 billion on December 10, 2020, for a total amount of €1,850 billion. The ECB Board of Governors has made it clear that this program will only end when it considers that the health crisis is over, and in all circumstances not before March 2022. This program is intended to provide financial support to all sectors of the economy to enable them to absorb the shock stemming from the Covid-19 pandemic.

Shortly thereafter, this ECB initiative was followed by a joint support plan by the European Commission, the European Investment Bank and the European Stability Mechanism (ESM), for a total of €540 billion to support the populations, businesses and countries of the Union through financial assistance to unemployment benefits, liquidity lines and guarantees to businesses, funding for research and development of vaccines and health care related to the pandemic and emergency financial support in case of need to member countries.

Moreover, the economic shock being much more severe than that initially anticipated, the European Council of July 17 to 21, 2020 adopted a recovery plan of €750 billion for the benefit of the Member States, following the proposal of Chancellor Angela. Merkel and President Emmanuel Macron. This recovery plan, which is expected to be rolled out from 2021, will be split into direct subsidies to Member States, amounting to €390 billion, and loans totaling €360 billion. These financial resources, which are added to the Community budget over the period 2021-2027, will target as a priority the countries most affected by the Covid-19 crisis.

This plan, which was hailed as a historic decision and significantly reinforces the solidarity between European Union member countries through transfers from the richest countries to those most affected by the consequences of the pandemic, should contribute to reestablishing and sustaining economic growth over the coming years.

- Creation of a €1.5 billion loan package to local authorities by the AFL:

Taking into account the major role that local authorities have to play in France's economic recovery, their good financial health ahead of the pandemic and the need to take into account the drop in revenue that this crisis is generating, the AFL has been mobilizing since April 2020 to ensure total continuity in the financing of its member authorities, establishing a budget of €1.5 billion over 12 months, a significant financial resource, necessary to complement the government's stimulus plan and whose objective is to enable local authorities to make investments that will benefit all the various local players.

2.2 Broadening of the AFL-ST shareholder base

Article 67 of Law No. 2019-1461 of December 27, 2019 respecting involvement in local life and the proximity of public action amends Article L.1611-3-2 of the French General Local Authorities Code, stating that "local and regional authorities, groupings thereof and local public entities" can now be members of AFL.

This provision thus broadens the scope of local authorities that may join AFL, which has hitherto been limited to municipalities, departments, regions, groupings of municipalities (EPCIs) with their own tax system and territorial public entities (EPTs).

Decree No. 2020-556 of May 11, 2020 published on May 12, 2020 defined the eligibility criteria for new AFL-ST shareholders, with thresholds that apply to the financial position and level of indebtedness of any entity that has become an AFL-ST shareholder since its publication date.

The shareholders of AFL and AFL-ST, at general meetings held on May 7 and 28, 2020 respectively, amended the Articles of Association of the two companies to include the trade unions in the scope of the new communities likely to join the AFL. Thus, as of December 31, 2020, AFL had six trade union members.

Work is underway by the AFL Group teams to prepare for the extension to other eligible local public sector entities under the terms of the laws and regulations indicated above. To this end, on the proposal of AFL Group bodies, it will be proposed to the shareholders of AFL and AFL-ST at general meetings on, respectively, May 6 and May 27, 2021, to make a new amendment to the Articles of Association of both companies so as to authorize the future membership of all local authorities, their groupings and local public institutions in accordance with the text of Article L. 1611-3-2 of the French General Code of Local Authorities resulting from the abovementioned law of December 27, 2019.

2.3 Governance

- **Sacha Briand appointed Chairman of the Supervisory Board**

At the meeting of its decision-making bodies on September 28, 2020, AFL appointed Sacha Briand, Vice-Chairman of the Toulouse Metropolitan Area in charge of finance and Deputy Mayor of Toulouse, in charge of finance, elections and the modernization of the city, as Chairman of the Supervisory Board of AFL and Vice-Chairman of the Board of Directors of AFL-ST, replacing Richard Brumm. His mission will be to ensure the smooth running of the AFL Group and to report on it to the Member authorities. He was previously the representative of the Toulouse Metropolitan Area on the Board of Directors of AFL-ST.

- **Renewal of the members of the Management Board**

At its meeting of March 26, 2020, the Supervisory Board approved the renewal and the conditions for the renewal of all the terms of office of the members of the Management Board (Yves Millardet, Thiébaut Julin, Ariane Chazel), for a period that, in accordance with the provisions of the Articles of Association, will expire at the end of the Ordinary General Meeting called to approve the financial statements for the 2025 financial year and to be held during the first half of 2026.

- **Other appointments**

At its meeting of June 30, 2020, the Board of Directors of AFL-ST noted the appointment of Daniel Guiraud as permanent representative of the Department of Seine-Saint-Denis, member of the Board of Directors, replacing Stéphane Troussel, with immediate effect.

At its meeting of September 25, 2020, and following the changes caused by the elections of the municipal block, the Board of Directors of AFL-ST noted the appointment of:

- Ms. Emeline Baume, Vice-Chairwoman in charge of the economy, employment, commerce, digital technology and public procurement of the Lyon Metropolitan Area, as a permanent representative of the Lyon Metropolitan Area, and a member of the Board of Directors and of the Appointments, Remuneration and Corporate Governance Committee (replacing Karine Dognin-Sauze); and

- Mr. Syamak Agha Babaei, Vice-Chairman in charge of the budget and finances of the Strasbourg European Metropolitan Area, as a permanent representative of the Strasbourg European Metropolitan Area, and a member of the Board of Directors and the Audit and Risks Committee (replacing Caroline Barrière).

At its meeting of December 14, 2020, the AFL-ST Board of Directors duly noted the appointment of Ms. Dominique Faure, 1st Vice-Chairwoman in charge of the economy, innovation and employment, as a permanent representative of the Toulouse Metropolitan Area, and member of the Board of Directors, replacing Mr. Sacha Briand (now a director and Chairman of the Board of Directors on his own behalf).

2.4 Increase in capital contribution

As part of the review of the number of shares to be acquired by new members, on June 29, 2020, the Strategic Committee recommended increasing the amount of the ICC by increasing the k-factor. This increase was approved by the Board of Directors on June 30, 2020, and, starting January 1, 2021, resulted in an increase in the amount of the ICC for new members to 0.9% of outstanding debt, and to 0.30% of actual operating revenues, if those are used for the calculation of the ICC.

2.5 Adoption of a corporate purpose

The corporate purpose:

In line with the provisions of the Pacte Law and based on its member authorities' desire for strong policies, starting in late 2019, AFL launched an initiative to reaffirm its identity in the local authority financing landscape. This collective approach directly involves all of its stakeholders (local authorities, employees, representatives of shareholder local and regional authorities, partners and suppliers), and it led to the adoption of a corporate purpose on May 28, 2020 by the AFL-ST General Meeting of Shareholders.

This corporate purpose is: "Embody responsible finance and empower local authorities to respond to the present and future needs of their inhabitants". This corporate purpose articulates the uniqueness of the Group and gives expression to its governing ethos as defined by its founders.
It is in the form of a manifesto and a new visual identity. Incorporated into the AFL-ST Articles of Association by a decision of the General Meeting of Shareholders of May 28, 2020, it was incorporated into the AFL Articles of Association by a decision of the General Meeting of Shareholders of February 4, 2021.

This purpose is accompanied by a "local authority manifesto", a text initiated by the member authorities that recapitulates the essence of the banking institution:

"By creating the first bank that we wholly own and manage, we, the French local authorities, have taken a strong political step toward decentralization. Our institution, Agence France Locale, is not a financial institution like the others. Created by and for local authorities, it acts in a local context to strengthen our freedom, our ability to develop projects and our responsibility as public actors. Its culture of prudence protects us from the dangers of the complexity and richness of its governance, and from abuses related to conflicts of interest. Its fundamental objective is to offer local authorities access to resources under the best conditions and with complete transparency. The principles of solidarity and equity guide us. Convinced that we will go further together, we wanted an agile institution that would appeal to all authorities, from the largest regions to the smallest towns. We see profit as a means to optimize public spending, not as an end in itself. Through AFL, we support a local environment committed to addressing social, economic and environmental challenges. The AFL strengthens our power to act, to carry out projects locally, for today and tomorrow, for the good of the people who live there. We are proud to have a bank that expresses growth as we see it, ever more responsible and sustainable. We are Agence France Locale."

A new visual identity, a graphic embodiment of the corporate purpose:

On May 28, 2020, AFL Group unveiled a new visual identity in the form of a new logo symbolizing the affirmation of its corporate purpose. A more modern logo emphasizing AFL's local roots was in use in the following weeks in all of its communication tools.

The AFL Group values : expertise, transparency, solidarity:

Expertise, transparency and solidarity are the values of the AFL Group, as decided on December 14, 2020 by the AFL-ST Board of Directors. These will help guide the Bank's operations and will constitute benchmarks for AFL in the emerging growth phase.

2.6 Changes in prudential requirements applicable to AFL

With regard to the prudential requirements imposed on AFL under banking regulations, AFL is monitored for capital consumption at the consolidated level and for liquidity at the level of the credit institution as well as at consolidated level. AFL-ST has set an internal solvency ratio limit of at least 12.5%.
On December 23, 2020, the ACPR notified the AFL Group of its obligation to hold capital enabling it to comply with a total prudential capital requirement of 9.25% including:

- A minimum capital requirement of 8%; and
- An additional capital requirement, known as Pillar 2, of 1.25%.

In addition, the AFL Group is required in principle to hold equity capital enabling it to comply with the capital conservation buffer requirement set at 2.5%, a situation that may be re-examined in light of the crisis. Lastly, on April 1, 2020, the High Council for Financial Stability decided to set the counter-cyclical capital buffer applicable to French exposures at 0%.

As of December 31, 2020, AFL-ST's solvency ratio stood at 15.13%.

AFL being a public development credit institution, which makes it possible to deduct development loans from the assets on the balance sheet, the leverage ratio for AFL-ST (IFRS) amounted to 8.63% as of December 31, 2020.

2.7 Company activity in the financial markets

(i) Annual Base Prospectus update relating to the Company's bond issuance program

AFL conducted the annual update of its debt issuance program (Euro Medium Term Notes), which was approved by the Autorité des Marchés Financiers on June 9, 2020 following the closing of the 2019 financial statements.

This program includes two major new features:

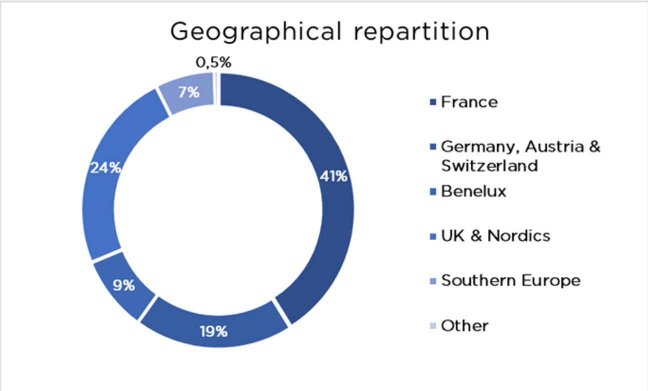
- It reflects the broadening of the base of local authorities that may become shareholders of AFL-ST and guarantors of the securities issued by the AFL to inter-municipal associations and mixed associations;

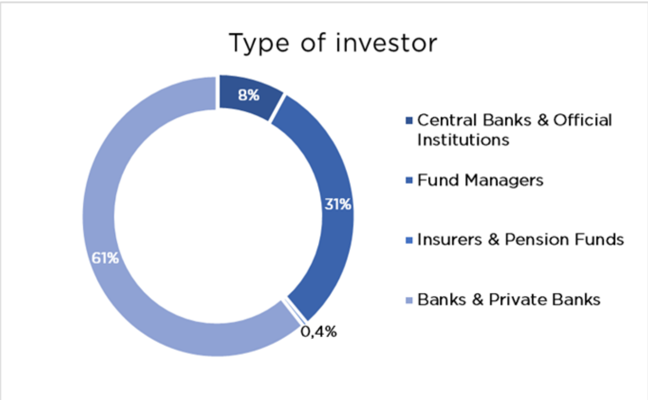
- In addition, the program now gives AFL the option to issue Sustainable Bonds to finance or refinance all or part of the capital expenditure of member local authorities dedicated to projects with a social, environmental or sustainable impact. This means that their investments in access to essential and basic social services, energy and ecological transition, sustainable infrastructure, community development or regional cohesion will be eligible for this type of financing, in accordance with the AFL Sustainable Bond Issuance Facility.

The finalization of this update enabled AFL to carry out new bond issues in 2020 with the authorization of its Management Board within the limit of a maximum volume of medium- to long-term issues under the EMTN program of €1.2 billion authorized by the Supervisory Board on December 12, 2019.

(ii) Launch of sustainable bonds

To formalize and make public its overall contribution to sustainable development goals, AFL launched a project to issue Sustainable Bonds in 2019. This project makes it possible to contribute to the financing of sustainable development to which French local authorities are very committed while meeting a strong demand from investors in terms of the transparency of the assets that are financed by AFL. This project led to the establishment, in January 2020, of a Sustainable Bond system, in accordance with the Green Bond Principles, the Social Bond Principles and the Sustainability Bond Guidelines of 2018 developed and promoted by the International Capital Market Association (ICMA). This plan was reviewed by Vigéo, the social and environmental rating agency, which on January 9, 2020 issued a reasonable assurance rating (the highest level of assurance) for AFL's commitments and the contribution of the Framework Document to sustainable development, with the exception of 2 of the 10 eligible categories ("Prevention and reduction of pollution" and "Accessible and sustainable infrastructures") for which Vigéo issued a moderate assurance rating (the second-highest level of assurance). It is in this context that, on July 13, 2020, AFL carried out its first issue of sustainable bonds in the amount of €500 million, contributing significantly to the total resources raised on the bond market in 2020, the amount of which reached €1,130 million, bringing the outstanding debt to €5,296 million under IFRS. In addition, this issue of sustainable bonds, which attracted a significant number of new investors, is an important step in AFL's issuance strategy and its positioning as a public player committed to responsible market finance. The graphs below show the distribution of the sustainable bond issue: geographically and by type of investor:





Other bond issues as part of the EMTN program

In addition to the issuance of sustainable bonds, AFL carried out the following bond issues during the year:

- The top-up of a private placement denominated in Australian dollars for an amount of 65 million;
- The top-up of the bond issue of June 20, 2026 for an amount of €100 million;
- Several top-ups of the bond issue of June 20, 2028 for a total amount of €310 million, bringing the total volume of this bond issue to €1 billion;
- Three 20-year private placements of €50 million each; and
- A 15-year private placement of €30 million.

This fund-raising made a very positive contribution to the continued construction of a diversified investor base, enabling AFL to finance its activities under good conditions, despite the health crisis and the very strong pressures which emerged in March 2020 on the financial markets. Indeed, all of the issues carried out by AFL in 2020 were carried out at an average margin of 32 basis points against the OAT (Treasury bond) curve and with an average maturity of 9.4 years, thus contributing to a good buffer of the balance sheet.

The total amount of outstanding debt at December 31, 2020 amounted to €5,296 million for an average cost equivalent to a margin of 28.5 basis points against the OAT. The valuation of AFL's debt reflects the quality of its signature on the bond market, supported by the highest ratings and the value of the assets on its balance sheet.

2.8 Money market issues as part of the ECP (Euro Commercial Paper) program

In addition to the AFL's medium- and long-term borrowing program for 2020, a drawdown of €400 million was granted for debt securities issues under the ECP program. During the 2020 financial year, AFL continued to activate this program, thus enabling it to optimize the management of the Company's cash through drawdowns in euros and foreign currencies.

2.9 Access to Central Bank refinancing

On June 11, 2020, the AFL originated the central bank loan mobilization system (TRiCP - Data Processing of Private Claims) which provides it with a line of credit, available at any time, from the Banque de France for' an amount of 70% of its medium-to-long-term loan balance sheet.

2.10 Membership

During FY 2020, AFL-ST, pursuing its corporate purpose, subscribed to the share capital of AFL to the tune of €21.6 million in the context of four capital increases, thus taking AFL's share capital from €146.8 million at January 1, 2020 to €168.4 million at December 31, 2020.

The AFL Group had 411 members at the end of the financial year. 59 new local authorities joined the AFL Group during the past financial year, including the departments of Allier, Loire-Atlantique and Calvados, the Grand Paris Sud Est Avenir territorial public entity and the City of Garges-lès-Gonesse, the City of Taverny, the City of Valserhône, the Suburban Community of Pau Béarn Pyrénées, the Suburban Community of Bourg-en-Bresse, as well as a number of municipalities and communities of municipalities. The trade unions include Tisséo, SM Eaux du Plateau de Signargues, Syndicat d'eau de l'Anjou, SICASIL and SIS du Sânon. Memberships in FY 2020 made it possible to increase the level of capital pledged by €23.3 million[3], bringing the total to €203.2 million.
2020 was an excellent year for the development of AFL throughout France, to which associations representing the local public sector have made a significant contribution.
As such, the AFL Group is pleased to have set up a partnership with the Agence Nationale de la Cohesion des Territoires (ANCT) on November 24, 2020 which was created by the law of July 22, 2019 and whose missions consist in playing a role of "project factory" to enable local authorities to carry out their projects. The aim of this partnership is to offer turnkey financing solutions for local authorities, particularly as part of the major programs run by ANCT aimed at reducing inequalities between regions: "Small cities of tomorrow", "France services", "City center action" or "Territories of industry".
Details of AFL's share capital and shareholding are provided in Part VII of the document below and additional information on new memberships is provided in AFL-ST's consolidated management report.

2.11 Production of credits

As regards the production of medium- and long-term loans by AFL in 2020, they amounted to €936.8 million against a target of €800 million. As a result, the symbolic cap of €4.5 billion in loans granted since the creation of the AFL was reached at the end of 2020.
After a first half characterized, as every year, by limited demand from borrowers, loan production was very dynamic in the second half, which alone represented 75% of the total disbursed over the financial year. In addition, there are new cash lines totaling €118.3 million. AFL's new medium- and long-term loan production accounts for a market share estimated at nearly 40% of the financing needs of AFL Group members in 2020. In addition, AFL sold certain receivables on local authorities, for a total amount of €24.3 million.
At the end of FY 2020, the outstanding loans signed by AFL amounted to €3,831.6 million under IFRS and mainly comprised medium- and long-term loans but also, and in a limited proportion, of cash lines for local authorities which are members of the AFL Group.

2.12 Results for the past financial year - Key figures under IFRS

NBI for FY 2020 amounted to €13,759K compared to €11,066K for FY 2019, this increase being explained by two items: the increase in revenue generated by the credit activity on the one hand, and non-recurring revenues from the sale of loans on the other. NBI for 2020 corresponds to an interest margin of €11,791K compared to €10,076K for the previous financial year and to €2,309K in net capital

[3] The capital pledged means the amount of capital contributions voted by the local authorities at the time they joined AFL-ST. For each local authority, the pledged capital corresponds to a capital commitment, the amount and the terms of payment of which are set out in the Company's Articles of Association.

gains from the sale of loans and investment securities compared to €500K in FY 2019, to which is added net income from hedge accounting of -€272K.

General operating expenses for the period amounted to €9,733K compared with €9,354K for the previous financial year. After depreciation and amortization of €1,514K compared to €2,221K at December 31, 2019, gross operating income amounted to €2,512K compared to -€508K at December 31, 2019.

The cost of risk relating to ex-ante impairments for expected losses on financial assets under IFRS 9 is -€352K for 2020, a significant increase compared to December 31, 2019. This increase has a dual source, on the one hand, the change in the weighting of the macroeconomic scenarios underlying the calculation model, due to the health crisis linked to the Covid-19 epidemic and, on the other, an increase in the size of the loan portfolio and liquidity reserve assets. The increase in outstanding loans only resulted in a slight increase in impairments because they are low risk. For other financial assets, namely securities and deposits made by AFL, the increase in the cost of risk, although limited, is mainly the product of a size effect and a maturity effect, as impairments are very sensitive to the duration of the assets.
FY 2020 ended with positive net income of €2,295K, compared with net income of -€1,191K for the previous year, reflecting the attainment of the break-even point by AFL.

2.13 Transfer of the head office and move

The relocation of AFL's operational teams was initially scheduled for March 27, 2020, and the transfer of the head office was to follow, effective March 31, 2020. The move had to be postponed due to regulatory confinement measures.
On March 26, 2020, the Supervisory Board authorized the transfer of the head office and the resulting changes, while delegating to the Chairman of the Board of Directors the power to set the effective date.
In his decision of June 15, 2020, the Chairman of the Executive Board transferred the head office to 112 rue Garibaldi with effect from June 22, 2020. The decision to transfer the head office will be subject to ratification by the next Ordinary General Meeting of Shareholders.

3. Significant events since the end of the financial year

3.1 Market activities

AFL's medium- and long -term borrowing program for 2021, approved by the Supervisory Board on December 14, 2020, was set at a maximum amount of €1.8 billion. The Supervisory Board also approved a maximum volume of debt securities drawn down under the ECP program for an amount of €500 million.

Thus, on January 14, 2021, the AFL carried out a new benchmark issue under the EMTN program for an amount of €500 million and a maturity of ten years under exceptional conditions. This seventh benchmark issue, since the creation of the AFL, was an unprecedented success for AFL with demand exceeding 2.2 billion in the order book, i.e. an over-subscription of 4.5 times the amount of the offer, bringing together nearly 90 different investors. The placement of the securities of the transaction was carried out with a narrow margin of 31 basis points against the government bond curve (Obligations Assimilables du Trésor - OAT). To this issue was added the execution on February 10, 2021 of a private placement denominated in US dollars, in the amount of $100 million with a maturity of two years.

3.2 Capital increase

On January 28, 2021, the AFL Group opened its 28th capital increase operation, with a closing date of March 18, 2021. This new capital increase resulted in the arrival of 19 new local authorities, bringing the total number of members to 430 and the amount of AFL-ST's share capital to €186 357 200. AFL's share capital amounts to €177 800 000. This capital increase will mark the arrival of the Grand Est region in the capital of AFL-ST.

4. Foreseeable situation and future outlook

AFL continued to grow, resulting in a rapid increase in the size of its balance sheet following the development of its credit activities with AFL-ST member local authorities and the programming of new capital increases to enable the regular and sustained influx of new member local authorities. This development will result in the increased use of AFL refinancing on the capital markets. Given the results obtained during the year in 2020, AFL should be able to meet or even exceed the objectives set in the 2017-2021 strategic plan. It should also be noted that the law of December 27, 2019 on commitment to local life and proximity to public action, which broadened the scope of entities authorized to join the AFL Group, led it to gradually establish the conditions for accommodating the various types of local public institutions, with the arrival of trade unions in 2020.

With regard to the effects of the Covid-19 pandemic during FY 2020 on the activities and development of AFL, the increase in uncertainties had no effect on new memberships of local authorities, or on the establishment of new loans, or on its access to the market. However, the intensity of the health crisis could affect the financial positions of local authorities in 2021 and in particular those of the most vulnerable. However, the solid financial position before the crisis and the financial support measures put in place by the State should facilitate the continuation of a significant contribution by local authorities to public investment. As a result, AFL anticipates a continued good investment momentum among said authorities through sustained borrowing. This situation should be such as to support the development of AFL which, over the course of its six years of activity, has demonstrated the relevance of its model and become one of the leading lenders of its shareholder members.[4]

[4] See also page 32 of the report, paragraph on political or macro-economic risks or risks related to the specific financial circumstances of the State where AFL operates.

II. Assets on the balance sheet at December 31, 2020 (IFRS)

As of December 31, 2020, AFL's assets consisted in steadily growing loans to member local authorities, but also assets, mainly in the form of securities, held in the Company's liquidity reserve and in Banque de France deposits.

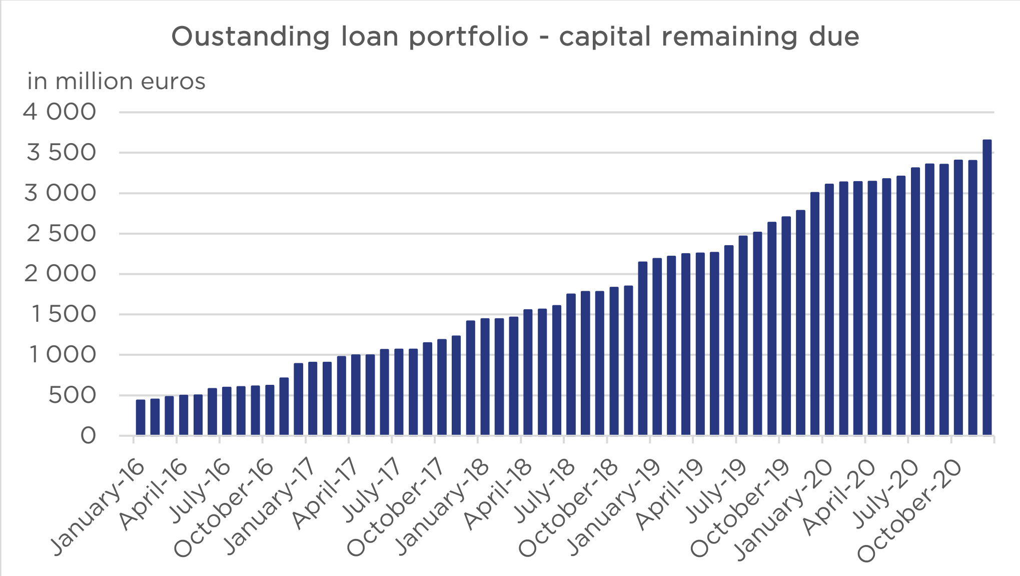
Excerpts of main assets (IFRS)

In thousands of euros	Dec. 31-20	Dec. 31-19	Dec. 31-18	Dec. 31-17	Dec. 31-16	Dec. 31-15
Loans and customer transactions	3,831,563	3,160,500	2,229,911	1,430,829	892,227	383,527
Securities at fair value through other comprehensive income	614,697	535,900	502,487	358,964	354,081	456,497
Securities held at amortized cost	166,864	135,387	175,152	-	-	-
Loans and receivables due from credit institutions	196,955	110,632	57,101	211,233	23,412	45,982
Margin calls	49,954	79,190	52,841	68,376	20,682	12,985
Cash and central banks	601,746	165,604	121,650	420,351	57,929	-
Hedging derivative instruments	211,916	130,957	44,661	15,629	16,777	-

1. Loans granted to local authorities

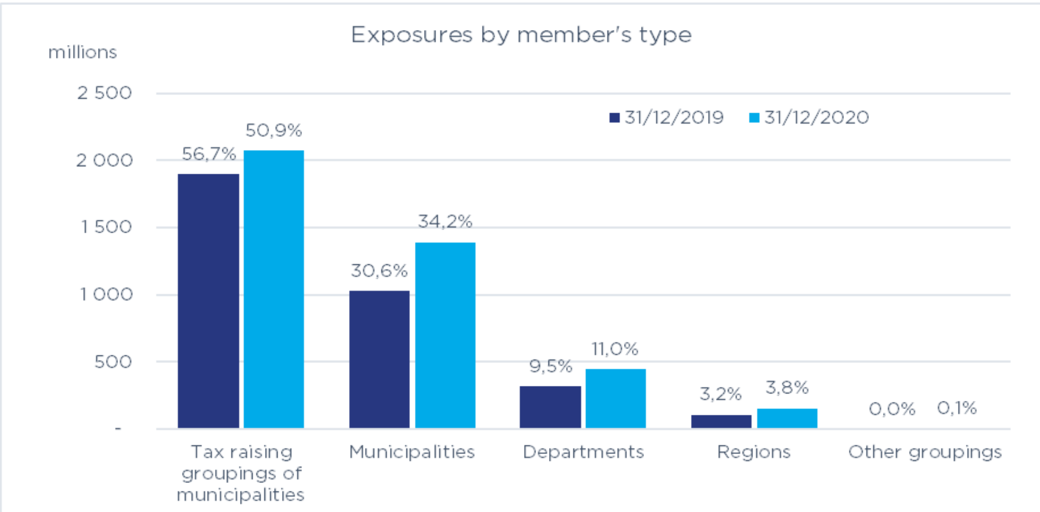
The loan portfolio, recognized at amortized cost, of the assets on AFL's balance sheet represents an outstanding amount of €3,831.6 million compared to €3,160.5 million at December 31, 2019 after taking into account the impact from changes in interest rates. This portfolio must be supplemented by loans signed but not disbursed and which appear off-balance sheet, in order to have an overview of AFL's outstanding loans. At December 31, 2020, the amount of financing commitments recorded off-balance sheet amounted to €398.8 million compared to €317.7 million at December 31, 2019. Accordingly, at December 31, 2020, the total loan commitments to local authorities carried by AFL amounted to €4,230.2 million compared to €3,478.2 million at December 31, 2019. This increase in outstanding loans demonstrates the competitiveness of AFL's business model for its members in its ability to offer them liquidity under the best conditions and within the framework of the prudent financial policies that AFL imposes on itself.

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



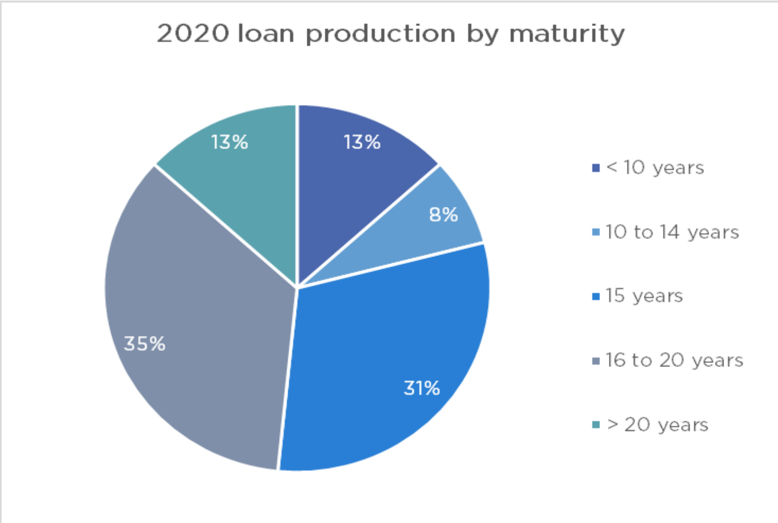
AFL lends exclusively to French local authorities that are shareholders of AFL-ST. The loan portfolio is made up of 85% exposures on the entire municipal block, compared to 87% at December 31, 2019, of which 50.9% in own-tax groups, including metropolitan areas, compared with 56.7% at the end of the previous financial year. Exposure to the French departments increased from 9.5% to 11% over the period, as well as to the regions, which rose from 3.2% to 3.8%. Unions eligible for AFL-ST membership since the end of May 2020 are appearing on the AFL's balance sheet for the first time, with exposure still very limited, at €2.4 million as of December 31, 2020.

The graph below shows the change in exposure by category of local authority between 2020 and 2019 in millions of euros and as a percentage.



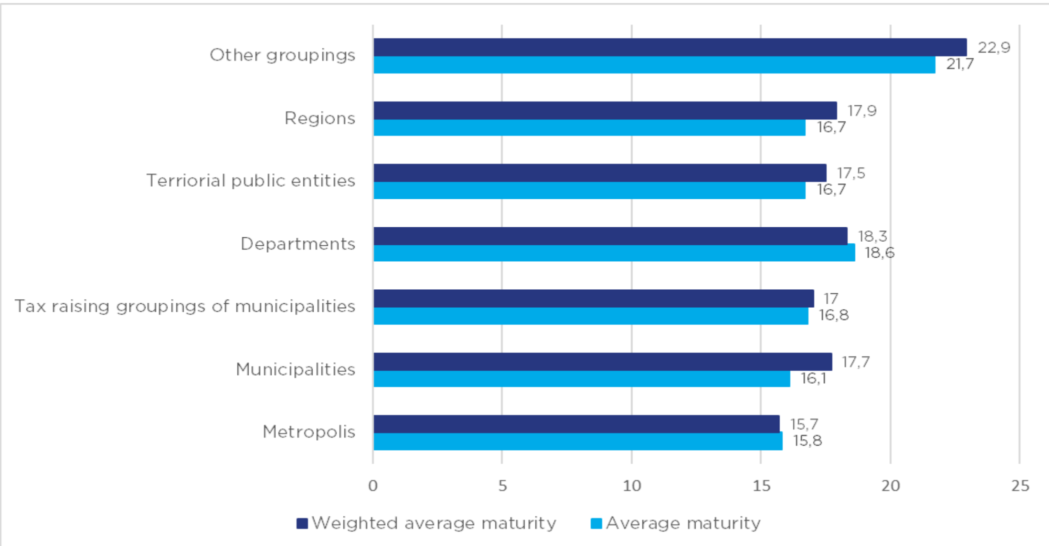
As shown in the chart below, 74% of the loans produced by AFL in 2020 have a maturity of between 10 and 20 years, of which 31% at 15 years. 13% of the production was on loans at less than ten years and 13% on loans at more than twenty years.

Breakdown of loans to local authorities by maturity in 2020



The graph below shows, as of December 31, 2020, by category of local authority, the average maturities and volume-weighted average maturities of the AFL loan production carried out in 2020. There is considerable consistency from one category to another, with the exception of trade unions whose average loan maturity, weighted or not by volume, is longer than for the other categories. However, this observation must take into account the still very modest volume of loans granted to the unions at December 31, 2020.

Average maturity of loan production in 2020 by local authority segment, at December 31, 2020 (in years)



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 is intended primarily to meet the institution's cash flow requirements with, as a primary objective, the provision of the liquidity required for lending activities, for debt servicing, but also for the margin calls that AFL may have to face, due to the significant use of interest rate and foreign exchange risk hedging instruments, in accordance with its financial policies and management objectives. This liquidity must be available regardless of market circumstances, it being specified that the only resources that may be mobilized by AFL are resources raised on capital markets.

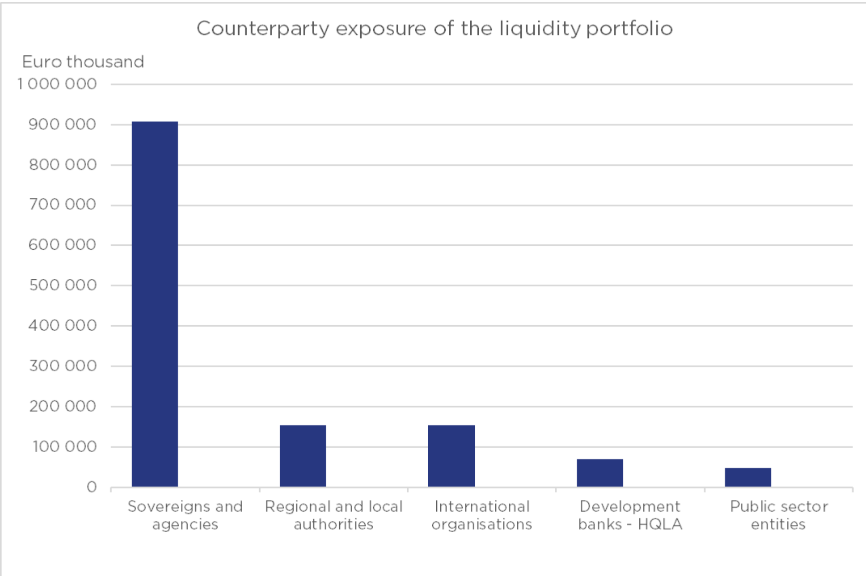
As of December 31, 2020, the assets comprising the liquidity reserve amounted to €1,580.3 million. This liquidity reserve is divided into two main segments:

- One segment invested in very short-term instruments, and comprising debt securities, deposits on nostri accounts, term accounts, and deposits with Banque de France for a total of €798.7 million[5]; and
- One segment consisting mainly but not exclusively of HQLA-accredited securities, due to their high rating and high degree of liquidity for a total of €781.6 million[6].

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 excellent rating levels from the major rating agencies. As of December 31, 2020, 81.1% of the liquidity reserve consisted of so-called "HQLA" assets, with a predominance of sovereign issuers and public agencies. The remaining 18.9% mainly represents nostri accounts as well as some securities exposures on the banking sector. The securities acquired as part of the liquidity reserve include securities 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.

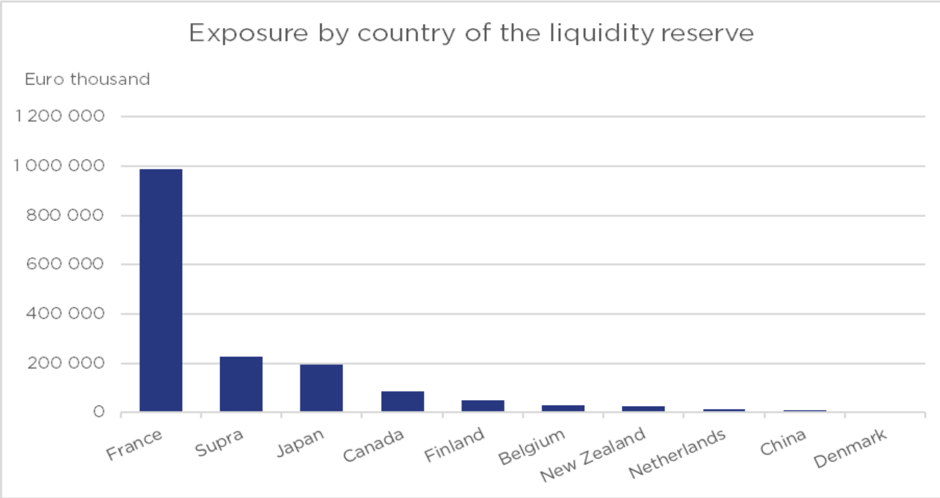
Distribution of exposures by type of counterparties[7]



As shown in the chart below, the assets making up the liquidity reserve are mainly related to French issuers, but also European and international issuers, thus contributing to the resilience of the portfolio in an environment that during the year in 2020 was particularly disrupted due to the health crisis and its effects on financial markets.

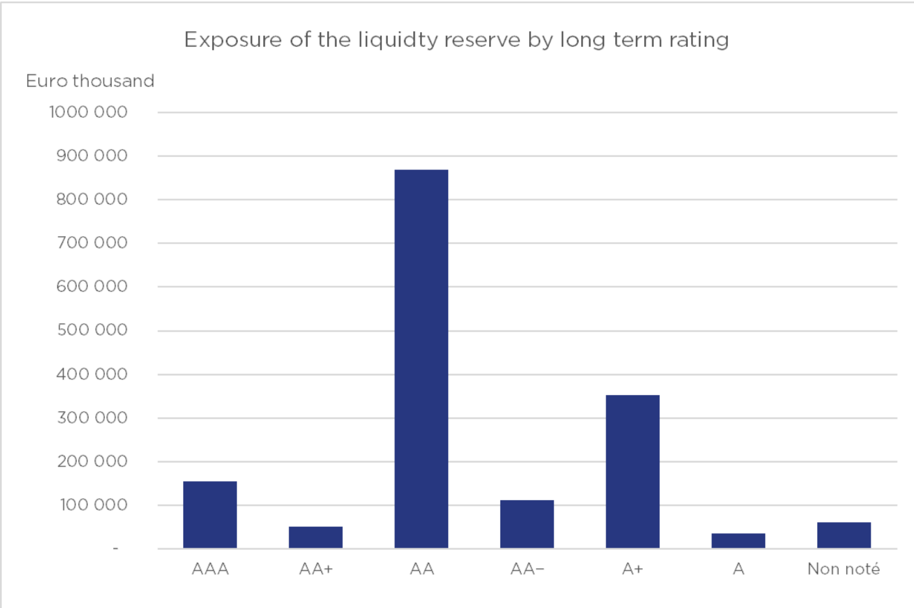
[5] €601.7 million for central bank deposits, €246.9 million for bank deposits from which must be deducted €50 million of margin calls paid
[6] €614.7 million of securities at fair value through equity and €166.9 million of securities at amortized cost
[7] Public development credit institutions : (refer to the European Commission Delegated Act on the LCR liquidity coverage ratio of October 10, 2014 and CRR2 published on June 7, 2019), represent a category of financial institutions eligible for the HQLA classification in view of their specific features.

Breakdown of liquidity reserve exposures by country



AFL has very high exposure ratings in its liquidity reserve. Unrated assets correspond to low-risk exposures to the public sector and term deposits with the banking sector.

Breakdown of liquidity reserve exposures by country



3. Margin calls paid

Excluding loans to local authorities and assets in the liquidity reserve, most of the balance of financial assets on AFL's balance sheet is made up of margin calls relating to interest rate hedging activities, which are paid (net of margin calls received) to the clearing house LCH Clearnet, it being specified that AFL offsets almost all of its production of interest rate derivatives. These margin calls, which also include guarantee deposits (IMR[8]), in securities or in cash, with the clearing house amounted to €108.7 million at December 31, 2020 of which €50 million in cash and the remainder in securities. This amount is small when compared to the total inventory of hedging swaps carried by AFL due to the offsetting resulting from the hedge swaps of pay and receive interest rates. AFL pursues an objective of desensitizing the instruments that it carries on both the assets and liabilities side of its balance sheet through interest rate swaps. However, the amount of margin calls paid increased year-on-year, by €29.55 million. This increase is explained by the increase in the volume of swaps and by an AFL balance sheet position, which was structurally paying the fixed rate in 2020 in a context of a continued decline in rates.

[8] Initial margin requirement

4. Subsidiaries and equity investments

4.1. Activities of the Company's subsidiaries and companies controlled by it

AFL has no subsidiaries or investments in other companies.

4.2. Equity investments and takeovers

AFL did not take any shareholdings in a company with its registered office in France or abroad during the financial year ended December 31, 2020.

Moreover, AFL does not control any company, as of December 31, 2020, within the meaning of Article L.233-3 of the French Commercial Code. There are therefore no treasury shares held by a controlled company.

4.3 Cross-shareholdings

AFL has not had to sell shares in order to put an end to the cross-shareholdings prohibited by Articles L.233-29 and L.233-30 of the French Commercial Code.

5. Return on assets indicator

As AFL's net income at December 31, 2020 was positive under both French and IFRS standards, the return on assets was consequently positive. The growth in AFL's banking activities has led to a significant increase in outstanding loans to local authorities, for which interest received net of interest paid covers all of the Company's current operating expenses and depreciation and amortization. In addition to these revenues, non-recurring revenues are the result of the sale of securities and loans, which contribute to increasing the profitability of AFL's activities.

III. Balance sheet liabilities and debt management (IFRS)

AFL's liabilities mainly consist of debts contracted in connection with bond issues that have been carried out since the beginning of AFL's activities and that have not yet reached maturity. At the end of the financial year ended on December 31, 2020, outstanding debt, recognized at amortized cost, amounted to €5,296 million compared to €4,037 million at December 31, 2019, after taking into account, due to hedge accounting, the consequences of changes in interest rates since the dates of issue of the debt instruments.

With regard to AFL's equity, after four capital increases carried out during 2020, the subscribed capital amounted to €168.40 million compared to €146.8 million at December 31, 2019, and the amount of equity under IFRS stood at €149.7 million compared with €123.9 million at December 31, 2019.

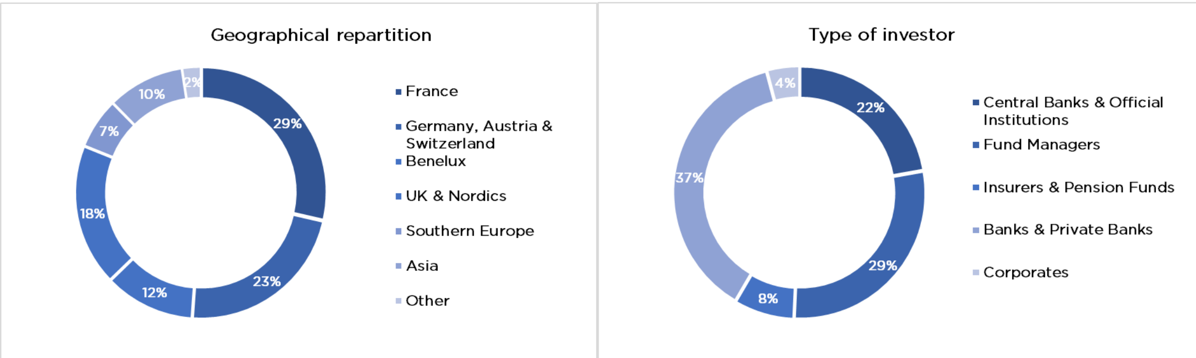
Excerpts of the main liabilities (IFRS)

In thousands of euros	Dec. 31-20	Dec. 31-19	Dec. 31-18	Dec. 31-17	Dec. 31-16	Dec. 31-15
Debt securities issued	5,295,982	4,036,974	2,996,909	2,335,802	1,259,073	840,536
Equity	149,728	123,854	117,309	114,856	93,529	62,046

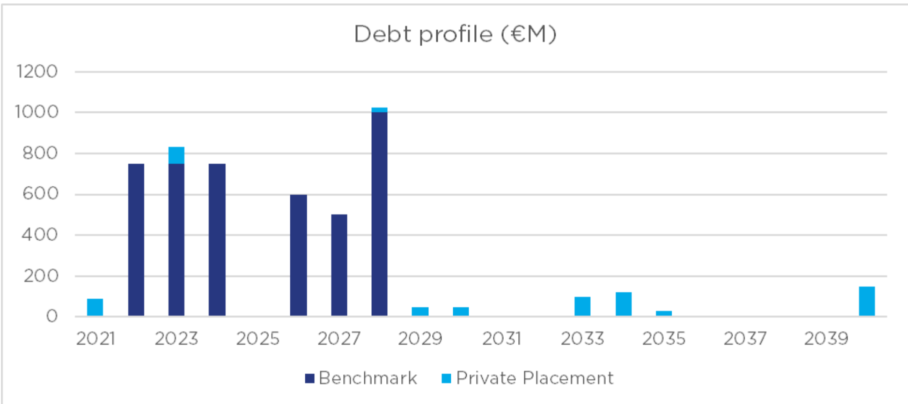
1. AFL's financial debt

The debt portfolio recognized as a liability on AFL's balance sheet represented an outstanding amount of €5,296 million as at December 31, 2020 compared with €4,037 million as at December 31, 2019. As of December 31, 2020, this portfolio consists of bonds issued by AFL to finance the growth of its credit activities and its liquidity reserve as part of its financial policies. This portfolio comprises 17 bonds, including six benchmark-sized bonds denominated in euros, and 11 private placements, eight of which are denominated in euros, one in US dollars, one in Swedish kronor and one in Australian dollar. This mix reflects AFL's issuance strategy, which consists in favoring benchmark-sized public issues denominated in euros in order to establish its signature on the markets and thus be able to have access to the resources needed for its development on a sustainable basis, while making private placements denominated in euros or foreign currencies, when demand permits. Private placements represent resources that provide a very useful complement to public issues through additional diversification of the AFL's debt placement and under generally optimized terms as regards cost and maturity. The distribution of the aggregate portfolio of public issues denominated in euros is shown in the charts below.

Distribution of AFL Euro issues by investor type



As of December 31, 2020, the average maturity of AFL's debt was 5.72 years compared to 5.35 years as of December 31, 2019. The debt maturity profile is presented in the chart below:



2. Breakdown of trade payables

The figures presented below refer to the breakdown at the end of the financial year ended December 31, 2020 of the balance of debts to AFL suppliers, in accordance with Article D.441-4 of the French Commercial Code. This supplier debt is characterized by a settlement period of less than 30 days.

It should be noted that, given the nature of AFL's activities, the figures presented in the table only represent trade payables, as customer receivables held by AFL derive exclusively from the loan agreements described in paragraph II.1 above.

Breakdown of AFL trade payables (including tax)

Total trade payables (incl. tax in euros)					
Dec. 31-20	Dec. 31-19	Dec. 31-18	Dec. 31-17	Dec. 31-16	Dec. 31-15
1,464,312 €	€1,101,026	€490,869	€449,140	€747,054	€707,874

The table below shows the number and amount excluding tax of supplier invoices received and not paid at the end of the financial year. Information on late payments is broken down by late payment bracket and reported as a percentage of the total amount of purchases for the financial year and of revenue. The reference payment terms used for the preparation of this table are the contractual payment terms.

Invoices received and not paid as of December 31, 2020 whose term is past due (excluding taxes in euros)						
	Article D.441-4 I, 1°: Invoices received and not paid at the end of the financial year and whose term is past due					
	0 days (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and over	Total invoices (1 day or more)
(A) Late payment tranches						
Number of invoices concerned	65	-	-	-	-	-
Total amount of invoices concerned excl. tax	476,251	-	-	-	-	-
Percentage of the total amount of purchases excl. tax for the financial year	6.8%	-	-	-	-	-
Percentage of revenue excl. tax for the financial year	4.4%	-	-	-	-	-
(B) Invoices excluded from (A) relating to disputed or unrecognized debts						
Number of invoices excluded	-	-	-	-	-	-
Amount of invoices excluded	-	-	-	-	-	-
(C) Reference payment periods used (contractual or legal period - Article L.441-6 or Article L.443-1 of the French Commercial Code)						
Payment periods used to calculate late payments	Contractual					

The table below shows the number and amount excluding tax of invoices relating to disputed or unrecognized debts and receivables.

Invoices overdue during the financial year						
	Article D.441-4 II: Invoices received having experienced a payment delay during the financial year					
	0 days (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and over	Total (1 day or more)
(A) Late payment tranches						
Number of invoices concerned	787	52	16	5	10	83
Total amount of invoices concerned excl. tax	6,549,758	€249,895	€92,714	€38,432	€26,917	€407,958
Percentage of the total amount of purchases excl. tax for the financial year	94.14%	3.59%	1.33%	0.55%	0.39%	5.86%
Percentage of revenue excl. tax for the financial year	60.02%	2.29%	0.85%	0.35%	0.25%	3.74%
(B) Invoices excluded from (A) relating to disputed or unrecognized debts						
Number of invoices excluded						
Amount of invoices excluded						
(C) Reference payment periods used (contractual or legal period - Article L.441-6 or Article L.443-1 of the French Commercial Code)						
Payment periods used to calculate late payments	Contractual					

3. Margin calls received

Excluding debt instruments, the balance of financial liabilities on AFL's balance sheet is made up of margin calls relating to interest rate and foreign exchange hedging activities received from banks that are counterparties to the hedging transactions (from which should be subtracted the margin calls paid to these counterparties). Margin calls received amounted to €8.25 million at December 31, 2020.

IV. Net income for the year ended December 31 2020

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

The annual 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. AFL also prepared voluntarily financial statements according to IFRS for the financial year ending on December 31, 2020, for which comments are given in this report.

Additional explanations are given in the appendix to the annual financial statements.

The 2020 financial year is the sixth year of AFL which ends six years of operational activities for AFL mainly focused on the production of loans to local authorities.

1. Financial statements prepared in accordance with French accounting standards

The year in 2020 marked another significant increase in the results of the lending activity, which is in line with the Company's development trajectory in accordance with its 2017-2021 strategic plan. The increase in earnings excluding non-recurring items reflects the good momentum in revenue generation from the lending activity since FY 2015, the year in which AFL began operations, and which is measured in particular by the steady and constant increase in the outstanding loan portfolio granted to member local authorities.

At the end of the 2020 financial year, NBI generated by the activity amounted to €14,157K compared to €10,647K at December 31, 2019.

NBI for 2020 corresponds mainly to a net interest margin of €11,693K, an increase of 16.4% compared to the €10,047K recorded in the previous financial year, to capital losses on the disposal of investment securities from the management of the liquidity reserve in the amount of €529K, to the cost of unwinding loan hedges in the amount of €405K, and €3,244K to other banking income corresponding to capital gains on the disposal of fixed-rate loans that AFL had held for a long time, with the aim of reinvesting equity.

The interest margin of €11,693K stems from three items:

- Firstly, income from the loan portfolio, after hedging effects, amounting to €7,145K. Although outstanding loans have grown rapidly, interest income from the loan portfolio is down in nominal terms from its December 31, 2019 level, when it stood at €8,128K. This is one of the effects of the fall in interest rates, which results in a transfer of income from AFL assets to liabilities, which, in view of negative short-term rates, are transformed into income;

- Secondly, the negative revenues related to the management of the liquidity reserve amounting to -€4,946K compared to -€2,816K at December 31, 2019, reflect the cost of carrying liquidity in a negative interest rate environment. This increase in the cost of carrying liquidity, at constant profitability against 3-month Euribor, is the result of an increase in the volume of the liquidity reserve and a rapid decline in the 3-month Euribor rate during the year in 2020;

- Lastly, interest on the debt and the cost of collateral, which amounted to €9,494K, after taking into account hedges, compared with €4,735K at December 31, 2019. In a negative interest rate environment, these sharply rising interest rates are now AFL's main source of income[8]. This very significant increase is due to the increase in AFL's outstanding debt during the year and the continued decline in the Euribor rate on which all of AFL's debt after swaps is indexed. This figure takes into account an increase in interest on margin calls from -€397K at December 31, 2019 to -€445K at December 31, 2020 and interest on short-term debt resulting from issues of negotiable debt securities under the ECP program, which amounted to €737K compared to €343K at December 31, 2019.

For the financial year ended on December 31, 2020, general operating expenses amounted to €10,090K compared to €10,101K for the previous financial year. These expenses include personnel expenses of €5,018K compared with €4,732K in 2019. General operating expenses also include administrative expenses, which amounted to €5,072K compared with €5,369K at December 31, 2019, after re-invoicing between AFL and Société Territoriale and deferred charges. This decrease can be explained by two factors: the move of AFL to the premises on rue Garibaldi, which has led to a reduction in rent and rental expenses for the Company, and the Covid-19 crisis, which has considerably reduced expenses in relation to travel, marketing and all communication events. However, administrative expenses for the financial year relating to IT fees increased due to the start-up of the IT system dedicated to market activities. There has also been an increase in taxes, duties and mandatory bank contributions.

At the end of the financial year, depreciation and amortization amounted to €1,160K compared with €2,259K at December 31, 2019, i.e. a decrease of €1,099K. This change mainly reflects the end of the amortization of the core banking information system since the fourth quarter of 2019 and which was implemented when AFL was created. In addition, the 2019 financial statements included a depreciation of the fixtures and fittings of the former AFL premises for €271K. In 2020, the amount of allocations comprised almost exclusively the depreciation and amortization of capital expenditure incurred by AFL in all of its information systems.

After depreciation and amortization, gross operating income at December 31, 2020 was in positive territory at €2,906K, compared with -€1,713K in FY 2019.

The result underlines the growth of AFL's recurring activities, of which that in relation to outstanding loans to member local authorities is the main factor. These activities have now reached a level sufficient to cover all current operating expenses and depreciation and amortization. Thus, during 2020, the cost/income ratio, calculated on the basis of AFL recurring income, fell below the level of 100% for the first time, reaching 96.2% at December 31, 2020, thus confirming the Company's arrival at the break-even point and the sustainability of its model.

In accordance with the reporting practices of financial institutions, earnings for the financial year are presented in the paragraph below in accordance with IFRS. The difference between the French standards and IFRS mainly concerns deferred tax assets not recognized under French GAAP, hedge accounting and restatements related to IFRS 16 on leases.

Transition from French GAAP to IFRS

Transition from French GAAP to IFRS (In thousands of euros)	Dec. 31-20
Net profit – French GAAP	**2,887**
IFRS restatements	
Cancellation of provisions for unrealized losses on investment securities	-224
Ineffective micro-debt hedging	-1,177
Ineffective coverage of hedged loans	-162
Ineffective macro-hedging of loans	578
Ineffective micro-hedging of securities at amortized cost	-4
Difference in valuation due to the ESTER transition	493
Transition to effective interest rate on term deposits	104
IFRS 9 restatements (JV securities through OCI, loans and bank accounts)	-352
IFRS 16 restatements	-2
Deferred tax adjustments	154
Net profit under IFRS	**2,295**

2. Financial statements prepared in accordance with IFRS

2.1 Highlights of the past financial year

FY 2020 marks a further significant increase in net banking income related to the loan business, which is part of the Company's development path in accordance with the objectives of the 2017-2021 strategic plan. The increase in earnings excluding non-recurring items reflects the good momentum in revenue generation from the lending activity since FY 2015, the year in which AFL began operations, and which is measured in particular by the steady and constant increase in the outstanding loan portfolio granted to member local authorities.

At the end of the 2020 financial year, NBI generated by the activity amounted to €13,759K compared to €11,066K at December 31, 2019.

NBI for 2020 mainly corresponds to an interest margin of €11,791K, an increase of 17% compared to the previous year and which amounted to €10,076K at December 31, 2019, to capital gains on disposals of loans net of hedging and commissions in the amount of €2,721K, to capital losses on sales of investment securities arising from the management of the liquidity reserve in the amount of €529K, and to income from the revaluation hedging relations in the amount of -€272K. The latter non-recurring transactions contributed in the amount of €2,309K to AFL's NBI in 2020.

The interest margin of €11,791K stems from three items:

- Firstly, income from the loan portfolio, after hedging effects, amounting to €7,145K. Although outstanding loans have grown rapidly, interest income from the loan portfolio is down in nominal terms from its December 31, 2019 level, when it stood at €8,128K. This is one of the effects of the fall in interest rates, which results in a transfer of income from AFL assets to liabilities, which, in this case, in view of negative short-term rates, are transformed into income;
- Secondly, the negative revenues related to the management of the liquidity reserve amounting to -€4,843K compared to -€2,778K at December 31, 2019, reflect the cost of carrying liquidity in a negative interest rate environment. This increase in the cost of carrying liquidity, at constant profitability against 3-month Euribor, is the result of an increase in the volume of the liquidity reserve and a rapid decline in the 3-month Euribor rate during the year in 2020;
- Lastly, interest on the debt and the cost of collateral, which amounted to €9,494K, after taking into account hedges, compared with €4,727K at December 31, 2019. In a negative interest rate environment, this sharply rising interest is now AFL's main source of revenue. This very significant increase is due to the increase in AFL's outstanding debt during the year and the continued decline in the Euribor rate on which all of AFL's debt after swaps is indexed. This figure takes into account an increase in interest on margin calls from -€397K at December 31, 2019 to -€445K at December 31, 2020 and interest on short-term debt resulting from issues of negotiable debt securities under the ECP program, which amounted to €737K compared to €343K at December 31, 2019.

Net income from hedge accounting amounted to -€272K. It represents the sum of the differences in fair value of the hedged items and their hedging. Among these differences, €578K is due to valuation differences on interest rate hedge instruments classified as macro-hedges and -€1,343K due to valuation differences on interest rate hedge instruments classified as micro-hedges. There are still latent valuation differences between the hedged items and the hedging instruments, one of the components of which stems from a market practice that led to the recognition of a valuation asymmetry between the daily collateralized hedging instruments, which are discounted on the basis of an Eonia curve, now replaced by a €STER[9] curve, with reference to the new monetary index, and the hedged items, which are discounted on the basis of a Euribor curve. Under IFRS, this leads to the recognition of an ineffective hedge which is recorded in the income statement. However, it should be noted that this corresponds to latent income. Lastly, income from hedge accounting includes the negative valuation difference of the hedging swaps linked to the change of reference index from EONIA to €STER for an amount of -€493K. It should be noted that this

[9] The reform of the monetary indices resulted in the replacement of the EONIA index by the €STER index. The latter is determined and published daily by the European Central Bank. Since October 2, 2019, the daily rate of the EONIA is equal to that of the €STER, increased by 8.5 basis points. The European Money Markets Institute (EMMI), the administrator of EONIA and EURIBOR, announced that the EONIA will cease to be published as of January 3, 2022.

valuation difference was fully offset by a cash payment received by AFL which corresponds to the reduction in the compensation of the collateral paid until the maturity of the hedged instruments, now calculated on the basis of the €STER index.

For the financial year ended on December 31, 2020, general operating expenses amounted to €9,733K compared to €9,354K for the previous financial year. These expenses include personnel expenses of €5,018K compared with €4,732K in 2019. General operating expenses also include administrative expenses, which amounted to €4,715K compared with €4,622K at December 31, 2019, after re-invoicing between AFL and Société Territoriale. This stabilization of expenses is the combined result of the Covid-19 crisis which, on the one hand, considerably reduced expenses relating to travel, marketing actions and all of the Company's communication events, and on the other, increases in IT fees linked to the start-up of the IS market but also in taxes, duties and mandatory bank contributions. It should also be noted that the financial statements for 2020 reflect the first very positive effects of the AFL move, which resulted in a significant drop in the rent paid by the Company.

At the end of the financial year, depreciation and amortization amounted to €1,514K compared with €2,221K at December 31, 2019, i.e. a decrease of €707K. This change reflects the end of the amortization of the core banking information system since the fourth quarter of 2019, a system that was implemented when AFL was created. Also, the amount of the provisions includes the application of IFRS 16 to the commercial lease that AFL set up with ST as part of its move to the premises on rue Garibaldi and mainly includes the amortization of expenses on investments made annually by AFL in all of its information systems.

The financial year ended on December 31, 2020 resulted in a positive gross operating income of €2,512K, up significantly compared to December 31, 2019, which amounted to -€508K.

The cost of risk relating to ex-ante impairments for expected losses on financial assets in accordance with IFRS 9 increased for 2020 with an additional charge to provisions of €352K. This increase is due to the re-estimation of the parameters of the macro-economic scenarios underlying the AFL model, following the crisis caused by the Covid-19 epidemic and the increase in the outstanding loans and financial assets of the liquidity reserve. However, the increase in outstanding loans only resulted in a slight increase in impairments because they are low risk. For other financial assets, including the liquidity reserve, namely securities and deposits made by AFL, the increase in the cost of risk, although limited, is mainly the product of a size effect and a maturity effect, as impairments are very sensitive to the duration of the assets.

Lastly, after the scrapping of €21K of intangible assets and the activation of positive deferred tax of assets in the amount of €156K related to IFRS restatements, FY 2020 ended with a positive net income of €2,295K compared to - €1,191K the previous financial year. The result underlines the growth of AFL's recurring activities, of which the increase in relation to outstanding loans to member local authorities is the main factor. These activities have now reached a level sufficient to cover all current operating expenses and depreciation and amortization. Thus, during 2020, the cost/income ratio, calculated on the basis of AFL recurring income, fell below the level of 100% for the first time, reaching 95.4% at December 31, 2020, thus confirming the Company's arrival at the break-even point and the sustainability of its model.

3. Proposed appropriation of income

It has been proposed that entire net income for the year ended December 31, 2020 (annual financial statements prepared in accordance with French standards), which amounted to €2,887,489, be allocated to retained earnings.

4. Dividends paid (Article 243 bis of the French Tax Code)

No dividends were paid in respect of the financial year ended December 31, 2020 nor were they paid during the three previous financial years.

5. Non-tax deductible expenses (Articles 39-4 and 39-5 of the French General Tax Code)

During the financial year ended December 31, 2020, the AFL did not incur any expenses within the meaning of Articles 39-4 and 39-5 of the French General Tax Code.

V. Risk management

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

This section describes the main risk factors which could, according to AFL's estimates at the date of this report, impact AFL's activity, financial position, reputation, results or outlook.

Risks specific to the activity are presented by main categories, in accordance with Article 16 of Regulation (EU) 2017/1129, called "Prospectus 3" of June 14, 2017, whose provisions relating to risk factors came into force on July 21, 2019.

Within each of the risk categories listed above, the risk factors that AFL considers the most important are listed first. The exposure figures presented provide information on AFL's degree of exposure but are not necessarily representative of future risk trends.

A. Economic sequences of the Covid-19 epidemic

In December 2019, a new strain of coronavirus (Covid-19) appeared in China. The virus has spread out to many countries becoming pandemic in March 2020. Very significant health measures (border closures, travel bans, containment measures, etc.) have been taken in many countries to fight the spread of the virus.

Due to the internationalization of economies, the considerable weight of trade and the internationalization of supply chains, the spread of the virus and the health measures taken have had a significant impact on economies and financial markets worldwide.

There have been multiple responses to the crisis, at the national level through the intervention of national governments and central banks, as well as at the international level through numerous initiatives by major donors. Regarding Europe, multiple joint actions, particularly by the European Central Bank, but also by the Commission and the Council, have been decisive in restoring the confidence of economic participants, improving market liquidity and enabling economies to recover. This was in particular the objective of introducing a recovery plan for Europe (NextGenerationEU) and the adoption of the long-term EU budget for 2021-2027, at the end of the Council of Heads of State on July 21, 2020, under the terms of which a comprehensive package of measures was adopted. This package of measures was intended to help European Union States rebuild after the Covid-19 pandemic and support investment, particularly in the green and digital transitions. These measures should help anchor the economic recovery in the medium- and long-term, following the bold actions taken by the ECB starting in March 2020 to avoid market dislocation and restore the functioning of economies.

Despite these measures, both the decline in consumption and trade and the fall in production have led to a sharp recession in France, as well as in many other countries. The French economy suffered a decrease in its gross domestic product (GDP) of 8.2%, according to INSEE, which is however less bad than expected. The fall in GDP is estimated by Eurostat at -6.8% for the year as a whole for the countries of the Euro zone. According to the French government, France's public debt should amount to nearly 120% of GDP by the end of 2020.

In early 2021, the resurgence of Covid-19 led to new restrictions on mobility. Part of Europe is being re-confined or undergoing local or national curfews. The virus and its variants could lead to the extension or repetition of restrictive measures in the coming months. Most countries are expected to register a rebound in GDP in 2021, but its level may be lower than at the end of 2019.

The consequences of this crisis for AFL are mainly at three levels:

- In 2020, the French local public sector financing market, which constitutes the market in which AFL conducts all of its credit operations, was affected by the health crisis linked to the Covid-19 epidemic, which notably resulted in the postponement of the second round of municipal elections. In 2021, departmental and regional elections were also postponed from March to June. The health crisis directly impacted local budgets in 2020. At the end of 2019, local authorities - despite significant disparities - posted a very healthy overall financial position with an increase in gross and net savings and a falling debt ratio. Given a favorable pre-crisis budget position, the financial consequences of the health crisis are still poorly understood at this time;

- The recession in France in 2020 was massive with a contraction of GDP of -8.2%. The Cazeneuve mission documented and simulated legitimate fears of a sharp and sudden contraction in local authorities' tax and tariff revenues (July and October 2020 and February 2021): the total impact of the crisis on local authorities' finances in 2020 was estimated at €3.8 billion (excluding Ile-de-France) and the decrease in cash flow at around -10.5%. Significant disparities remain between the different levels of local authorities, and between local authorities within the same category. The Cazeneuve mission concluded that the support measures voted in LFR-3, LFR-4 and LFI 2021 had a positive impact on local finances and achieved their objective of smoothing cash flow from operations. Nevertheless, the Cazeneuve mission also underlines that a weaker impact of the crisis in 2020 implies a less pronounced rebound in 2021 and 2022, and a smoother exit slope. In any case, the situation will be better in 2021 than in 2020, in terms of both tax and tariff revenue and expenditure. The risk that persists for local finances will be measured in 2021 and 2022. A gradual reconstitution of the level of cash flow from operations of the local authorities must therefore be expected. The disparities observed in 2020 between local authorities will be partially repeated in 2021 and 2022. EPCIs with their own taxation and departments should be the segments of local authorities most exposed to the budgetary impacts of the health crisis,
- The Court of Auditors, without denying the intensity of the shock suffered in 2020, is optimistic about the effects on local budget balances (with the exception of the departments), given the sound financial position before the crisis and the financial support measures put in place by the State. The Court thus considers that *"if the health crisis has an effect on the revenues of the municipal block, it should be relatively limited at first. However, there is still considerable uncertainty as to the duration of this deterioration and the outlook for an economic rebound",*
- While the support measures adopted (LFR3 & LFR4 and the 2021 Finance Law) have reduced the budgetary impact for the most exposed and vulnerable local authorities, the budgetary safeguard mechanisms have only been used moderately by local authorities,
- At this stage, the AFL believes that the credit risk of French local authorities remains limited, as a growing number of individual positions still need to be monitored;

- The consequences on local public investment and borrowing by local authorities are still uncertain. Nevertheless, some elements shed light on the subject and are likely to support them;
  - The €100 billion stimulus plan announced in September 2020, which is currently being rolled out, and in which local authorities have a major role to play, could "distort" the electoral investment cycle according to which, at the start of their term of office, local authorities' financing needs are lower before recovering in the middle and end of their term of office. This is all the more so as the collapse of cash flows - quite inevitable - could justify a more dynamic use of borrowing from the start of the term of office. According to the Cazeneuve mission (February 2021), the investment budgets decreased in 2020, in line with the electoral cycle of the municipal block: they decreased by -4.1% compared to 2019, of which -11% for the expenditure on equipment. For the municipal block, investment spending fell sharply (-11.7%) due to the electoral cycle, the postponement of municipal elections and the successive lockdowns that brought many sectors of activity to a standstill (particularly construction). For the departments and regions, investment spending increased compared to 2019: +0.6% for the former and +16.6% for the latter - a trend again in line with the electoral cycle. Local authorities account for more than 65% of public investment each year. The Cazeneuve mission concluded that local authorities are now in a position to relaunch investment:
    - All the support measures enabled local authorities in 2020 to maintain their cash flow at a level close to that of 2018,
    - They have a positive cash balance of €49.4 billion as of January 31, 2021 (compared to €43.9 billion as of January 31, 2019),
    - Access to borrowing is facilitated for the local public sector, which is generally considered low risk by banking institutions,
  - The Court of Auditors (December 2020) also considers that local public investment can be preserved: the municipal block, regardless of the electoral investment cycle, and the regions could maintain a sustained level of capital expenditure. This local commitment is, however, subject to government support measures in 2021 and in particular to the recovery plan. The rating agency Moody's (January 2021) considers that the outlook for

French local authorities for 2021 is stable, basing its reasoning on the following key factors: strong support from the central government, moderate growth in operating expenses, as well as stable debt and very solid access to external financing and low interest rates. Moody's also foresees sustained investment in the regions and departments at high levels but reduced investment by the municipal block: *"The municipal administrations will remain cautious in the face of the uncertainty surrounding the health situation and the economic recovery".* It should be recalled that the 2021 Finance Law was based on a GDP growth assumption of 5%. Under these conditions, and despite the uncertainties surrounding the behavior of municipalities and OTGs, AFL considers that recourse to borrowing by local authorities in 2021 should be broadly stable;

- Even if this was not observed in the last quarter of 2020, which saw a significant tightening of the credit spreads of sovereign issuers on the markets, the significant increase in public debt in France, following government spending to support households and businesses, could still lead to an increase in the cost of refinancing on the markets for French public sector lenders, of which AFL is a part, as this cost is strongly linked to the price at which the French government itself borrows from investors. French central government public debt and to a lesser extent that of local authorities could see an increase in future years as part of the counter-cyclical stimulus plans that have been launched, which could adversely impact the credit quality of France and local authorities. Beyond France, the high level of State indebtedness resulting from the budgetary support policies that have been implemented could have negative repercussions on the financial markets on which credit institutions - including AFL - operate, as well as on the quality of these counterparties.

This context led to an increase in AFL's cost of risk over the year. This increase reflects the impact of ex-ante provisioning for expected losses under IFRS 9 related to the health crisis. The cost of risk stood at €352K for 2020 and was equal to 1.4 basis points of exposure for every 1 basis point at December 31, 2019. To the extent the pandemic is not controlled, the level of provisioning is likely to increase in the future.

In 2020, AFL's medium and long-term loan production was dynamic, amounting to €936.8 million in the environment described above. AFL resumed its refinancing operations in April 2020. At end-December 2020, it had a liquidity reserve covering more than a year of operating needs. In the future and to the extent the pandemic is not controlled, it cannot guarantee these trends will continue.

AFL's results and financial position at December 31, 2020 were affected by the increase in spreads which impacted the cost of refinancing operations carried out by AFL between April 2020 and October 2020. The interest margin on loans granted to member local authorities changed in parallel.

The uncertainty regarding the duration and extent of the Covid-19 pandemic makes it difficult to forecast the impacts. The consequences on AFL will depend on the duration of the pandemic, the measures taken by governments and central banks and changes in the health, but also the economic, financial and social environment.

The containment measures led AFL to rely extensively on remote working. Even if no significant malfunction has been observed since the implementation of remote work, its use increases the operational risk and in particular the risk of cyber-attack. In addition, all staff individually remain subject to health risks, with potential impacts in terms of organization and business continuity in the event of prolonged absence from work.

B. The French economic, financial, political, institutional and health environment, in which AFL acts as a lender, as well as the areas in which AFL funds itself, may have a material impact on AFL's financial position and on its results.

As AFL is a financial institution dedicated to financing French local authorities, its activity is sensitive to changes in the French and European economic, political, institutional and health environment and to the momentum of the French local public sector.

Any adverse change in the French economic outlook could slow down local authority investments, which could be likely to decrease AFL's loan production.

AFL's exposure to the French local public sector also exposes it to risks from the social situation in France, which may influence the local authority budgets, and to risks from changes in public policies (local or national) relating to the local authority financing, which are likely to restrict the debt capacity of local authorities and reduce their budgets. Both of these could significantly affect AFL's loan production.

The local public sector financing market in which AFL operates could shrink for institutional or political reasons specific to France, in the form of checks and/or constraints imposed by the French central government on local authority indebtedness, or if local authorities face legal and/or budgetary uncertainties.

AFL, which funds itself on the international financial markets, is sensitive to significant deterioration in market conditions and the global economic environment, which could result from crises affecting the capital or credit markets, liquidity constraints, regional or global recessions, significant interest rate or exchange rate volatility, a sovereign default, the downgrading of France's credit rating, on which the credit ratings of local authority members depend, both as guarantors of AFL's borrowings on the financial markets and as counterparties for the medium- to long-term loans granted to them and as counterparties for AFL, pandemics or climate change.

In addition, if one of these events were to lead to the downgrading of France's and/or members' and/or AFL's credit ratings, a deterioration in AFL's financing conditions and an increase in the cost of loans granted to members could be identified, thus significantly exacerbating the impact of these events on AFL's activity, its financial condition, the results of its activity and weakening its competitive position.

A deterioration in market confidence in sovereign bonds, whether public or supranational, could also generate unrealized capital losses in the AFL's liquidity portfolio, which holds significant sovereign risk exposures.

These various events may occur suddenly and could impact AFL on a one-off or longer-lasting basis and have a material adverse impact on its financial position and results.

The Covid-19-related situation is an exacerbating risk factor. It is detailed in section A.

C. The competitive environment could impact AFL's activities; this may not drive the expected interest among local authorities. AFL carries out these activities for the exclusive benefit of its member local authorities and therefore has no ability to diversify.

Existing and/or increasing competition in the local public sector financing market could lead (i) to a sharp reduction in AFL's profit margins and (ii) to a very limited new loan production for AFL, which would negatively impact its net banking income.

Although AFL was created by law and satisfies a strong and consistent demand in recent years by a significant number of local authorities, the development of AFL's activities depends on interest in the model used by the AFL for local authorities. In 2020, the AFL accounted for a market share estimated at nearly 40% of its members' financing needs.

Development could be affected by the reluctance of local authorities to become members of Agence France Locale, which requires them to become shareholders of AFL-ST, make capital contributions and act as guarantors under the member guarantee, or by the restrictions they may be subject to on the use of debt.

In accordance with Article L. 1611-3-2 of the French General Code Local and Regional Authorities Code, AFL carries out these activities for the exclusive benefit of its member local authorities and therefore has no prospect of diversification. Even though the number of local authority members of the Agence France Locale Group has grown consistently, if the market for funding local authorities loses its appeal, AFL may not be able to develop alternative activity, which could jeopardize its sustainability.

D. AFL is supervised by the prudential control authority and subject to a constantly changing regulatory framework, which could have an impact on its financial position.

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 for the AFL to carry out its activities. This approval subjects the AFL to a certain number of regulatory requirements, including the obligation to comply with specific textual provisions and prudential ratios.

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.

E. AFL is exposed to financial risks.

AFL is exposed to liquidity risk in its three aspects:

- Liquidity price risk: this is the risk of a deterioration in the refinancing conditions of certain assets that could generate a loss in net banking income due to a maturity mismatch between the assets refinanced and the liabilities; this mismatch most commonly occurs with assets whose maturity is longer than the liabilities. At December 31, 2020, the ALT gap between AFL's assets and liabilities was 0.73 years and the NSFR ratio was 183%;
- Financing risk: this is the risk that AFL will be unable to raise the necessary liquidity to meet its commitments and the financing needs related to its development. As of December 31, 2020, AFL had a liquidity reserve of €1,580.3 million, enabling it to meet its cash flow requirements for more than twelve months[10] . The regulatory 30-day liquidity ratio (LCR) stood at 525%;
- Illiquidity risk: this is the risk of a disruption in short-term cash flow, related in particular to the risk that AFL may be unable to sell an asset on a market without loss. At December 31, 2020, on the only portfolio of financial assets at fair value through equity, the net carrying amount of which was €614.7 million, the impact of gains and losses recognized directly in equity amounted to -€940K.

The current context of high volatility in financial markets linked to the Covid-19 pandemic and the sharp fall in oil prices led to a temporary and generalized significant drop in the price of financial instruments and to tensions in the bond market.

AFL resumed its refinancing transactions in April 2020 and also has access to TRiCP (TRaitement Informatique des Créances Privées, or computerized processing of private sector claims) which provides a line of credit, available at any time, from the Banque de France for 70% of its outstanding medium- and long-term loans. Nevertheless, if AFL were to experience, for example, an unexpected outflow of cash or assets pledged as collateral (e.g. assets pledged as part of its interest rate or foreign exchange derivative transactions) and/or if it could not access the debt market on terms deemed acceptable for an extended period, its financial position could be adversely affected.

A deterioration in macroeconomic conditions (refer to risk factors A and B above) or a lack of interest by local authorities in the products offered by AFL (refer to risk factor C above), or an operating loss could also lead to a downgrade of AFL's credit rating affecting its funding access, which would impact its financial position.

Changes in interest rates and exchange rates are likely to adversely impact AFL's financial position.

Interest rate risk

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.

In order to protect itself from interest rate risk, AFL entered into hedging contracts.

AFL's interest rate hedging policy consists of micro-hedging or quasi-systematic macro-hedging AFL's debts and the loans it granted in order to transform them into variable-rate debts or loans indexed to 3-month Euribor reference through the use of interest rate swaps. The hedges implemented introduce a liquidity risk - based on interest rate changes - due to margin calls, as well as a credit risk on the swap counterparty banks or the LCH Clearnet clearing house.

At December 31, 2020, the interest rate hedging strategy was reflected in an outstanding notional amount of swaps of €10.1 billion. The amount of margin calls paid, net of the amount of margin calls received, with respect to interest rate derivatives, stood at €100.51 million.

Nevertheless, an exposure to interest rate risk remains which may result in particular from the use of part of AFL's equity capital in fixed-rate loans granted to local authorities or certain short-term positions. A change in interest rates could have an adverse impact on AFL's net present value and on future results.

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

At December 31, 2020, the sensitivity of the net present value (NPV) of AFL's equity capital was +0.45% assuming a parallel shift of more than 100 basis points and +1.04% assuming a shift of more than 200 basis points in the yield curve.

	31/12/2020	30/06/2020	31/12/2019	31/12/2018	31/12/2017	Limit
Sc. +100bp	0,4%	0,5%	-3,2%	-3,8%	-3,7%	±15%
Sc. -100bp	-0,3%	-0,2%	4,0%	4,6%	4,4%	±15%
Sc. -100bp (floor)	0,0%	0,0%	2,0%	2,4%	2,3%	±15%
Sc. +200bp	1,0%	1,3%	-5,8%	-7,1%	-6,7%	±15%
Sc. -200bp	-0,3%	0,0%	8,9%	10,0%	9,7%	/
Sc. -200bp (floor)	0,0%	0,0%	2,0%	2,6%	2,5%	±15%

Starting in 2019, AFL implemented scenarios for calculating the sensitivity of the net present value (NPV) of its equity capital to assumptions of interest rate risk in the banking book (IRRBB). At December 31, 2020, NPV sensitivity to the various scenarios is shown in the table below.

	31/12/2020	30/06/2020	31/12/2019	31/12/2018	Limit
Parallel shock up + 200 bps	1,0%	1,3%	-5,8%	-5,7%	±15%
Parallel shock down - 200 bps	-0,3%	0,0%	8,9%	8,6%	±15%
Short rates shock up	3,0%	4,2%	2,4%	-8,4%	±15%
Short rates shock down	-3,1%	-4,4%	-2,5%	9,0%	±15%
Steepener shock	-2,7%	-3,9%	-5,4%	-8,2%	±15%
Flattener shock	3,0%	4,3%	4,8%	8,9%	±15%

During 2020, the sensitivity of AFL's net present value to various scenarios of interest rate changes remained less than 15% of equity capital.

In addition, market concerns about the impact of the Covid-19 epidemic on the economy could lead to pressures on short-term rates likely to impact AFL's position.

Currency risk

Currency risk includes the risk that AFL may incur losses on borrowed or loaned assets in currencies other than the euro.

In order to protect itself from currency risk, AFL entered into hedging contracts. AFL's policy aims to hedge this risk systematically through the implementation of micro-hedging currency swaps. As a result, assets and liabilities denominated in currencies other than the euro are systematically swapped into euros when recorded on the balance sheet and until their final maturity.

At December 31, 2020, the notional outstanding amount of currency swaps stood at €327.1 million. The hedges implemented introduce a liquidity risk, based on margin calls sensitive to changes in currency rates, as well as a credit risk on the swap counterparty banks. The amount of margin calls paid, net of the amount of margin calls received, with respect to these hedging instruments, stood at €8.25 million at December 31, 2020.

AFL is exposed to the credit risk of its borrowers and counterparties.

The credit risk of its borrowers

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 the local authorities that are shareholders of the AFL's parent company and guarantors of the debt securities issued by AFL up to the amount of their respective medium- to long-term loans outstanding (the member authorities).

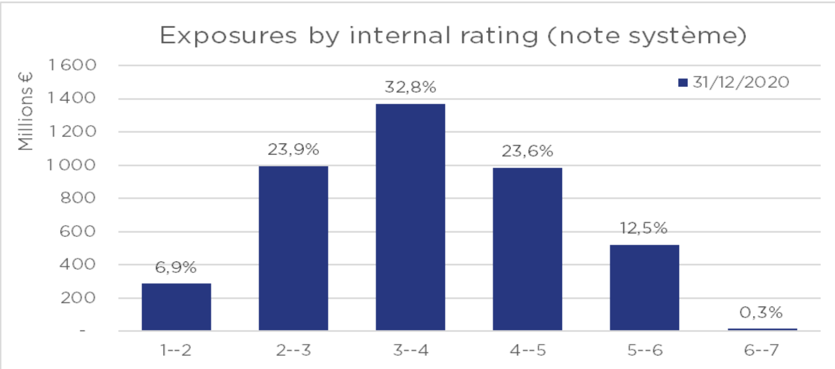
The local and regional authority members are local authorities within the meaning of Article 72 of the Constitution, i.e. EPCIs (groupings of municipalities) with their own tax system, with legal personality, legal financial autonomy and the power to freely administer themselves under the conditions pursuant to the law, regional public institutions referred to in Article L. 5219-2 of the French General Local and Regional Authorities Code and in accordance with the Law on Commitment and Proximity, in force since May 2020 for unions.

To be a member, a local authority must have a rating of more than 6 according to a methodology adopted by the Board of Directors of the ST, on the proposal of the Management Board and the opinion of the Supervisory Board of AFL based on three criteria: (i) solvency, (ii) budgetary flexibility and (iii) the debt burden of the local authority concerned. These three criteria are weighted according to their importance.

Since May 12, 2020, the publication date of the implementing decree No. 2020-556, local authorities wishing to become members must also meet threshold conditions when they join. They must have at the ability to reduce debt, defined as the ratio between the outstanding debt on the closing date of the financial statements and the gross savings for the past financial year, expressed in number of years, recorded during the penultimate financial year, less than (i) twelve years based on the average of the last three years for municipalities, the City of Paris, groupings and local public entities, (ii) ten years based on the average of the last three years for the departments and the city of Lyon and (iii) nine years based on the average of the last three years for the regions, the Corsican local authority, the regional authorities of French Guiana and Martinique. When the ability to reduce debt is greater than the thresholds set, the local authorities can nonetheless join if the current cash flow margin, calculated based on the average of the last three years and recorded during the penultimate financial year, is less than 100%.

The breakdown by rating of AFL's portfolio of loans to local authorities shows a diversified and good quality portfolio.

At December 31, 2020, this portfolio was more than 30% exposed to local authorities with ratings between 1 and 2.99. The five largest exposures accounted for 13.3% of assets. The largest exposure accounted for 2.85% of assets and the fifth-largest for 2.4%. At December 31, 2020, the average rating of loans granted by AFL to its members, weighted by outstanding amount, stood at 3.56 (on the basis of 2019 accounting data for the local authorities). This rating improved slightly over one year.



Local authorities, whether current or future members, are considered as having a very limited risk profile due to the institutional rules governing their operations, which are similar for all categories of local authority member, and consequently the credit transactions carried out by AFL have this same profile. Nevertheless, a default by a member on its obligations to AFL or on its obligations under the member guarantee cannot be ruled out. This risk has increased in the context of a deteriorated economic and financial situation such as that related to the Covid-19 epidemic.

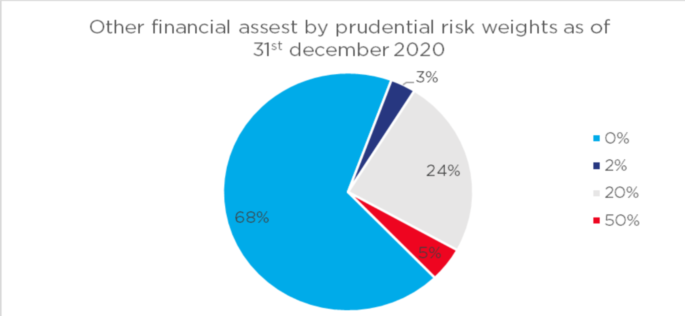
To the extent that AFL grants loans only to local authority members, AFL naturally shows a high concentration of its credit risk on a unique type of market participant. AFL is therefore exposed to the potential deterioration of this sector's situation (see also risk factor B).

The occurrence of such risks could result in a write-off for AFL.

The credit risk of its counterparties

Due to its cash investments, AFL has a credit risk on the issuers of securities in its cash portfolio. Although AFL's investment policy is prudent, AFL remains exposed to the risk that issuers of securities in which it has invested are unable to meet their financial obligations, an increased risk in the context of a deteriorated economic and financial situation such as that related to the Covid-19 epidemic. The occurrence of such an event may generate a loss in net income and/or adversely impact AFL's equity capital.

The ratings of AFL's exposures are of very high quality, with over 65% of exposures rated equal to or greater than Aa2 on Moody's scale at December 31, 2020. The weighted average risk of this portfolio is 6.6%. The exposures of the liquidity reserve are heavily weighted on very low risk classes: 68% of the portfolio is invested in risk categories weighted at 0%, 3% in risk categories weighted at 2%, 24% in risk categories weighted at 20% and 5% in risk categories weighted at 50%.



In addition, AFL clears almost all of its interest rate derivatives through clearing houses and its exchange rate derivatives bilaterally. The AFL cannot ensure that its counterparties to hedging contracts will be able to meet their obligations, whether clearing houses or banking institutions, and their default could impact the AFL's financial position.

Doubtful receivables, disputed claims, provisions

As of December 31, 2020, the outstanding amount of doubtful or disputed loans was €4.4 million, i.e. less than 0.1% of AFL's loan portfolio compared to €3.8 million as of 12/31/2019, which reflects the very good quality of this portfolio. Under French GAAP, no collective impairment or specific impairment was recorded on loans granted to local authorities or on other assets at December 31, 2020.

Pursuant to IFRS 9, which came into force on January 1, 2018, all assets recognized at amortized cost or at fair value through equity and all financing commitments must be classified in three categories and be covered by provisions.

Stage 1 covers performing assets and commitments whose risk has not increased significantly since inception.

Stage 2 covers performing assets and commitments whose risk has increased significantly since inception.

Stage 3 covers credit-impaired assets and commitments[11].

Impairments are calculated on these three categories with respect to expected credit losses. They are based on one-year expected credit losses (stage 1) or at the asset's maturity (stages 2 and 3). Impairments are based on future economic scenarios, with a probability of occurrence.

	31/12/2020				31/12/2019			
	Agence France Locale Social - IFRS				Agence France Locale Social - IFRS			
Exposures by IFRS 9 stages	brut exposures (€)		Provisions (€)		brut exposures (€)		Provisions (€)	
Stage 1	5 742 425 084	99,8%	768 036	98,9%	4 446 225 479	99,7%	417 588	98,4%
Stage 2	6 788 989	0,1%	5 847	0,8%	8 131 880	0,2%	5 547	1,3%
Stage 3	4 413 883	0,1%	2 620	0,3%	3 854 365	0,1%	1 120	0,3%
Total	5 753 627 956	100%	776 503	100%	4 458 211 724	100%	424 256	100%

The cost of risk in 2020 amounted to €352K, compared to a reversal of impairment losses recognized in 2019 of €5K.

The provisioning rate increased from less than 1 bp of outstanding amounts at December 31, 2019 to 1.4 bp at December 31, 2020. This increase concerns outstanding amounts in stage 1 and corresponds to the change in the weighting of the underlying macroeconomic scenarios in the model, due to the health crisis linked to the Covid-19 epidemic.

F. AFL is exposed to non-financial risks.

- ### *A. AFL is exposed to risks related to human resources.*

Due to its model and the context of the start-up of its activities, AFL relies on a limited number of people (36 employees (30 permanent contracts and six work-study trainees) and one non-employee representative, i.e. a total workforce of 37 people at December 31, 2020) to ensure its operational

[11] Default is defined in Article 178 of the CRR (Regulation 575/2013) as a non-technical default of more than 90 days or a doubt on the part of the borrower as to the borrower's ability to meet its maturities.

operation. The loss of one or more key persons, whether due to outside solicitation or temporary or permanent unavailability (accident, sickness) is therefore likely to have a material impact on its activity or to jeopardize its continuity. These risks have increased in the context of the health crisis related to the Covid-19 epidemic as mentioned in risk factor A.

- *B. An operational failure, interruption or incident affecting AFL's partners, or a failure or breach of AFL's information systems could result in losses.*

The communication and information systems are key to the activity and to AFL's ability to operate due to its activity as a credit institution. AFL has chosen to largely outsource these. Any breakdown, malfunction, interruption or breach of its systems or those of its external service providers (including cyber-risk), or those of other market participants (such as clearing houses, intermediaries and financial services providers), even if brief and temporary, could lead to significant disruptions in AFL's activity.

Such incidents could have a material impact on AFL's ability to operate and would be likely to lead to significant direct or indirect operating losses and damage AFL's reputation.

During the past financial year, no significant operating loss has occurred.

These risks have increased in the context of the health crisis related to the Covid-19 epidemic as mentioned in risk factor A.

- *C. Failure by AFL to comply with the regulations applicable to it could result in losses.*

Given its activity as a credit institution, the AFL must comply with numerous laws and regulations, including regulations applicable to credit institutions and issuers of listed securities, data confidentiality rules, European and US laws and regulations on money laundering, corruption and sanctions. In this respect, AFL is exposed to the risk of legal. administrative or disciplinary penalties if it does not comply with these various regulations. The control and compliance framework that AFL has implemented cannot fully guarantee that such a risk will not occur. The occurrence of such a risk could result in a write-off or damage AFL's reputation, or even the withdrawal of its authorization as a specialized credit institution or its authorization to issue listed securities, thus making it impossible for AFL to conduct its business.

- *D. The risk of litigation between AFL and one of its counterparties could result in losses.*

AFL was not the subject of any dispute with any of its counterparties during the financial year ended December 31, 2020 (see ""*Review of activities for FY 2020 - Litigation*" above for a description of the dispute concerning the works contract concluded by AFL-ST for the fitting out of the AFL head office premises). Nevertheless, it cannot be ruled out that litigation may arise in the context of its activities, in particular with a local authority member, which would damage AFL's reputation and could result in a loss of value for AFL.

2. Prudential ratios and equity

• Capital requirements

AFL is monitored for consumption of equity at consolidated level. The AFL Group has already imposed an internal solvency ratio limit of 12.5% since its creation.

On December 23, 2020, the ACPR notified the AFL Group of its obligation to hold capital enabling it to comply with a total prudential capital requirement of 9.25% including:

- A minimum capital requirement of 8%; and
- An additional capital requirement, known as Pillar 2, of 1.25%.

In addition, the AFL Group is required in principle to hold equity capital enabling it to comply with the capital conservation buffer requirement set at 2.5%, a situation that may be re-examined in light of the crisis. Lastly, on April 1, 2020, the High Council for Financial Stability decided to set the counter-cyclical capital buffer applicable to French exposures at 0%.

• Methods of calculating capital ratios

On June 24, 2020 the European Parliament and the Council published Regulation 2020/873 amending Regulations 575/2013 (CRR) and 2019/876 (CRR2) to allow institutions to smooth the impacts of the crisis related to the Covid-19 epidemic over time.

AFL has adopted two measures of this regulation, called the "CRR Quick Fix", applicable from June 24, 2020:

- The reintegration of unrealized losses on sovereign securities at fair value recorded since January 1, 2020 in regulatory capital; this reintegration was 100% in 2020, 70% in 2021 and 40% in 2022;
- The deduction of central bank exposures from the denominator of the leverage ratio. This deduction is authorized for one year.

On June 7, 2019, a significant body of banking regulations was published in the EU Official Journal. This includes in particular Regulation (EU) 2019/876 of the European Parliament and of the European Council of May 20, 2019 amending Regulation (EU) no. 575/2013 (so-called CRR). This regulation requires that the leverage ratio of credit institutions be greater than 3% and requires public development credit institutions to exclude from their exposures those arising from assets that are receivables from central, regional or local governments. This provision will come into force on June 28, 2021.

- **Prudential ratios and capital at December 31, 2020**

AFL reports regulatory equity capital to the ACPR on a consolidated basis only, in accordance with IFRS, for its parent company, AFL-ST.

At December 31, 2020, prudential capital stood at €149.3 million. Given the quality of credit of the assets carried by AFL Group, the solvency ratio reached 15.13% on a consolidated basis.

As AFL is a public development credit institution, it deducts incentive development loans from the assets side of the balance sheet. The AFL Group's leverage ratio (under IFRS) was 8.63% at December 31, 2020.

Solvability

	31/12/2020	30/06/2020	31/12/2019	31/12/2018	31/12/2017
CET1 (K€)	149 255	128 090	123 768	115 642	114 232
Solvability ratio	15,13%	15,30%	15,78%	18,89%	24,00%

Leverage

	31/12/2020	30/06/2020	31/12/2019	31/12/2018	31/12/2017
Leverage ratio (CRR 2)*	8,63%	9,46%	11,98%	11,69%	10,41%

* AFL has been acknowledge as a public development credit institution by ACPR on the 11/03/2021

As of December 31, 2020, the implementation of the measures of the CRR Quick Fix 2020/873 Regulation allows exposures to central banks to be deducted from the denominator of the leverage ratio for €601 million. The reintegration of unrealized losses on sovereign securities during the health crisis no longer has an impact on regulatory capital, as unrealized losses on these securities have returned to their pre-crisis level.

The table below shows the prudential ratios and equity before and after the impact of the "CRR Quick Fix" regulation:

Solvability	as of 31/12/2020		as aof 30/06/2020	
	Using "CRR Quick Fix"	Without "CRR Quick Fix"	Using "CRR Quick Fix"	Without "CRR Quick Fix"
CET1 (K€)	149 255	149 255	128 090	126 882
Solvability ratio	15,13%	15,13%	15,30%	15,16%

Leverage	as of 31/12/2020		as aof 30/06/2020	
	Using "CRR Quick Fix"	Without "CRR Quick Fix"	Using "CRR Quick Fix"	Without "CRR Quick Fix"
Leverage ratio (CRR 2)*	8,63%	8,63%	9,46%	9,37%

* AFL has been acknowledge as a public development credit institution by ACPR on the 11/03/2021

3. Internal control and risk management procedures

In accordance with the provisions of Article L. 1611-3-2 of the French General Code of Local Authorities (the CGCT), AFL's main activity consists of granting loans and credits to local authorities that are members of the AFL Group, to enable them to finance part of their investment budgets.

As part of this activity, the AFL defines and pursues a number of strategic and operational objectives. In order to prevent the negative impact of certain internal or external risks on the achievement of these objectives, the AFL has set up a system designed to manage and control risks of any kind weighing on its activities.

Internal control is part of a strict regulatory framework; in particular, it is governed by the French Monetary and Financial Code (in particular Articles L. 511-55 and L. 511-56) and the Order of November 3, 2014 (the Order) on the internal control of companies in the banking, payment services and investment services sector subject to the supervision of the French Prudential Supervisory Authority (ACPR - Autorité de contrôle prudentiel et de résolution).

As a preliminary point, it should be noted that, even if the AFL conducts its activities within the framework of conservative risk policies, risk-taking is inherent to the activity, reflecting the desire to evolve in an environment that is intrinsically subject to uncertainties. As a result, AFL is bound to take risks in its activities. The internal control and risk management systems aim to ensure that risks are properly understood.

3.1 Governance

▪ Supervisory Board and Management Board

Governance of the internal control and risk management system is shared between the AFL Management Board and Supervisory Board.

The Management Board is responsible for ensuring the consistency and effectiveness of the overall internal control and risk management system. It defines risk management policies, ensures that sufficient resources are made available for the exercise and promotion of this function, and reviews the measures taken to assess the effectiveness of the systems in place.

The Supervisory Board is responsible for ensuring that the overall internal control and risk management system complies with the regulations and laws in force and relies on an Audit and Risk Committee under its responsibility.

Two committees, under the responsibility of the Supervisory Board, participate in the system:

▪ The Audit and Risk Committee provides overall oversight of the system put in place, and is responsible for:

- Assessing the quality of internal control, in particular the consistency of the risk measurement, monitoring and control systems, the follow-up of the conclusions of the periodic control missions and the supervisory authorities, the monitoring of operational risks and the monitoring of risks related to business activities (new products, new activities, etc.) and proposing, as necessary, additional actions; and
- Verifying the clarity of the information provided and assessing the relevance of the accounting methods adopted for the preparation of the individual and, where applicable, the consolidated financial statements.

▪ The Appointments, Remuneration and Corporate Governance Committee meets as often as necessary and its main purpose is to ensure compliance with the rules of governance and to issue an annual opinion on the compensation policy.

▪ The Commitments and Risks Department

Operationally, the internal control system is placed under the responsibility of the Commitments and Risks Director (formerly known as the Risk, Compliance and Control Department), who is a member of the Management Board and reports directly to the Chairman of the Management Board. Within the meaning of the Order, it is in charge of permanent control, periodic control, compliance control and risk management. In carrying out its missions, it relies on various managers who report to it hierarchically.

In accordance with the Order:

- As head of periodic control, the Commitments and Risks Director reports on the conclusions of her assignments to the Management Board and the Supervisory Board; in addition, she may directly and on her own initiative inform the Supervisory Board and, where applicable, the Audit and Risk Committee of the failure to implement the corrective measures taken following the recommendations of the periodic control;
- As head of the risk management function, in the event of a change in risks, the Commitments and Risks Director can report directly to the Supervisory Board and the Audit and Risk Committee without reporting to the Management Board.

This organization ensures, in accordance with regulations, the distinction between operational functions and support and control functions.

- **The operational departments**

All AFL operational departments contribute to the internal control and risk management system, both the operational departments, responsible in particular for risk-taking and the due implementation of first-level permanent controls, and the information systems department in charge of the operational management of information systems, as well as the legal department, which oversees the control of legal risk and the legal validity of transactions.

- **The committees**

Chaired by the Chairman of the Management Board, two committees were set up to oversee the internal control and risk monitoring system:

- The Global Risk Committee, which meets on a quarterly basis, is responsible for monitoring AFL's exposure to risks of all kinds. On an annual basis, it validates the risk policies, the measurement indicators and the management of these risks. It also steers the risk management system and decides on the related action plans; and
- The Internal Control Committee, which meets every six months, is responsible for overseeing AFL's internal control and compliance systems.

Several operational committees, chaired by the Chairman of the Management Board and including the members of the Management Board involved, also participate in the overall internal control system:

- The Credit Committee, which meets at least monthly in order to decide on the granting of a loan to a client member and to approve the risk class - this committee is also called upon to decide on the entry into a relationship with a market counterparty, on the nature of the loans transactions that AFL may carry out with this counterparty as well as with the counterparties to which it takes on exposures as part of the management of its liquidity reserve;
- The ALM Committee, which meets at least monthly and is responsible for steering AFL's ALM management, monitoring the activity performance indicators and ensuring the implementation and due execution of the investment policy, hedging policy and liquidity policy, including the execution of the borrowing program as part of AFL's financing strategy;
- The New Products Committee, which meets as often as necessary and notably aims to decide on the introduction of a new product or a new activity or on significant amendment(s) made to it. existing products or activities; and
- The Organization and Procedures Committee, which meets as often as necessary and aims in particular to validate the processes and procedures describing AFL's activities.

These committees are governed by internal regulations. Within the first two operational committees, the Commitments and Risks Director has a veto right. In the event that it is exercised, the decision is either postponed to a subsequent Committee meeting or subject to a decision by the Management Board.

3.2 Internal control and risk monitoring systems

- **Definition and objectives of internal control**

The internal control and risk management system is the process implemented by the Supervisory Board, the Management Board and AFL staff to control the various risks to which it is exposed through its activities, and thus ensure:

- The quality and compliance of financial transactions carried out;
- The reliability of financial and accounting information; and
- Compliance of activities with applicable laws and regulations.

Equipped with resources adapted to the size and nature of AFL's activities, the internal control and risk management system is organized in accordance with legal and regulatory requirements and is built around:

- Financial policies and risk monitoring indicators defined with regard to the institution's objectives, specifying and managing the risks incurred;
- A structured organization and based on a body of documentation (procedures, operating methods, etc.) that clearly defines the roles and responsibilities of each employee;
- Methodical, permanent and appropriate monitoring of risks and a regular review of the overall system; and
- The implementation of a control system that is proportionate to the challenges specific to each process and their estimated level of risk.

In so far as it helps prevent and because its objective is to control the risk of not achieving the objectives set by AFL in terms of development, profitability and risk management, the internal control and risk management system plays a key role in the conduct and management of AFL's various activities. However, it cannot and is not intended to provide a guarantee that AFL's objectives will be achieved.

▪ Functions, scope and associated resources

The internal control and risk management system is based on financial, operational and regulatory information necessary for overall risk management and decision-making. In order to achieve its various missions, it is organized around three main functions:

- Risk management ensures the implementation of the risk measurement systems and the risk monitoring and control mechanism;
- The control of operations is based on continuous and permanent monitoring of risk management within AFL (permanent control), as well as on internal audits to ensure risks are managed and that compliance and permanent control processes (periodic control) are effective;
- Compliance ensures that all activities carried out by AFL comply with the standards and regulations in force.

▪ The Risk function

The Risk Department ensures the implementation of AFL's risk identification, measurement and monitoring systems. In particular, it provides guidance, supervision and general monitoring of these systems and relies on the other internal control functions and operational departments to identify, analyze and monitor the risks that it supervises daily on a consolidated basis.

It operates independently of the operational teams.

Within the meaning of the Order, and given the nature of AFL's activities, since the start of AFL's operational activity, the Risk Department has paid particular attention to the identification, analysis and monitoring of major risks to its business. This analysis is refined on a regular basis. It takes into account both confirmed and new risks, for example related to new financial instruments or new procedures.

The Risk Department relies on various resources and tools that enable it to monitor AFL's risk management on an ongoing basis:

- The financial strategy, as well as the financial and risk management policies developed by the business lines and the Commitments and Risks Department, set the risk appetite and the rules and limits adapted to the activities; these documents are reviewed annually by the Global Risk Committee, submitted to the Audit and Risk Committee and approved by the Supervisory Board;
- Risk indicators giving rise to reporting on a regular basis, enabling the Management Board to have a reliable view of the risks incurred;
- An operational risk management organization chart identifying the responsibilities of the operational departments relating to the management of these risks and taking into account the separation of responsibilities when necessary; and
- A risk management system monitored by the Global Risk Committee. It is based on a summary of the risks taken by the AFL and allows the Management Board to have an aggregated, reliable, up-to-date and forward-looking view of the risks incurred. This system is based on a risk map which identifies and classifies the risks incurred by AFL throughout its activity (impact, occurrence, degree of control).

The risk management system is also based on the analyzes and results of controls carried out by the Permanent Control function and the Periodic Control function on the activities and on the overall monitoring of the resulting action plans.

In 2020, AFL reviewed and amended the financial policies applicable to its activities. Adjustments to the relative importance of the various risks were made as part of the quarterly management reports. Responsibilities were confirmed. The main risk measurement indicators and reports have evolved to follow the development of AFL. The Global Risks Committee met four times.

▪ Control function

In accordance with Article 11 of the Order, the purpose of the AFL internal operations and procedures control system is to:

- Check that the transactions carried out by AFL, as well as the internal organization and procedures, comply with applicable legal and regulatory provisions, professional and ethical standards and best market practices, and with the instructions issued by senior executives, in particular pursuant to risk policies and the guidelines of the supervisory body;
- Check that decision-making procedures, whatever their nature, and management standards, in particular limits, are strictly respected;
- Check the quality of accounting and financial information;
- Check the evaluation and recording, storage and information availability criteria;
- Check the timely execution of the corrective measures decided upon within AFL; and
- Check compliance with the provisions relating to compensation policies and practices.

The control functions are divided between permanent control and periodic control to ensure an independent and objective assessment of risks, in accordance with regulatory obligations.

i. Permanent control

The Permanent Control function continuously monitors the implementation of the risk management system within AFL. It defines and implements the controls necessary for the due functioning of AFL's various activities.

Control activities are carried out at all hierarchical and functional levels of the structure, according to a formal organization and formal procedures. Management ensures that each employee is aware of the policies, procedures and responsibilities related to their role, has the information and training necessary to perform their duties, and is aware of the importance of their responsibilities in terms of execution and control.

AFL's permanent control system, under the responsibility of the Internal Control Committee, is organized into two levels in order to guarantee complete coverage of risks and to comply with the requirements of the Order:

The ***first-level permanent controls*** are carried out by the operational departments. They are mainly carried out in the form of self-checks by the operational departments and hierarchical checks by their managers (second-look principle). First-level controls are described in AFL's procedures, which are subject to an appropriate formalization, update and validation process.

In 2020, the corpus governing AFL's activities (policies, procedures, operating methods) was strengthened. In parallel, the system of first-level controls and the tools to monitor their implementation were enhanced. In addition, the principle adopted for recurring controls is that all controls must be the subject of standardized documentation within the framework of a matrix of controls, ensuring a homogeneous performance and audit trail, and allowing the production of reporting.

The ***second-level permanent controls*** are grouped under the responsibility of the Commitments and Risks Director. Their purpose is in particular the supervision of the first-level control system carried out by operational staff, the performance of specific controls, the monitoring of incidents reported by the business lines and, more specifically, significant incidents within the meaning of the reference Order, the monitoring of outsourced essential services and the monitoring of information system security. More specifically, second-level permanent control is to be based on:

- The definition of an annual permanent control plan that covers the most significant risk areas and is based in particular on the results of the first and second-level controls, and the lessons learned from the use of risk mapping and the risk management system;
- Reporting on operational and IT incidents and compliance malfunctions, originating from the Departments and centralized in the "incidents" database;
- The feedback of these analyzes in the form of regular reporting, and recommendations to strengthen the control system and therefore risk management;
- The implementation of an emergency and business continuity plan updated and tested on a regular basis in the light of changes in the risks incurred;
- The review of the quality of information and communication systems, both internal and external;
- The guarantee, reliability, integrity and availability of financial information through controls carried out on the accounting system.

The Internal Control Committee met twice in 2020.

ii. Periodic control

The purpose of periodic control is to check the level of risk management and to assess the quality and reliability of the internal control system.

In accordance with the Order of November 3, 2014 on the internal control of companies in the banking sector subject to the supervision of the French Prudential Control and Resolution Authority (ACPR -

Autorité de contrôle prudentiel et de résolution), periodic control is placed under the responsibility of the Commitments and Risks Director, a member of the Executive Board.

In order to guarantee its independence vis-à-vis the first and second-level controls provided by permanent control, AFL has outsourced the performance of periodic control to a service provider since 2014.

For 2020, 55 man-days (including internal supervision and outsourced work) were devoted to the work of the periodic control function. 2020 was the third year of the multi-year audit cycle covering the activities of the credit institution. At the end of the year, a new service provider was selected for a three-year cycle starting in early 2021.

Internal audit missions are carried out on location and on site and aim to ensure compliance with regulatory obligations, internal rules and risk management, and relate in particular to the assessment of the permanent control system.

For each internal audit assignment, an overall rating reflecting the level of risk management was assigned using the following methodology:

- "Robust risk management system" with requested improvements concerning marginal or one-off weaknesses;
- "Risk management system to be strengthened" with several components to be developed or strengthened in order to ensure the control of significant risks of the process or activity;
- "Risk management system to be put in place" with required changes to significantly increase the level of risk management.

In order to mitigate the identified risk areas, Periodic Control issues recommendations ranked according to three risk levels and monitors their implementation, on a biannual basis, by the managers to whom the recommendations are addressed.

The Commitments and Risks Director reports quarterly to the Audit and Risk Committee on the assignments carried out as part of the annual audit plan and on a half-yearly basis on the implementation of the recommendations made.

- ### Compliance function

Compliance control is one of the major pillars of AFL's internal control system. Its purpose is to control the risk of non-compliance, i.e. to ensure that the institution's current and future activities comply with all the obligations imposed on AFL. These obligations are based on a corpus comprising:

- External reference texts (legal provisions, regulations, standards, opinions of the authorities); and
- Internal reference texts (guidelines of the bodies, policies, procedures, accounting schemes, etc.)

The Compliance function, reporting to the Commitments and Risks Director, carries out these activities independently of all operational functions.

The prerogatives of the Compliance function concern all of AFL's day-to-day activities, as well as future changes to its products and services. More specifically, the Compliance function is responsible for:

- The authorization process for new products or new activities;
- The implementation of the system for combating money laundering and the financing of terrorism and of compliance with embargoes;
- The implementation of the personal data protection system;
- Monitoring professional ethics procedures, managing conflicts of interest and preventing market abuse;
- Regulatory monitoring, for the institution. It also plays the role of informant of the various changes/important regulatory notices, and monitors compliance.

In 2020, the Compliance function continued to consolidate AFL's non-compliance risk management system.

In this respect, the main systems developed were kept in compliance and made operational, in particular:

- The system for combating money laundering and the financing of terrorism and of compliance with embargoes;
- The professional ethics and market abuse prevention system;
- The reinforcement of the compliance monitoring system.

Organization of the accounting system and internal control procedures relating to the preparation and processing of financial accounting information

i. Organization of the accounting system

The Accounting Department reports to the Finance Department. In 2020, it includes two FTEs, namely the Chief Accounting Officer and his deputy. The Accounting Department is supported by a service provider in charge of accounting for overheads.

ii. Permanent accounting control (levels 1 and 2)

The permanent accounting control system is organized around two levels of controls, which aim to guarantee the regularity, security and compliance of the accounting translation of the transactions carried out as well as the monitoring of the risks on the associated processes.

The ***first level of accounting control*** is provided by the operational back-office and accounting teams. It consists of self-checks carried out by the employees in charge of the various accounting tasks, supplemented by the related hierarchical controls. **The different types of controls carried out are as follows:**

Daily frequency:

- Operational controls of the due accounting of transactions, via flow control systems (for example: the spillage of events from management applications - credit chain, treasury, market transactions) in the accounting software, are the subject of daily checks;
- Amounts settled in cash are recalculated and verified (IBAN checks, coupon payments, purchases and sales of securities, swap payments, etc.);
- Banking flows from market activities are also checked every day with the account keepers; bank reconciliations are formalized daily.

Monthly frequency:

- Inventory controls are carried out monthly: completeness of credit chain outstandings, reconciliation with the custodian for securities and swap outstandings;
- Bank reconciliations for overheads are carried out every two weeks.

Other controls are carried out on a regular basis, including the following:

- Verification of third-party payers databases (Siret, name, address and IBAN in particular);
- Validation and control of authorizations for accounting systems;
- Review of accounting procedures;
- An audit is carried out by the Chief Financial Officer with the analytical review of the financial statements and the review of the parent company and quarterly consolidated financial statements.

Second-level accounting controls are intended to ensure that the controls implemented by the accounting and back-office teams are carried out upstream, that transactions are regular, that they are recorded in accordance with existing reference systems (chart of accounts, accounting schemes, etc.) and that procedures are respected. These are accounting consistency checks (e.g. analytical accounting reviews), and cross-checking controls (reconciliation of accounting income/analytical income). This level of control is provided by a service provider reporting to the Commitments and Risks Director and is carried out every six months.

More specifically, it involves:

- Accounting reconciliation in opposition to the positions held by the Back-Office and the Middle-Office;
- Preparation of account receipts;
- Preparation of a half-yearly accounting control file analyzing and justifying the general balance sheet (documentary control, variation and plausibility control);
- Preparation of reconciliations between accounting and management statements (reconciliation of outstanding loans, swaps and portfolio performance).

VI. AFL's research and development activities

Given its corporate purpose, AFL does not look to undertake research and development operations.

VII. Data on share capital and shares

1. Shareholder structure and changes made during the financial year

As of December 31, 2020, AFL's share capital amounted to €168,400,000, divided into 1,684,000 shares with a nominal value of €100 each, of the same class, fully subscribed and paid up. AFL's share capital consists entirely of registered shares. Each share held confers one vote on its holder at General Meetings. AFL did not issue or authorize the issuance of any preferred shares during the financial year ended December 31, 2020.

The table below shows the breakdown of AFL's share capital and the changes made during the past financial year.

Almost all of the AFL share capital and voting rights (99.99%) are held by AFL-ST. The balance, i.e. one share, is held by the Lyon Metropolitan Area, in whose territory AFL's registered office is based, for the purposes of meeting the requirements of Article L.225-1 of the French Commercial Code.

AFL-ST thus holds exclusive control of AFL, and was the only one to subscribe to the AFL share capital increase transactions during FY 2020, pursuing its corporate purpose, which in particular consists in being an AFL shareholder.

In this regard, AFL's Annual General Meeting of Shareholders will be called upon to renew the delegation of authority conferred on the Management Board of the Company for the purpose of carrying out, within the overall limit of €150 million, capital increase transactions with the cancellation of shareholders' preferential subscription rights for the benefit of AFL-ST.

	December 31, 2019			December 31, 2020		
	Amount of capital subscribed (in euros)	Number of voting rights/shares held	%	Amount of capital subscribed (in euros)	Number of voting rights/shares held	%
AFL-ST	146,799,900	1,467,999	99.9999%	168,399,900	1,683,999	99.9999%
Lyon Metropolitan Area	100	1	0.0001%	100	1	0.0001%
Total	**146,800,000**	**1,468,000**	**100%**	**168,400,000**	**1,684,00**	**100%**

2. Employee shareholding

No shares in AFL Group companies are held by its employees, as the capital structure imposed by the legislator does not allow employees to hold shares in AFL-ST or AFL.

Consequently:

- No transactions were carried out during the financial year ended on December 31, 2020 in respect of stock options or subscriptions of Company shares reserved for employees;

- No transactions were carried out during the financial year ended on December 31, 2020 in respect of stock options or subscriptions of shares in Group companies reserved for employees as provided for in Articles L. 225-177 to L. 225-186 and L. 225-197-1 to L. 225-197-3 of the French Commercial Code.

There are no plans to introduce Company employees into AFL's share capital.

3. Purchase by the Company of its own shares

AFL did not carry out any transactions on its own shares during the financial year ended on December 31, 2020. It should also be noted that the Company did not hold any such shares at December 31, 2020.

4. Transactions on AFL shares by executives

AFL has not been informed of any acquisition, sale, subscription or exchange of AFL shares by corporate officers or by persons with close personal ties to any of them during the year ended December 31, 2020.

5. AFL stock market position

At December 31, 2020, the 1,684,000 shares with a nominal value of €100 each could not be traded on a regulated market.

VIII. Labor, environmental and societal information

The AFL Group has chosen to present consolidated non-financial performance items in the consolidated management report of the Group's parent company, AFL-ST.

March 29, 2021,

The Management Board of Agence France Locale,
Represented by Mr. Yves Millardet, Chairman

Appendix 1

Table of results for the past five financial years

(Article R. 225-102 of the French Commercial Code)

Parent company financial statements at December 31:

NATURE OF INDICATIONS	2020	2019	2018	2017	2016
I. - Financial position at end of period:					
a) Share capital in thousands of euros	168,400	146,800	138,700	132,500	111,000
b) Number of shares issued.	1,684,000	1,468,000	1,387,000	1,325,000	1,110,000
c) Number of bonds convertible into shares.					
II. - Total income from actual operations (in thousands of euros):					
a) Revenue excluding tax.	10,913	10,647	9,542	11,102	9,127
b) Earnings before tax, depreciation, amortization and provisions.	4,256	1,373	798	2,711	262
c) Income taxes.	-2				
d) Earnings after tax, depreciation, amortization and provisions.	2,887	-1,713	-1,878	146	-2,642
e) Amount of earnings distributed					
III. - Income from operations reduced to a single share:					
a) Earnings after tax, but before depreciation, amortization and provisions.	2.12	0.60	0.23	1.61	0.00
b) Earnings after tax, depreciation, amortization and provisions.	1.71	-1.17	-1.35	0.11	-2.38
c) Dividend paid for each share.					
IV. - Staff:					
a) Number of employees.	30	27	27	25	25
b) Total payroll (in thousands of euros).	3,206	2,991	2,970	2,980	2,730
c) Amount paid in respect of social benefits (social security, charities, etc.) (in thousands of euros)	1,812	1,741	1,588	1,612	1,508

Appendix 2
Report of the Supervisory Board on corporate governance

Dear Shareholders,

In accordance with the combined provisions of Articles L.225-68, paragraph 6, L.225-37, L.225-37-3 and L.225-37-4, L.22-10-10 of the French Commercial Code and of Article L.511-100 of the French Monetary and Financial Code, as well as in accordance with the provisions of the AFEP-MEDEF Corporate Governance Code, to which Agence France Locale voluntarily submits, I have the honor, in my capacity as Chairman of the Supervisory Board, to present to you in the name and on behalf of the Supervisory Board, **this report on corporate governance for the 2020 financial year, the terms of which were approved by the Supervisory Board at its meeting of March 29, 2021.**

As a preliminary point, it should be recalled that Agence France Locale (the *Company - AFL*) is a public limited company (société anonyme) with a Management Board and a Supervisory Board. This legal form allows for a separation between the management functions of the Company performed by the Management Board and the functions of overseeing the exercise of the Company's management performed by the Supervisory Board.

This report includes:

- information relating to corporate governance, mainly as regards the composition and functioning of the Supervisory Board and the Management Board of Agence France Locale, and more specifically the conditions for the preparation and organization of the work of the Supervisory Board and its committees;

- information relating to the compensation paid to the Company's corporate officers;

- information relating to regulated agreements entered into within the Company;

- elements relating to the share capital of Agence France Locale and its shareholder structure;

- the observations, if any, made by the Supervisory Board with regard to the financial statements for the financial year ended December 31, 2020 and the management report prepared by the Management Board for the same financial year.

This report was prepared with the support of the Management Board and the Legal Department of Agence France Locale, and was subject to a favorable review by the Appointments, Remuneration and Corporate Governance Committee (the ARCGC) of the Company on November 19, 2020 and which also examined, on February 24, 2021, the items of compensation paid to corporate officers for the past financial year.

For the purposes of this report, it should be noted that the Company, with its reference shareholder, Agence France Locale - Société Territoriale (*AFL-ST*), forms a group called the *AFL Group*.

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1. Statement of compliance with the Corporate Governance Code

In accordance with the provisions of Articles L.22-10-10 4° of the French Commercial Code and 27.1 of the AFEP-MEDEF Corporate Governance Code (the AFEP-MEDEF Code), the Company declares that it adheres to, applies and adopts the recommendations issued by the Association Française des Entreprises Privées (French Association of Private Companies) and the Mouvement des Entreprises de France (French Business Confederation) within the eponymous corporate governance code for listed companies, as revised in June 2018, and again in January 2020, as a reference framework for corporate governance

The Internal Regulations of the Company's Supervisory Board, adopted by it, reflect the main provisions of said Code.

The AFEP-MEDEF Code and the Internal Regulations of the Supervisory Board can be consulted at the Company's registered office.

Nevertheless, and in order to take into account its own specificities, the Company has made the following governance choices:

- Shareholding by corporate officers and members of the Supervisory Board (Articles 20 and 23 of the AFEP-MEDEF Code)

AFL decided to set aside the provisions of Articles 20 and 23 of the AFEP-MEDEF Code. Consequently, the corporate officers and members of the Company's Supervisory Board do not hold any shares in AFL or AFL-ST. This principle stems from the structure of the AFL Group: the shareholders of the two companies are intended to be composed solely, directly or indirectly, of the entities covered by the provisions of Article 1611-3-2 of the French General Code of Local Authorities.

The Company's shareholding structure is detailed in point 7 below.

- Representation of Company employees on the Supervisory Board (Article 8 of the AFEP-MEDEF Code)

AFL has chosen to exclude the provisions of Article 8 of the AFEP-MEDEF Code. Its Articles of Association do not provide for the possibility of appointing employee representatives to the Supervisory Board, which is reflected in its limited workforce, including around thirty permanent employees, including the two members of the Management Board. Moreover, the Company does not fall within the scope of the provisions of Article L. 225-79-2 of the French Commercial Code.

2. Assessment of the collective functioning of the Supervisory Board and the individual contribution of the members

In accordance with the provisions of Article L.511-100 of the French Monetary and Financial Code and Article 10 of the AFEP-MEDEF Code, it is the responsibility of the ARCGC to periodically assess, at least once a year:

(i) the composition and functioning of the Supervisory Board;
(ii) the knowledge, skills and experience of the members of the Supervisory Board;

and reports thereon to the Board (*Board assessment*).

In November 2019, the members of the Supervisory Board were invited to participate actively in the assessment of the collective functioning of the Board and the individual contribution of its members *via* a self-assessment questionnaire and individual interviews with the Chairman and Vice-Chairman of the Board as well as the Chairs of the specialized committees.

In addition, as part of the preparation for the renewal of the Supervisory Board which will take place in May 2021, the members of the Board were invited to identify the key experiences and skills required for the due functioning of the AFL Supervisory Board with regard to the challenges facing the Company.

The results of the questionnaire and the aforementioned interviews, as well as the proposals made by the members of the Board interviewed, were analyzed by the ARCGC on November 21, 2019, which on this basis defined development axes aiming to:

- change the way the Board operates and how meetings take place;
- start the identification of target profiles to prepare for the renewal of the Supervisory Board. The actions carried out in FY 2020, following this analysis, are presented in the corresponding sections of the report. The ARCGC at its meeting of November 19, 2020 decided to continue the implementation of the recommendations thus defined in November 2019.

More generally, the ARCGC and the Supervisory Board, meeting at the end of 2019, noted the very satisfactory functioning of the Board and its committees, and set as the main area of development the strengthening of the Board's involvement in the definition and monitoring of the implementation of the Company's strategy, which, after a consolidation phase of the model, has entered its development phase. The evaluation by the members of the Supervisory Board also highlighted their desire to consolidate the axes of common trajectory with the parent company and its directors through shared seminars.

It was under these conditions that an in-depth discussion was undertaken on the role of the Strategy Committee and its interface with the Supervisory Board, and as a result, the first seminar dedicated to the AFL Group's strategy was organized, bringing together all the members of the AFL Supervisory Board and the AFL-ST Board of Directors on December 14, 2020.

The ARCGC, at its meeting of November 19, 2020, praised the quality of the Company's governance, its solidity and reliability vis-à-vis all external partners - investors, and local authorities which are shareholders - and particularly the comprehensive and detailed nature of the Supervisory Board's report on Corporate Governance. It also praised the high level of participation and investment of the members of the Supervisory Board and its committees.

3. Composition and functioning of corporate bodies

The Management Board manages the Company under the permanent control of the Supervisory Board, which is itself assisted in the performance of its duties by three specialized committees: the Audit and Risk Committee (*ARC*), the Appointments, Remuneration and Corporate Governance Committee (the *ARCGC*) and the Strategy Committee.

3.1. The Supervisory Board

3.1.1. Composition

In accordance with the Company's Articles of Association, the Supervisory Board is composed of a minimum of eight members and a maximum of eighteen members. The Supervisory Board comprises at least:

(a) the Chairman of the Board of Directors of AFL-ST;
(b) the Vice-Chairman of the Board of Directors of AFL-ST;
(c) the Chief Executive Officer of AFL-ST;
(d) an expert with in-depth knowledge of issues relating to the finances of local authorities; as well as
(e) at least four (4) members recognized for their professional expertise in finance, accounting, management, control or risk with functions in independent public or private bodies.

The members mentioned in paragraph (e) above are considered to be independent and must have the required financial, accounting, management, control or risk skills. It is the responsibility of the AFL-ST Board of Directors, acting on the recommendation of the Company's ARCGC, to propose their appointment.

The independence of the members of the AFL Supervisory Board is a key element in guaranteeing the management autonomy of the Management Board vis-à-vis AFL-ST. In this context, the AFL Articles of Association stipulate that the number of independent members of the Supervisory Board must at all times be strictly greater than the number of representatives of AFL-ST and of the local public sphere. In practice, the minimum composition of the Supervisory Board provided for in Article 2.2 of the Company's Articles of Association automatically means that independent members represent half of the Supervisory Board, i.e. a higher threshold than that referred to in Article 9.3 of the AFEP-MEDEF Code (a third), even though it is not expressly referred to in the Company's Articles of Association.

All the independent members of the Supervisory Board meet the independence criteria set out in the AFEP-MEDEF Code; the analysis carried out in this regard by the Company's ARCGC is detailed in section 3.1.4 of this report.

- **Composition of the Supervisory Board at December 31, 2020:**

The Supervisory Board was composed as follows at December 31, 2020:

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
Mr. Richard Brumm born on October 20, 1946 in Lyon (69006) French nationality	Chairman of the Supervisory Board until September 28, 2020 112 rue Garibaldi, 69006 Lyon	Co-opted by the Supervisory Board on June 20, 2016 Renewal of term of office by the General Meeting of May 5, 2017 Resignation from office at the end of the Supervisory Board meeting of September 28, 2020	None – see point 1 of this report	Vice-Chairman of the Board of Directors of ST until September 25, 2020		Representative of the City of Lyon to:	Since January 1, 2015: Honorary lawyer 1970-2014: Lawyer at the Lyon Bar Since June 2020: Councilor of the Lyon Metropolitan Area From April 2014 to June 2020: Deputy Mayor in charge of Finance and Public Procurement (third Deputy) - City of Lyon From March 2014 to June 2020: Community representative -

						- Opéra National de Lyon (Declared Association) (Siren: 339 391 021) - Crédit Municipal de Lyon (Siren: 266 900 299) (Member of the Steering and Supervisory Board) Representative of the Lyon Metropolitan Area to: - SEM Patrimoniale du Grand Lyon (518 422 704 RCS Lyon) (Director) - Société Anonyme Immobilier d'Economie Mixte de Vaulx-en-Velin (404 997 868 RCS Lyon) (Chairman and	Vice-Chairman in charge of Finance-Lyon Metropolitan Area From March 2008 to March 2014: Municipal Councilor - Deputy Mayor in charge of Finance and of General Administration - City of Lyon

						Chief Executive Officer) - Société Publique Locale Gestion des Spaces Publique du Rhône - Upstream (316 312 594 RCS Lyon) (Director) - Société Publique Locale Lyon-Confluence (423 793 702 RCS Lyon) (Director) - Syndicat mixte pour l'aménagement et la gestion du grand parc de Miribel Jonage, (Siren: 256 900 655) (Director)	
Mr. Sacha Briand born on December 11, 1969 in	Chairman of the Supervisory Board since	Co-opted by the Supervisory Board on	None – see point 1 of this report	Since September 28, 2020: Vice-Chairman of the Board of	Since October 2020: - Member of the Board of Directors of the SEM of MINT	2017 - 2020: Member of the Board of Directors SPL ZeFil	Since 2014: - Deputy Mayor of the City of Toulouse

Villeneuve-Saint-Georges (94190) French nationality	September 28, 2020 112 rue Garibaldi, 69006 Lyon	September 28, 2020 Term of office expires at the end of the Ordinary General Meeting called to approve the financial statements for the financial year ended on December 31, 2020		Directors of ST 2017 - 2020: Permanent representative of the Toulouse Metropolitan Area on the Board of Directors of ST	Since September 2020: - Chairman of EPFL du Grand Toulouse - Member of the SDEHG trade union council Since 2014: - Member of the SM Tisséo Collectivité Trade Union Committee - Member of the Board of Directors of SPL Tisséo Ingénierie - Member of the Board of Directors of EPIC Tisséo Voyageurs - Member of the SM DECOSET Trade Union Committee	2016 - 2020: Non-voting member of the Supervisory Board of SA ATB (Blagnac airport)	- Vice-Chairman of the Toulouse Metropolitan Area - Regional Councilor of the Occitanie Region Since 2005: Lawyer at the Toulouse Bar 1995-2013: Municipal Councilor of the city of Blagnac 1998-2004: Director General of Services of the Muretain Municipality Community 1995-2004: Director General of Services for the Municipality of Muret 1993-1995: Public organization management consultant, JPA Consultants

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
Mr. Jacques Pélissard born on March 20, 1946 in Lyon (69) French nationality	Vice-Chairman of the Supervisory Board Member of the ARCGC 112 rue Garibaldi, 69006 Lyon	Appointed by the General Meeting of June 22, 2017 Term of office expires at the end of the Ordinary General Meeting called to approve the financial statements for the financial year ended on December 31, 2020	None – see point 1 of this report	Chairman of the Board of Directors of ST		Member of the Local Finance Committee Member of the Board of Directors of Le Groupe La Poste	Professional activities: 1971-1974: Professor at the Ecole Supérieure de Commerce de Lyon Until July 1, 1993: Lawyer Public and political functions: Since 2014, Honorary Chairman of the Association of French Mayors 1989-2020: Mayor of Lons-le-Saunier (Prefecture of Jura)

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
							1993-2017: Member of Parliament for Jura, member of the Finance Committee of the National Assembly 2000-2017: Chairman of the city of Lons "ECLA" 2004-2014: Chairman of the Association of French Mayors
Mr. Rollon Mouchel-Blaisot born June 19, 1959 in	Member of the Supervisory Board Member of the ARCGC	Appointed in the Articles of Association dated December 17, 2013	None – see point 1 of this report	Term ended on May 24, 2017: Chairman of the Board of Directors of AFL-ST	Agence Nationale de Cohesion des Territoires (ANCT) - Director of the Action Coeur de Ville program	2010-2017: Chief Executive Officer of the Association of French Mayors	2008-2010: Prefect, senior administrator of French Southern and Antarctic Lands 2005-2008: Deputy prefect of the Saint-

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
Carteret (50270) French nationality	112 rue Garibaldi, 69006 Lyon	Renewal of term of office by the General Meeting of May 5, 2017 Term of office expires at the end of the Ordinary General Meeting called to approve the financial statements for the financial year ended on December 31, 2020					Germain-en-Laye district 2003-2005: Secretary General for Regional Affairs at the Prefecture of the Limousin region 2001-2003: Deputy prefect of the district of Libourne 1997-2000: Consul Général of France in Melbourne 1995-1997: Chief of Staff to the Minister of Foreign Affairs 1994-1995: Secretary General of the Prefecture of Jura Deputy Prefect, Director of the Office

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
							of the Prefect of Hautes-Alpes, the Prefect of Maine-et-Loire, then the Prefect of the Rhône-Alpes region, in charge of the South East Defense Zone. 1986-1988: Advisor in charge of relations with the Parliament in the Office of the Secretary of State, in charge of Youth and Sport
Mr. Olivier Landel born on January 9, 1963 in	Member of the Supervisory Board	Appointed in the Articles of Association dated	None – see point 1 of this report	AFL-ST Chief Executive Officer	General Delegate of Urban France		2002-2015: General Delegate of the Association of Urban Communities of France (ACUF),

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
Paramé (Saint-Malo-35400) French nationality	Member of the Audit and Risk Committee Member of the Strategy Committee 112 rue Garibaldi, 69006 Lyon	December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017 Term of office expires at the end of the Ordinary General Meeting called to approve the financial statements for the financial year ended on					which became Urban France in 2016 2010-2015: General Delegate of the Research Association for the local authorities financing agency 2009-2013: Lecturer, Master of Territorial and Urban Strategy (STU), Sciences-Po Formation 2009-2013: Chairman of the Association of IHEDATE Auditors 2001-2002: Senior Manager, Inter-Communal Affairs, Management,

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experience*
					Current offices	*Offices that expired in the last five years*	
		December 31, 2020					Finance, Business Intelligence, Ernst & Young 1996-2001: Organization, finance, local authority management consultancy, Puyo Consultants/Objectif M+ 1994-1996: Accounting, finance, local authorities IT, Olivier Landel Conseil/Objectif M14 1991-1994: Roll-out of local authorities financial management software, GFI

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
							software package (formerly SINORG) 1986-1991: External services of the French Treasury, Accounting for local authorities, Public Treasury
Mr. Lars Andersson born March 27, 1952 in Sweden Swedish nationality *Independen t Member*	Member of the Supervisory Board Member and Chairman of the Strategy Committee 112 rue Garibaldi, 69006 Lyon	Appointed in the Articles of Association dated December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017	None – see point 1 of this report	-	City Finance Lab: Committee member Global Fund for Cities Development (GMF): Senior Advisor AB Marten Andersson Productions (AB MA Productions): Founder and Chairman	Global Fund for Urban Development (GMDF): Director	Since 2009: Founder and Chairman of AB Marten Andersson Productions 2007-2009: CEO of Bankhälsan i Stockholm AB, Hälsostrategen I Stockholm AB and Galleriva AB 2001-2007: Head of Communications, Strategic Advisor to

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experience*
					Current offices	*Offices that expired in the last five years*	
		Term of office expires at the end of the Ordinary General Meeting called to approve the financial statements for the financial year ended on December 31, 2020					the Chairman and expert in financing local and regional authorities, Svensk Exportkredit (Swedish export credit company). 1986-2001: CEO of the Kommuninvest Group 1986-1986: Director of Administration of the Regional Theater of Örebro 1984-1986: Head of Accounting and Finance of the city of Karlstad

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
							1976-1984: Chief Financial Officer of Laxa Municipality

Ms. Victoire Aubry-Berrurier born on June 5, 1966 in La Roche-sur-Yon (85000) French nationality *Independent Member*	Member of the Supervisory Board Member of the Audit and Risk Committee 112 rue Garibaldi, 69006 Lyon	Appointed in the Articles of Association dated December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017 Term of office expires at the end of the Ordinary General Meeting called to approve the financial statements for the financial year ended on December 31, 2020	None – see point 1 of this report	N/A	– Member of the Executive Committee of Icade, in charge of Finance, IS and Legal Affairs – Director of ICADE MANAGEMENT (EIG) (318 607 207 RCS Paris) – Director of BPI Participations and BPI Investissements and Member of the Audit Committee (representing Caisse des Dépôts et Consignations) – Member of the Board of Directors of OPPCI ICADE HEALTHCARE EUROPE		Finance, Legal, Audit, CI, Risks, Project Management 2012-2016: Member of the Executive Committee in charge of Finance, Legal Affairs and IS, Compagnie des Alpes 2006-2012: Head of Management and Performance, CNP Assurances 2002-2006: Responsible for the strategic monitoring of competitive financial activities, Caisse des Dépôts et Consignations 1990-2001: Trading in the credit market, then risk and income controller on complex market

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
							products, managing the activities of US investment banks, CDC IXIS

Mr. François Drouin born on August 7, 1951, Quierschied (Germany) French nationality ***Independent Member***	Member of the Supervisory Board Member and Chairman of the Audit and Risk Committee 112 rue Garibaldi, 69006 Lyon	Appointed in the Articles of Association dated December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017 Term of office expires at the end of the Ordinary General Meeting called to approve the financial statements for the financial year ended on December 31, 2020	None – see point 1 of this report	-	– Chairman of ETI Finance (SAS) (797 802 568 RCS Paris) – Chairman of the Supervisory Board of Gageo SAS (831 604 491 RCS Paris); – Chairman of ICF SAS (RCS Paris); – Chairman of IFIMM SAS (830 662 102 RCS Paris); – Member of the Supervisory Board of WeLikeStartup Partners SAS (832 404 206 RCS Paris); – Treasurer of the Institut Français des Relations Internationales (IFRI);	– Chairman of Autoroutes et Tunnel du Mont-Blanc SA (582 056 511 RCS Paris); – Chairman of the Supervisory Board of the Mont Blanc Tunnel EEIG (European EIG - 433 092 517 RCS Annecy); – Chairman of the Board of Directors of Société Française du Tunnel Routier du Fréjus (SEM) (962 504 049 RCS Chambéry) – Vice-Chairman of the Board of Directors of BPI France (SA)	2013-2017: Chairman of Autoroutes et Tunnel du Mont Blanc (ATMB) 2007-2013: CEO, Oséo 2003-2007: Chairman of the Management Board, Crédit Foncier de France 1991-2003: Chairman of the Management Board, Caisse d'Épargne de Midi-Pyrénées 1989-1992: Chairman of the Management Board, Société Régionale de financement (Sorefi) of Caisses d'Epargne de Midi-Pyrénées. 1986-1989: Regional Director, CDC and Crédit local de France for Burgundy

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
					– Director of IFRI foundation. – Director of the Fondation Notre-Dame – Director of the Valentin Haüy Foundation	(320 252 489 RCS Créteil)	1985-1986: Regional Director, CDC for Haute-Normandie 1980-1985: Responsible for the regional district of Valenciennes at Direction départementale de l'équipement du Nord and Direction régionale de la navigation du Nord-Pas-de-Calais.

Mr. Nicolas Fourt born on September 22, 1958 in Nancy (54000) French nationality *Independent Member*	Member of the Supervisory Board Member of the Strategy Committee 112 rue Garibaldi, 69006 Lyon	Appointed in the Articles of Association dated December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017 Term of office expires at the end of the Ordinary General Meeting called to approve the financial statements for the financial year ended on December 31, 2020	None – see point 1 of this report	-	– Deputy Chief Executive Officer and Director of Acofi Gestion (SA) (415 084 433 RCS Paris) – Deputy Chief Executive Officer, Member of the Management Board of 2A SAS – Director of Compagnie Acofi (SAS) (510 571 995 RCS Paris) – Director of Denis Friedman Productions (SA) (409 756 350 RCS Paris) – Manager of NF Conseil (SARL) (RCS Nanterre) (519 411 441 RCS Nanterre) – Director of CDC Croissance SA RCS Paris 438 136 244	2017 - June 2020: Member of the Supervisory Board of Qivalio formerly Spread Research (ESMA regulated rating agency)	Since 2019: Director of CDC Croissance, an AMF-regulated AIFM portfolio management company 2014-2020: Deputy CEO of Acofi Gestion (AMF-regulated portfolio management company) 2009- 2015: Chief Executive Officer of Alfafinance (CIF) 2006-2008: Global Head of all market activities excluding CDOs, Member of the Executive Committee, Natixis 1996-2006: Head of Interest Rate Markets, then member of the Management Board jointly responsible for market activities,

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
							CDC-Marchés, then CDC-Ixis, then Ixis 1988-1996: Head of the Franc/ECU bond markets, then co-head of money and bond markets, CDC 1986-1988: Deputy head then head of foreign currency cash management, Caisse des Dépôts et Consignations (CDC) 1984-1986: Bond Manager, TGF Paris (Caisse des Dépôts Group) 1982-1984: OECD Paris

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experience*
					Current offices	*Offices that expired in the last five years*	
Mr. Daniel Lebègue born on May 4, 1943 in Lyon (69004) French nationality *Independent Member*	Member of the Supervisory Board Member and Chairman of the Appointments, Remuneration and Corporate Governance Committee 112 rue Garibaldi, 69006 Lyon	Appointed in the Articles of Association dated December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017 Term of office expires at the end of the Ordinary General Meeting called to approve the financial	None – see point 1 of this report	-	Since June 2018: Honorary Chairman of the Observatory on Corporate Social Responsibility (ORSE)	2008 - 2018: Chairman of the Observatory on Corporate Social Responsibility (ORSE)	2003 - 2014: - Chairman of the French Institute of Directors, professional association of directors of companies exercising their functions in France - Director of Alcatel, Crédit Agricole SA, Technip, Scor - Chairman of the Institute for Sustainable Development and International Relations - Chairman of the French section of

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experience*
					Current offices	*Offices that expired in the last five years*	
		statements for the financial year ended on December 31, 2020					Transparency International - Co-Chairman of Eurofi - Chairman of Epargne Sans Frontières 1998-2002: Chief Executive Officer, Caisse des Dépôts et Consignations 1996-1998: Vice-Chairman, Banque Nationale de Paris 1987-1996: Director, then Chief Executive Officer, Banque Nationale de Paris 1984-1987: Director of the Treasury, Public Treasury

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
							1983-1984: Deputy Director, Treasury Department 1981-1983: Technical Advisor to the Office of Prime Minister Pierre Mauroy, in charge of economic and financial affairs 1976-1981: Head of the Balance of Payments and Foreign Exchange Office, then Head of the Treasury Department, and Deputy Director in charge of the Savings and Financial Markets Department,

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
							Treasury Department. 1974-1976: Financial Attaché, French Embassy in Japan 1969-1974: Civilian Director of the Treasury Department, Ministry of the Economy and Finance
Ms. Melanie Lamant Born on August 23, 1975 in Croix (59170) French nationality	Member of the Supervisory Board Member of the Strategy Committee	Co-opted by the Supervisory Board on March 23, 2017 Renewal of term of office by the General	None – see point 1 of this report	-	Since November 2020: Director of strategy and support for stakeholders at the Agence Nationale de Rénovation Urbaine.	April 2014 - November 2020: Director General of Services - EPT Plaine Commune (93)	June 2011-April 2014: Deputy Chief Executive Officer - EPT Plaine Commune (93) September 2005-June 2011: Director of Finance-EPT Plaine Commune (93)

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
Independen t Member since November 2020	112 rue Garibaldi, 69006 Lyon	Meeting of May 5, 2017 Term of office expires at the end of the Ordinary General Meeting called to approve the financial statements for the financial year ended on December 31, 2020					March 2004-August 2005: Director of Finance and Markets - creation of the Department - Communauté d'agglomération des Hauts-de-Bièvre (92) January 2002-March 2004: Finance Director - City of Aulnay-sous-Bois (93)

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
Ms. Carol Sirou Born March 27, 1968 in Algiers 3th arrondissem ent (Algeria) French nationality	Member of the Supervisory Board Member of the Audit and Risk Committee	Co-opted by the Supervisory Board on September 27, 2018 Term of office expires at the end of the Ordinary General	None – see point 1 of this report	-	Chairwoman of Safineia Advisors LLC (company incorporated under American law) Member of the Board and of the Audit and Risk Committee of Exane	Director of Standard & Poor's Global Ratings France, Paris, France Chairwoman of Standard & Poor's Ratings (CMS France, Paris, France	Offices: Standard & Poor's Global Ratings France, Paris, France: January 2015-May 2018: Director Standard & Poor's Ratings (CMS France, Paris, France:

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experience*
					Current offices	*Offices that expired in the last five years*	
Independent Member	112 rue Garibaldi, 69006 Lyon	Meeting called to approve the financial statements for the financial year ended on December 31, 2021.			(SA) (342 040 268 RCS Paris) Member of the Supervisory Board, Chairwoman of the Audit Committee and member of the Governance Committee of Qivalio (SA) (478 661 481 RCS LYON).		January 2009-January 2015: Chairwoman Professional career: Standard & Poor's Global, New York: June 2016-December 2017: Head of Compliance, New York January 2016-June 2016: Chief Risk Officer, New York Standard & Poor's Ratings, Paris/New York: 2014-2016: Head of the Risk Program

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
							Management Office-New York 2013-2014: Head of the European offices of S&P Ratings - Paris 2009-2013: Chairwoman of S&P France and Head of the French-speaking Europe and Africa-Paris region Standard & Poor's Ratings, Paris: 2005-2009: Head of the "Sovereigns & Public Sector" analytical teams in Europe, Africa and the Middle East

First name, Last name Date and place of birth, Nationality	*Functions performed and, where applicable, participation in committees Business address*	*Date of first appointment and end date of term of office*	*Number of shares held in the Company's share capital*	*Offices and positions held within the Group since its creation*	*Offices and positions held outside the Group*		*Areas of Expertise/Experienc e*
					Current offices	*Offices that expired in the last five years*	
							2002-2005: Responsible for the rating of European Local Authorities 1990-2000: Various Banking & Public Sector Analyst positions

- **Changes in the composition of the Supervisory Board and the specialized committees during 2020:**

Mr. Richard Brumm resigned from his duties as a member and Chairman of the Supervisory Board, with effect from the date of the Supervisory Board meeting of September 28, 2020, which replaced him, by co-option of Mr. Sacha Briand, as a member and Chairman of the Supervisory Board, after having heard the positive opinion of the AFL ARCGC, the AFL-ST ARCGC and the AFL-ST Board of Directors.

In accordance with the provisions of Article L.225-78 of the French Commercial Code, the co-option of Mr. Sacha Briand as a member and Chairman of the Supervisory Board of AFL, replacing Mr. Richard Brumm, who resigned, was ratified by the Annual General Meeting of Shareholders held on February 4, 2021.

Mr. Sacha Briand will be called upon to perform his duties for the remainder of the term of office of the director replaced, i.e. until the end of the General Meeting called to approve the financial statements for the financial year ended on December 31, 2020 (General Meeting of May 6, 2021).

No change occurred in the composition of the Supervisory Board's specialized committees during FY 2020.

3.1.2. Rules applicable to the appointment of members of the Supervisory Board

In accordance with the legal provisions in force set out in Article 15.1.6 of the Company's Articles of Association, the appointment of members of the Supervisory Board is the responsibility of the Ordinary General Meeting of Shareholders.

In accordance with the provisions of Article L.225-78 of the French Commercial Code, the Company's Articles of Association also provide, in the event of a vacancy of one or more members due to death or resignation, the possibility for the Board of Directors to co-opt a new member in order to provisionally replace such members; the appointment must be ratified by the next General Meeting following the appointment.

This procedure is also applicable in the event that the number of members of the Supervisory Board falls below the statutory minimum (eight members), with a view to supplementing membership within three months from the date on which the vacancy occurs.

All candidates to Supervisory Board membership are reviewed, prior to their submission to the General Meeting of Shareholders, by the Company's ARCGC, on the one hand, and by the ARCGC of Société Territoriale, on the other, pursuant to the provisions of Article 15.2.1 of the Company's Articles of Association, in order to ensure that the effective composition of the Supervisory Board complies with the principles set out in the Articles of Association, which are recalled in paragraph 3.1.1.

3.1.3. Knowledge, skills and experience of the members of the Supervisory Board

- Assessment of the individual contributions of the members to the discussions of the Supervisory Board

The Company's ARCGC meeting on November 19, 2020 confirmed, in line with the conclusions taken at its meeting of November 21, 2019 during which a skills audit was carried out, that, with regard to the various professional profiles and careers detailed in the table below, all the members of the Supervisory Board have key expertise in relation to the Company's business, which enables it, as well as the Agence France Locale Group, to develop under the aegis of a Quality Council.

The composition of the Supervisory Board and its Committees thus meets the requirements arising from the Company's activity in terms of governance, by bringing together experts from the local public sector and independent professionals recognized for their professional expertise in financial and management matters, and who have held or exercised functions in independent public or private bodies, in France or abroad.

The coexistence within the Supervisory Board of skills and expertise in the banking sector, combined with a strong knowledge of the challenges of the local public sector and the functioning of local authorities, is considered essential by the members of the Supervisory Board interviewed in the context of the assessment of the Board.

Generally speaking, all the members of the Committee noted:

- the complementarity of their skills with those of the other members of the Board; and
- the usefulness of their skills and expertise in the implementation of the missions of the committees and boards.

A certain number of skills, expertise and experience complementary to these have also been identified. With a view to the renewal of the Board to take place in May 2021, the ARCGC, meeting in November 2019, recommended promoting the recruitment of HR, change management and marketing profiles.

It is under these circumstances that the Company's ARCGC, meeting on November 19, 2020, was called upon to examine the candidacy of Ms. Sophie L'Hélias as a member of the Company's Supervisory Board and of the ARCGC. It noted that this appointment would, notably, strengthen the Supervisory Board's competencies in human resources but also in governance and CSR. After review by the AFL-ST ARCGC and a favorable opinion by the AFL-ST Board of Directors, the appointment of Ms. Sophie L'Hélias as a member of the Supervisory Board was approved by the Company's General Meeting Shareholders of February 4, 2021

The Company's ARCGC at its meeting of November 19, 2020 also worked on the preparation of the renewal of the bodies expected at the end of the Company's General Meeting of Shareholders called to approve the financial statements for the financial year ended on December 31, 2020.

The Company's ARCGC, meeting on November 19, 2020, recalled the main rules relating to the forthcoming appointment of Supervisory Board members:

- The Articles of Association provide that when the number of Supervisory Board members over the age of 70 represents more than one-third of the Board, the oldest member is automatically deemed to have resigned; and

- The rules of procedure of the Supervisory Board include the AFEP-MEDEF rule that beyond 12 years of service on the Board, the status of independent director is lost (it being specified that the loss of independent member status will only intervene at the end of the term of office during which it would have exceeded this period of 12 years).

It also considered recognizing the principle that no member of the Supervisory Board would be appointed or reappointed beyond his or her 75th birthday, and proposed to raise this subject for a decision at an upcoming meeting of the Supervisory Board. Mr. Jacques Pélissard and Mr. Daniel Lebègue already announced at the ARCGC meeting of November 19, 2020 and the Supervisory Board meeting of December 14, 2020, that they intend to leave the Board at the end of its next renewal.

- Training of Board members

As part of the initial establishment of the Supervisory Board, an internal training course aimed at presenting the specific activities of the Company and the Agence France Locale Group, the regulatory and strategic challenges it faces, as well as the governance principles governing the Agence France Locale Group and the Company was provided for the members of the Supervisory Board in June 2015. In this context, the members of the Supervisory Board were also reminded of the rights and obligations associated with their duties.

Individual interviews with each of the members of the Supervisory Board who have been appointed in this capacity since the Company's incorporation were conducted prior to their appointment, in order to raise their awareness of the specificities and challenges of the Agence France Locale Group, as well as the duties of the Supervisory Board collectively and its members individually.

This training is kept up to date with regard to changes in governance and the rights and obligations of Board members, and will be provided in any event to any new Board member.

As part of the evaluation of the Supervisory Board, the November 2019 ARCGC confirmed the imperative of organizing a training session for new directors, and specified that workshops or training sessions on the financial and institutional environments in which AFL operates could also usefully be deployed.

Applying this action plan, in the fourth quarter of 2020, the AFL Group set up a training plan for all members of the AFL-ST Board of Directors and their employees, permanent insiders, participating in the preparation of their participation in AFL-ST governing bodies.

These training sessions took the form of three training modules lasting from 1.5 to 2 hours:

- ✓ Presentation of the AFL-Group, its history, its development since 2014, its CSR trajectory, its shareholders, and its future members;
- ✓ Presentation of the bank's operations: source of funds, the liquidity reserve, loans to local authorities;
- ✓ Presentation of AFL governance: the missions, roles and responsibilities of the Board and its members.

- Conflict of interest situations:

The Code of Ethics for members of the Supervisory Board approved by the Supervisory Board on September 21, 2017 and appended to the Supervisory Board's Internal Regulations sets out all the rights and obligations incumbent on Supervisory Board members, both collectively and individually, in particular with regard to the management of conflicts of interest and the whistleblowing duty.

In order to comply with the provisions of EU Regulation no. 596/2014 of April 16, 2014, which came into force on July 2, 2016, on market abuse ("MAR" Regulation), the ARCGC conducts an annual review of the offices and other functions held by members of the Supervisory Board outside the AFL Group in order to prevent the occurrence of conflicts of interest situations.

A member of the Supervisory Board, potentially affected by a possible conflict of interest, already organized, in FY 2017, the appropriate measures to deal with the situation, where necessary, and sent a written commitment to this effect to the Chairman of ARCGC describing the organizational measures taken within his company. These measures remained valid in subsequent financial years, including FY 2020.

During FY 2020, no member of the Supervisory Board noted the occurrence of a potential conflict of interest as regards the exercise of his or her office at AFL, which the Company's ARCGC duly noted on February 24, 2021.

3.1.4. Independence of the members of the Supervisory Board

In accordance with the provisions of Article 9.4 of the AFEP-MEDEF Code, the ARCGC discussed, as part of its annual assessment of the functioning of the Supervisory Board, the status of each member of the Board as an independent director.

Generally speaking, within the AFL Supervisory Board, the members representing AFL-ST and local authorities under the terms of Article 15.1.2 of the Company's Articles of Association are not considered to be independent, with regard to their involvement in the governance of the parent company and the capital links between the local authority from which they come and the AFL Group.

The ARCGC noted that all members considered as independent at the time of their appointment to the Supervisory Board meet the independence criteria set out in the AFEP-MEDEF Code.

In accordance with the provisions of Article 15.1.4 of the AFL Articles of Association, the number of independent Supervisory Board members must be greater than the number of Supervisory Board members designated to represent the local authorities.

Independence criteria	Mr. Sacha Briand	Mr. Jacques Pélissard	Mr. Rollon Mouchel-Blaisot	Mr. Olivier Landel	Ms. Mélanie Lamant
Member considered independent?	No	No	No	No	No (until November 2020)
Criterion 1 – *Employee corporate officer/Executive Director/Director of the company or its parent company or of the consolidated company in the previous five years*	X Mr. Briand is also Vice-Chairman of the Board of Directors of AFL-ST	X Mr. Pélissard is also Chairman of the Board of Directors of AFL-ST	X Until May 24, 2017, Mr. Mouchel-Blaisot served as Chairman of the Board of Directors of AFL-ST	X Mr. Olivier Landel is Chief Executive Officer of AFL-ST	✓
Criterion 2 – *Cross-mandates*	X See above	X See above	✓	X See above	✓
Criterion 3 – *Significant business relationships*	✓	✓	✓	✓	✓
Criterion 4 – *Family ties*	✓	✓	✓	✓	✓
Criterion 5 – *Statutory Auditor*	✓	✓	✓	✓	✓
Criterion 6 – *Term of office of more than 12 years*	✓	✓	✓	✓	✓
Criterion 7 – *Status of the non-executive corporate officer*	✓	✓	✓	✓	✓
Criterion 8 – *Significant shareholder status*	X Mr. Briand serves as (i) Vice-Chairman of the Toulouse Metropolitan Area, (ii) Deputy Mayor of the city de Toulouse	X Mr. Pélissard served as Mayor of the municipality of Lons-le-Saunier, shareholder of AFL-ST until July 2020.	✓	✓	X Melanie Lamant is Chief Executive Officer of EPT Plaine Commune, a shareholder of

	and (iii) Regional Councilor of the Occitanie Region, shareholders of AFL-ST.					AFL-ST (until November 2020)
<u>Independence criteria</u>(1)(2)	Mr. Lars Andersson	Ms. Victoire Aubry	Mr. François Drouin	Mr. Nicolas Fourt	Mr. Daniel Lebègue	Ms. Carol Sirou
Member considered independent?	Yes	Yes	Yes	Yes	Yes	Yes
Criterion 1 – *Employee corporate officer/Executive Director/Director of the company or its parent company or of the consolidated company in the previous five years*	✓	✓	✓	✓	✓	✓
Criterion 2 – *Cross-mandates*	✓	✓	✓	✓	✓	✓
Criterion 3 – *Significant business relationships*	✓	✓	✓	✓	✓	✓
Criterion 4 – *Family ties*	✓	✓	✓	✓	✓	✓
Criterion 5 – *Statutory Auditor*	✓	✓	✓	✓	✓	✓
Criterion 6 – *Term of office of more than 12 years*	✓	✓	✓	✓	✓	✓
Criterion 7 – *Status of the non-executive corporate officer*	✓	✓	✓	✓	✓	✓

Criterion 8 – Significant shareholder status	✓	✓	✓	✓	✓	✓

(1) In the table above, ✔ represents an independence criterion met and X an independence criterion not met.

(2) The independence criteria for a director set out in Article 9.5 of the AFEP-MEDEF Code and on the basis of which the ARCGC conducted its analysis, are appended to this report.

3.1.5. Balance of the composition of the Board and Committees and objectives pursued

The requirement for women to be represented to the tune of 40% on the Supervisory Board, previously covered by the provisions of the AFEP-MEDEF Code, has been taken up by the provisions of law no. 2016-1691 of December 9, 2016, so-called "Sapin 2 law", and codified in Article L.225-69-1, paragraph 1, of the French Commercial Code.

Moreover, the AFEP-MEDEF Code, to which the Company voluntarily adheres, was amended in January 2020. This revision includes, in particular, a new Article 7 on the gender balance policy within governing bodies. While the new provisions are applicable from the Annual General Meetings called to approve the financial statements opened on or after January 1, 2020, it is recommended that the Boards make their best efforts to publish targets in terms of female representation from 2020. The impact of these new provisions was examined at the ARCGC meeting of February 26, 2020, which examined the gender balance policy within the bodies with a view to making recommendations to the Supervisory Board.

Although the Company does not strictly fall within the scope of this text, since its shares are not admitted to trading on a regulated market, the ARCGC and the Company's Supervisory Board reaffirmed, in December 2020, the objective of 40% female representation among the members of the Supervisory Board, while acknowledging that the Company enjoys a certain degree of flexibility in achieving this objective and in particular in the implementation schedule. Gender balance, and diversity in general, is an important part of the values held by the Company and the Agence France Locale Group.

The Supervisory Board was made up of three women and eight men at the end of FY 2020, i.e. a proportion of 27%/73%, which remains the same as at the end of the 2019 financial year. The Company's ARCGC meeting of November 19, 2020 was called upon to examine the candidacy of Ms. Sophie L'Hélias as a member of the Company's Supervisory Board and ARCGC. After review by the ARCGC of AFL-ST and a favorable opinion by the Board of Directors of AFL-ST, the Company's General Meeting of February 4, 2021 approved the appointment of Ms. Sophie L'Hélias as a member of the Supervisory Board. This appointment reinforces the presence of women on AFL bodies. Following this appointment, the Supervisory Board is composed of four women and eight men, i.e. a proportion of 33%/66%, marking a clear improvement compared to that observed at the end of the 2019 and 2020 financial years.

In addition, as part of the evaluation of the functioning of the Supervisory Board, the ARCGC and the Supervisory Board agreed to set as an objective the loss of the status of independent director at the end of a 12-year period in office, without, however, including this provision in the Company's Articles of Association.
This objective, combined with the age limit rule and the gender equality objective, which together constitute the Board renewal strategy, should naturally and de facto allow the renewal and staggering of terms of office recommended by the AFEP-MEDEF Code.

In December 2020, the Company's ARCGC and the Supervisory Board also examined the diversity policy within AFL's governing bodies (trajectory and obligation of means). It is clear from this policy that the Company undertakes to ensure that within the Company's Management Board at least one member of each gender must be represented. As at December 31, 2020, the Management Board is currently composed of one woman and two men.

In addition, it is clear from this policy that the Company sets a target for its Executive Committee of 40% of Executive Committee members belonging to the same gender. At December 31, 2020, the Company's Executive Committee was composed of four men and three women. The ARCGC and the Supervisory Board considered that this was a realistic and pragmatic approach for the Company.

3.1.6. Conditions for preparing and organizing the work of the Board

- Reminder of the duties of the Supervisory Board:

The Supervisory Board exercises permanent control over the management of the Company by the Management Board. At any time of the year, it carries out the checks and controls it deems appropriate and may request any documents it deems useful for the performance of its duties. The operation of the Supervisory Board is governed by the Company's Articles of Association and specific internal regulations, a new amended version of which was adopted by the Supervisory Board on June 30, 2020.

In addition, and in accordance with the provisions of Article 15.8 of the Company's Articles of Association, the following decisions may not be taken by the Management Board without the prior authorization of the Supervisory Board:

- disposals of buildings, total or partial disposals of equity interests and provision of sureties;

- decisions relating to the Company's major strategic, economic, financial or technological orientations and the definition of its annual financing policy;

- the strategic plan and decisions relating in particular to the launch of new activities, the acquisition of companies, the conclusion of any alliance or partnership, any transfer of assets, including through the universal transfer of assets, the amount of which is significant, and, more generally, any significant investment or divestment;

- decisions relating to the allocation of options to subscribe or purchase shares or equivalent securities to corporate officers and/or executives as well as the allocation of free shares;

- decisions relating to financing transactions likely to substantially change the Company's financial structure that were not considered as part of the definition of the annual financing policy;

- the draft resolutions to be submitted to the General Meeting pursuant to Article L.228-92 of the French Commercial Code, relating to the issue of securities conferring or not entitlement to a share of the share capital and/or voting rights and setting the terms and conditions for the issue of said securities; and

- dividend distribution proposals and similar transactions.

- Organization of meetings:

The arrangements for the organization of meetings of the Supervisory Board and its specialized committees are governed by the Articles of Association and the Supervisory Board's Internal Regulations.

However, in the context of the health crisis and from March 26, 2020, these meetings were held by videoconference, in accordance with Ordinance no. 2020-321 of March 25, 2020, as amended, and Decree no. 2020-418 of April 10, 2020, as amended.

The Supervisory Board meets at least once a quarter. It deliberates on the agenda covering all matters that must be submitted to it by law, regulations and the Articles of Association.

Depending on the items on the agenda, the Chairman of the Supervisory Board may decide, in particular on the proposal of a member of the Supervisory Board, to invite any person he deems useful, whether or not a member of the Company's staff, to present a case or to shed light on discussions in preparation for deliberations. The Statutory Auditors are invited to attend all meetings of the Supervisory Board at which the annual or interim financial statements are examined.

The Supervisory Board is convened by the Chairman of the Supervisory Board or, if he is unable to attend, by the Vice Chairman, if there is one. The Supervisory Board may be convened by any means. The notice period for the meeting is eight calendar days, which may be shortened in the event of a duly justified emergency. The Supervisory Board may validly deliberate even in the absence of a notice of meeting if all its members are present, deemed present or represented.

Except in emergencies, the members of the Supervisory Board receive, with the notice of meeting, the agenda for the Supervisory Board meeting as well as the information necessary for them to make an informed decision on the subjects on the agenda.

Since the fourth quarter of the 2019 financial year, the AFL Group has adopted a new mode of communication with the members of its bodies. In order to further secure the circulation of documents supporting agendas that contain sensitive information, these documents are made available to the members of the body concerned on a dedicated storage space, kept on the AFL Group in-house secure internal site. Notices of meetings of committees and boards are still sent with their agenda by email and include an access link to this storage space, equipped with a secure authentication system and to which the members of the body have exclusive access.

This change has three advantages:

- Securing the transmission of data, which are kept with a high level of security and are transmitted in encrypted mode;
- Permanent access to this data, now centralized in a single space;
- Participation in the CSR approach: zero paper, reduction of storage space, reduction of email exchanges.

Members of the Supervisory Board may be represented at meetings of the Supervisory Board by another member of the Supervisory Board, except for Supervisory Board meetings held to approve the annual financial statements.

Each member of the Supervisory Board may represent only one other member during a single Supervisory Board meeting.

The members of the Supervisory Board may be represented, per annum and at most:

- At two meetings of the Supervisory Board; or
- At two Committee meetings; or
- At one meeting of the Supervisory Board and one meeting of a Committee.

Beyond that, the legally valid representation of the members of the Supervisory Board is not taken into account for the allocation of compensation.

In addition, each member of the Supervisory Board may request any documents that he or she deems useful or necessary for the performance of his or her duties. The obligation of the members of the Supervisory Board to obtain information is matched by their right to obtain the information requested.

All participants in Supervisory Board meetings are bound by an obligation of confidentiality and discretion with regard to the information communicated or received during these meetings.

- Summary of the Board's work during the past financial year:

In addition to the points and decisions falling within its legal prerogatives, in particular with regard to the review of the annual and half-yearly financial statements, the Supervisory Board discussed all the major actions carried out in 2020, both internally (organization, compensation, objectives, etc.) and external (bond issues, financial policy, etc.). The Supervisory Board, which met four times in 2020, adopted the following points in particular:

- With regard to debt programs:
  - Approval of the borrowing program for the 2021 financial year and opinion on the setting of a ceiling for the issuance budget for the 2021 financial year under the EMTN and ECP programs, within the double limit of the ceilings of ST programs and Guarantee;

- With regard to budgetary policy and the financial and commercial outlook:
  - Review of the landing prospects at December 31, 2020;
  - Monitoring the management of the crisis related to the Covid-19 pandemic;

- Approval of the provisional budget established for Agence France Locale for the 2021 financial year;
- Validation of the Company's business plan; and validation of forecasts;
- Review of the membership development strategy – Prioritization of new public institutions;
- Review of share capital plans;
- Review of the proposal to modify the k factor;

▪ With regard to financial policies:
  - Validation of the liquidity policy;
  - Approval of the interest rate and foreign exchange risk hedging policy;
  - Validation of the investment and credit risk management policy in relation to market activities;
  - Approval of the Company's lending policy;
  - Validation of the Company's rating policy;
  - Validation of the financial and risk appetite strategy;

▪ With regard to compensation policies:
  - Validation of the compensation policy of Agence France Locale for the 2020 financial year;
  - Review of the compensation budget allocated for the 2019 financial year to the employees of Agence France Locale, and more specifically to employees qualified as "*risk takers*";
  - Setting the quantitative and/or qualitative annual objectives to be taken into account in determining the variable compensation for 2020;
  - Review of the Company's professional gender equality policy;
  - Review of the amount of fixed and variable compensation granted to members of the Management Board for the 2019 financial year;
  - Breakdown of the total amount of compensation allocated by the General Meeting to the members of the Supervisory Board for the financial year ended December 31, 2019 and opinion on the principle of compensation allocation for the 2020 financial year;
  - Opinion on the planned implementation of a profit-sharing agreement within the Company

▪ With regard to regulated agreements:
  - As part of the closing of the financial year ended on December 31, 2020, annual review of the regulated agreements entered into previously and whose exercise continued during the 2020 financial year, prior to their submission for the review of the General Meeting of Shareholders, it being specified that agreements exclusively concluded between the Company and Société Territoriale in accordance with the provisions of Article L.225-87 of the French Commercial Code are excluded from the scope of the audit.

▪ With regard to internal control and risk monitoring:

- Review of internal control, risk management and monitoring activities and results (twice during the year);
- Review of the liquidity position (twice during the year);
- Review of the Annual Report on Internal Control (ARIC);
- Review of the Annual Report on Internal Control dedicated to AML-CFT;

▪ With regard to periodic control activities:
  - Half-yearly information from the Supervisory Board on the periodic control activities (recommendations, implementation of corrective measures and monitoring of the implementation of these measures);
  - Approval the periodic audit plan for the 2021 financial year;
  - Presentation of the call for tenders for the selection of the new service provider in charge of the outsourced periodic control;

▪ With regard to governance:
  - Amendments to the Articles of Association of the Company relating to the extension of the entities authorized to join the AFL Group to include unions;
  - Review of the Company's corporate purpose; and review of the amendments to the Articles of Association that are planned to be proposed to the General Meeting to incorporate the corporate purpose in the Company's Articles of Association;
  - Presentation of the securities of the Agence France Locale Group;
  - Monitoring of the Company's CSR projects;
  - Setting targets in terms of gender balance on the Supervisory Board;
  - Renewal of the members of the Company's Management Board;
  - Preparation of the renewal of the Supervisory Board by May 2021;
  - Resignation of Mr. Richard Brumm as a member and the Chairman of the Supervisory Board; and co-option of Mr. Sacha Briand as a member and the Chairman of the Supervisory Board;
  - Evaluation of the collective functioning of the Supervisory Board and its committees, as well as the experience and skills of the members of the Supervisory Board, on an individual basis;
  - Renewal of the Statutory Auditors;
  - Validation of a financial press release validation policy;
  - Transfer of the Company's registered office and resulting amendment to the Articles of Association;
  - Amendments to the Internal Regulations of the Supervisory Board, relating to the rules on the transfer of the registered office and the terminology used to designate the compensation of the members of the Supervisory Board.
  -

In accordance with applicable regulations and the provisions of the Supervisory Board's Internal Regulations, the members of the Supervisory Board were duly informed of the work and the recommendations of the specialized committees and the Statutory Auditors.

The minutes of the Supervisory Board meetings were approved at the following meeting. This validation confirmed an accurate transcription of the content of the work.

3.2. The Supervisory Board’s specialized committees

The Supervisory Board delegated powers to three specialized committees whose mission is to provide in-depth and upstream analysis and reflection on the Supervisory Board’s discussions and contribute to the preparation of its decisions.

The committees have no decision-making power and the opinions, proposals or recommendations that the committees submit to the Supervisory Board are not binding in any way on the Supervisory Board's final decision-making.

3.2.1. The Audit and Risk Committee

a) Composition of the Audit and Risk Committee

The Audit and Risk Committee is chaired by Mr. François Drouin.

As of December 31, 2020, its other members are Ms. Victoire Aubry, Mr. Olivier Landel and Ms. Carol Sirou.

b) Conditions for preparing and organizing the work of the Committee

- Reminder of the Committee's missions and organization of meetings

The main duties of the Audit and Risk Committee are:

(i) to control the process for preparing and disseminating accounting and financial information, and to assess the relevance and consistency of the accounting principles and methods adopted for the preparation of the annual and half-yearly financial statements;
(ii) to check the effectiveness of internal control and risk management procedures;
(iii) to ensure by all means the quality of the financial, accounting or risk management information provided to the Supervisory Board;
(iv) to share with the Board its assessment of the work done by the Statutory Auditors and its opinion on the renewal of their term of office.

The Supervisory Board’s rules of procedure precisely define its mode of operation and its duties.

The Audit and Risk Committee reports regularly to the Supervisory Board on the performance of its duties and informs it without delay of any difficulties encountered. These reports are included in the minutes of the relevant Supervisory Board meetings or in an appendix to said minutes.

The entry into force of the audit reform on June 17, 2016 led to an expansion of the scope of the Audit and Risk Committee’s control duties.

In this respect, the Committee has put in place a Charter, setting out the rules for approving, delegating and monitoring the services that may be entrusted to the

Statutory Auditors and their networks, in particular with regard to services not relating to the certification of the financial statements.

To carry out its duties, the Audit and Risk Committee can use all the resources made available to it under the Supervisory Board's Internal Regulations.

The Audit Committee meets at least twice a year to review the annual and interim financial statements, and as often as the Company's interests require.

- Summary of the work of the Audit and Risk Committee during the past financial year

During the 2020 financial year, the Audit and Risk Committee met four times. Its work covered the following matters:

- Review of the annual and half-yearly parent company financial statements, prepared in accordance with French standards and IFRS;
- Review of the Company's management report for the financial year ended December 31, 2019;
- Review of the work of the Statutory Auditors and their independence;
- Review of applications for the renewal of the Statutory Auditors;
- Opinion on the Company's 2021 borrowing program;
- Review of the landing prospects for 2020 and the provisional budget for 2021;
- Review of the business plan and forecasts;
- Opinion on the proposed modification of the *k* factor;
- Review of the Company's compensation policy;
- Presentation of the plan to set up a profit-sharing agreement within the Company;
- Review of the financial and risk appetite strategy;
- Review of financial policies:
  - investment and credit risk management policy for market activities,
  - liquidity policy,
  - interest rate and foreign exchange risk hedging policy,
  - credit policy,
  - rating policy;
- Review of risk monitoring;
- Review of the monitoring of the liquidity position;
- Review of the Company's internal control activity;
- Review of periodic control missions;
- Review of the audit plan for the 2021 financial year;
- Presentation of the call for tenders for the selection of a service provider to carrying out the periodic control missions;
- Approval of all services provided or likely to be provided by the Statutory Auditors for the 2021 financial year (audit charter);
- Review of the Annual Report on Internal Control (ARIC);
- Review of the Annual Report on Internal Control dedicated to AML-CFT.

3.2.2. The Appointments, Remuneration and Corporate Governance Committee (the ARCGC)

a) Composition

The ARCGC is chaired by Mr. Daniel Lebègue. Its other members are Mr. Rollon Mouchel-Blaisot and Mr. Jacques Pélissard. The composition of the ARCGC did not change during the past financial year.

Following the appointment of Ms. Sophie L'Hélias as a member of the Supervisory Board by the General Meeting of Shareholders of February 4, 2021, she was appointed a member of the Company's ARCGC by the Supervisory Board on the same day.

b) Conditions for preparing and organizing the work of the Committee

- Reminder of the Committee's missions and organization of meetings

The main duties of the ARCGC are:

(i) to review any candidate for the position of Supervisory Board member;
(ii) to make recommendations on the appointment or succession of executive corporate officers;
(iii) to ensure compliance with the rules of governance, in particular by conducting an annual review of the functioning of the Supervisory Board and its Committees;
(iv) to ensure that the experience and individual skills of the members of the Supervisory Board guarantee the effective collective functioning of the Board;
(v) to review the Company's compensation policy, and in particular the compensation allocated to and the performance targets set for corporate officers.

The Supervisory Board's internal regulations precisely define the ARCGC's operating methods and duties.

To carry out its duties, the ARCGC can use all the resources made available to it under the Supervisory Board's Internal Regulations.

- Summary of the Committee's work during the past financial year

In 2020, the Appointments, Remuneration and Corporate Governance Committee met three times. Its work notably covered the following matters:

- Approval of the compensation policy of Agence France Locale for the 2020 financial year;
- Review of the qualitative and/or quantitative performance criteria to be taken

into account in determining the variable compensation of the Management Board for the 2020 financial year;
- Review of the fixed and variable compensation of the members of the Management Board;
- Review of the compensation budget allocated for the 2019 financial year to the employees of Agence France Locale, and more specifically to employees qualified as "risk takers";
- Review of the proposed allocation of compensation to each member of the Supervisory Board for the 2019 financial year;
- Review of the collective functioning of the Supervisory Board and its committees, as well as the experience, skills and independence of the members of the Board individually;
- Review of the renewal of the members of the Company's Management Board;
- Opinion on the candidacy of Mr. Sacha Briand as a member and the Chairman of the Supervisory Board; and Ms. Sophie L'Hélias as a member of the Company's Supervisory Board and the ARCGC;
- Review of gender representation on the Company's Supervisory Board; setting of gender diversity targets; implementation of a diversity policy within the Company's management bodies;
- Preparation of the renewal of the members of the Supervisory Board of the Company by May 2021;
- Review of changes to be made to the Company's governance in light of changes due to the Pacte Law and the revision in January 2020 of the AFEP-MEDEF Code;
- Presentation of the Company's HR system;
- Monitoring of HR policy with regard to the Covid-19 pandemic;
- Presentation of the plan to set up a profit-sharing agreement within the Company.

3.2.3. The Strategy Committee

a) Composition

The Strategy Committee is chaired by Mr. Lars Andersson. Its other members are Ms. Melanie Lamant, Mr. Olivier Landel and Mr. Nicolas Fourt. Its composition did not change during the past financial year.

b) Conditions for preparing and organizing the work of the Committee

- <u>Reminder of the Committee's missions and organization of meetings</u>

The Strategy Committee meets as often as its members deem necessary. During the 2019 financial year, it was decided by the Chairman of the Committee that it would systematically meet before the quarterly Supervisory Board meeting.

The Strategy Committee examines and monitors the implementation of the Company's strategic plan, as well as the Company's strategic projects and operations. As such, it expresses its opinion on:

– the main strategic policies of the Company (including the medium-term business plan);

– the Company's development policy;

– major financing and refinancing projects or programs which may be carried out by the Company.

The Strategy Committee also studies and reviews draft strategic agreements and partnerships and, more generally, any significant project of any kind. The assessment of the materiality of a project presented by the Company's management is the responsibility of the Chairman of the Strategy Committee, which, in order to form his decision, notably refers to the amount of commitments related to the project in question.

In general, the Strategy Committee gives its opinion on any other strategic issue referred to it by the Supervisory Board.

To carry out its duties, the Strategy Committee can use all the resources made available to it under the Supervisory Board's Internal Regulations.

▪ Summary of the Committee's work during the past financial year

As of September 2019 and following the decision of the Strategy Committee to this effect, the presentation of the discussions of the Strategy Committee has changed: in addition to the oral presentation of work at meetings, a half-yearly activity report of the Strategy Committee is made available to the members of the Supervisory Board and lists, for each subject studied, the general content of the discussions of the Strategy Committee, the findings made (advantages and opportunities, possible difficulties), the avenues for change and their follow-up, as well as the recommendations made by the Committee.

Thus, during the 2020 financial year, the Strategy Committee met three times. It also held several informal meetings in November and December 2020 to prepare for the strategic seminar, bringing together for the first time since the creation of the AFL Group, on December 14, 2020, all members of the Company's Supervisory Board and of the Board of Directors of AFL-ST.

The Strategy Committee has chosen to examine on a recurring basis certain major themes for the definition of the AFL Group's strategy, including:

- changes in the regulatory environment governing the activity of Agence France Locale;
- changes in the situation of French local authorities with regard to loans and AFL's market share;
- the membership development strategy;
- the situation of Agence France Locale's peers;
- institutional partnerships.

The Strategy Committee also focuses its discussions on the themes it identifies as representative of the major strategic challenges for the AFL Group, namely, for the past financial year:

- The Company's equity position, the associated action plan, and in particular the review of the amendment of the k factor;
- The extension of the entities authorized to join the AFL Group to include unions;
- and the prioritization of other new local public institutions;
- The CSR approach and strategy.

In 2020 the Strategy Committee also worked on redefining its place in the governance of AFL's strategy and its relations with other bodies.

Concerning the governance of AFL strategy, a strategic meeting bringing together members of the AFL Supervisory Board and members of the AFL-ST Board of Directors was organized for the first time on December 14, 2020; its agenda was increasing AFL Group memberships and the roll-out of AFL's sustainable development approach.

This seminar was a time of very positive exchanges, offering the members of AFL Group's governing bodies the time and opportunity to take a step back, at a time when the activity was reaching equilibrium, to reconsider the trajectory, the ambitions and the priorities, to share and exchange on the proposals of the members of the Board of Directors and the Supervisory Board, and to re-evaluate the relevance of the initial ambitions. It was an opportunity for very rich discussions and will make it possible to align all the members of the bodies of the two companies, on the strategy to be deployed, in terms of memberships and CSR.

The participants decided to make this strategic meeting an annual event.

3.2.4. Attendance of members at meetings of the Supervisory Board and the specialized Committees: attendance at meetings of members of the Supervisory Board and its specialized committees in FY 2020

All meetings of the Supervisory Board and of the Committees met, upon first notice, the quorum and majority conditions required by the Articles of Association.

The table below shows the attendance of the members of the Board and the specialized Committees at meetings, on the basis of the attendance sheets signed at the beginning of meetings.

During FY 2020, all meetings of the Supervisory Board were held by video conference in a context marked by the health crisis.

	Supervisory Board		Audit and Risk Committee		ARCGC		Strategy Committee		
	Number of meetings in 2020	Actual participation	Number of meetings in 2020	Actual participation	Number of meetings in 2020	Actual participation	Number of meetings in 2020	Actual participation	*Individual participation rate*
R. Brumm	3[12]	1	N/A	N/A	N/A	N/A	N/A	N/A	*33%*
S. Briand	2[13]	2	N/A	N/A	N/A	N/A	N/A	N/A	*100%*
J. Pélissard	4	2	N/A	N/A	3	3	N/A	N/A	*71%*
R. Mouchel-Blaisot	4	4	N/A	N/A	3	3	N/A	N/A	*100%*
O. Landel	4	4	N/A	N/A	N/A	N/A	3	3	*100%*
L. Andersson	4	4	N/A	N/A	N/A	N/A	3	3	*100%*
V. Aubry-Berrurier	4	4	4	4	N/A	N/A	N/A	N/A	*100%*
F. Drouin	4	4	4	4	N/A	N/A	N/A	N/A	*100%*
N. Fourt	4	4	N/A	N/A	N/A	N/A	3	3	*100%*
M. Lamant	4	1	N/A	N/A	N/A	N/A	3	3 (including 2 proxies)	*57%*
D. Lebègue	4	4	N/A	N/A	3	3	N/A	N/A	*100%*

[12] Mr. Richard Brumm resigned at the end of the Supervisory Board meeting of September 28, 2020.

[13] Mr. Sacha Briand was co-opted as a member and Chairman of the Supervisory Board at the end of the Supervisory Board meeting of September 28, 2020.

C. Sirou	4	4	4	4	N/A	N/A	N/A	N/A	*100%*
	Average attendance rate of Board members	84%	Average attendance rate of ARC members	100%	Average attendance rate of ARCGC members	100%	Average attendance rate of Strategy Committee members	100%	

3.3. The Management Board

a) Composition

On March 26, 2020, the Supervisory Board approved the renewal of the terms of office of the members of the Management Board for a period of six (6) years.

The composition of the members of the Management Board remained unchanged during the financial year ended on December 31, 2020.

The AFL Management Board is composed as follows:

- Mr. Yves Millardet, Chairman of the Management Board;
- Mr. Thiébaut Julin, Member of the Management Board, Chief Financial Officer;
- Ms. Ariane Chazel, Member of the Management Board, Head of Commitments and Risks.

Mr. Thiébaut Julin also serves as Chief Executive Officer of the Company.

The Chairman and the members of the Management Board do not carry out any management, executive, administrative or supervisory activities in any other company, it being specified, however, that Mr. Yves Millardet is also Deputy Chief Executive Officer of AFL-ST.

b) Powers of the Management Board

The members of the Management Board are responsible for the management of the Company.

The Management Board is vested with the broadest powers to act in all circumstances on behalf of the Company, within the limits of the corporate purpose and subject to the powers expressly granted by law and the Company's Articles of Association to the Supervisory Board and to the General Meeting of Shareholders.

The Management Board meets *at least* once a month, and in any event as many times as the interests of the Company require.

4. Compensation of members of the corporate bodies

The items of compensation and the criteria for determining them are presented to the ARCGC and the Supervisory Board of the Company in accordance with the applicable provisions of the French Monetary and Financial Code.

As a continuation of its reform resulting from the PACTE Law, which entered into force on May 23, 2019, as well as the ordinance and decree of November 27, 2019, the *"Say on Pay"* legal framework Is no longer applicable to AFL, as it now only applies to companies whose shares are admitted to trading on a regulated market.

In accordance with the recommendations of the AFEP-MEDEF Code, to which the Company refers, shareholders are nevertheless consulted as part of a mandatory vote on the individual compensation of executive corporate officers.

4.1. Members of the Supervisory Board and specialized committees

4.1.1. Principles and terms of payment of compensation

In accordance with applicable legal provisions, the members of the Supervisory Board may receive compensation for the exercise of their corporate office, the amount of which is set by the General Meeting of Shareholders. It is the responsibility of the Supervisory Board to distribute this amount among the members, on the advice of the Company's ARCGC.

The AFL Combined General Meeting of May 7, 2020 set the annual maximum amount of compensation to be distributed among the members of the Supervisory Board at €220,000 (two hundred and twenty thousand euros) for FY 2020.

The rules applicable to the allocation of compensation to members of the Supervisory Board are defined in Article 12 of the Supervisory Board's Internal Regulations.

In order to take into account the specific nature of their duties on the Supervisory Board, the following members of the Board receive differentiated compensation:

- The Chairman of the Supervisory Board;
- The Chairs of the Board's specialized Committees;
- Board members are also members of a specialized Committee.

As stated in section 3.1.6 of this report, the members of the Supervisory Board may be represented, per annum and at most:

- At two meetings of the Supervisory Board; **or**
- At two Committee meetings; **or**
- At one meeting of the Supervisory Board and one meeting of a Committee, with the exception of sessions relating to the review of the annual financial statements.

Beyond that, the representation of the members of the Supervisory Board, if it is legally valid for the calculation of the quorum and majority, is not taken into account for the allocation of the compensation paid.

Notwithstanding the foregoing, in view of the legal regime governing incompatibilities applicable to holders of national elective offices, compensation may under no circumstances be awarded to members of the Supervisory Board who also hold national elective offices. In this respect, neither Mr. Sacha Briand nor Mr. Richard Brumm receives compensation for the performance of their mandates on the AFL Supervisory Board.

As regards Mr. Jacques Pélissard, in accordance with the rules set out above, he became eligible for compensation in July 2020 for the exercise of his office on the Supervisory Board of AFL.

In view of the functions of Director General of Services that she performed until November 2020 within her local authority, a member of the AFL Group, Ms. Mélanie

Lamant decided to voluntarily apply this provision, for the entire duration of the 2020 financial year.

Mr. Olivier Landel, who receives from the AFL-ST, in his capacity as Chief Executive Officer, gross annual compensation of €50,000 in accordance with the terms of his mandate contract, does not receive any compensation for his duties on the Company's Supervisory Board.

No variable compensation or benefits in kind were paid to Mr. Olivier Landel in respect of his duties within the AFL Group during the 2020 financial year.

The allocation of the total annual compensation budget for members of the Supervisory Board is set as follows:

(i) For the Chairman of the Supervisory Board:

- A fixed portion of an amount of €10,000 per year, except in the case of excessive absenteeism, to which is added.

A variable portion capped at €20,000 per year (awarded notably on the basis of attendance).

It should be noted that for FY 2020 the office of Chairman of the Supervisory Board was successively held by Mr. Richard Brumm, then Mr. Sacha Briand, who were not eligible for compensation given the incompatibilities.

(ii) For the Chairs of the Audit and Risk Committee, of the Appointments, Remuneration and Corporate Governance Committee and of the Strategy Committee:

- A fixed portion of an amount of €5,000 per year, except in the case of excessive absenteeism, to which is added;

- A variable portion capped at €20,000 per year (awarded notably on the basis of attendance);

(iii) For members of the Supervisory Board and members of the specialized committees:

- A fixed portion of an amount of €5,000, except in the case of excessive absenteeism, to which is added;

- A variable portion capped at €10,000 per year, except in the case of excessive absenteeism, to which is added;

- An additional maximum of €5,000 per year for members of the specialized committees, depending on their actual attendance.

As regards Mr. Jacques Pélissard, he has been eligible for this compensation since July 2020, the date of the end of his elective mandate.

It should be noted that the Company has not granted any retirement benefits or any other lifetime benefits to the members of the Supervisory Board and has not entered into any agreement providing for compensation for the members of the Supervisory Board in the event of termination of their term of office, whatever the cause.

4.1.2. Amount of compensation awarded

In accordance with the provisions of Article L. 225-83 of the French Commercial Code, the Supervisory Board approved on March 29, 2021, the following compensation allocated to the members of the Supervisory Board, within the limit of the total amount of €220,000 approved by the General Meeting of Shareholders of May 7, 2020.

	Amount (in euros)			
Supervisory Board members	Fixed 2020 (in euros)	Variable 2020 (in euros)	**Total 2020** (in euros)	**Total 2019 – paid in 2020** (in euros)
R. Brumm - Chairman of the Supervisory Board (for the period up to September 28, 2020)		-	-	-
S. Briand - Chairman of the Supervisory Board (from September 28, 2020)	-	-	-	-
J. Pélissard - Vice-Chairman of the Supervisory Board - Member of the ARCGC (from July 1, 2020)	2,500	5,000+ 3,334 in the capacity as member of a specialized Committee	10,834	-
L. Andersson - Chairman of the Strategy Committee	5,000	20,000	25,000	25,000
V. Aubry - Member of the Audit and Risk Committee	5,000	10,000 + 5,000 in the capacity of member of a specialized Committee	20,000	18,750
F. Drouin - Chairman of the Audit and Risk Committee	5,000	20,000	25,000	25,000
N. Fourt - Member of the Strategy Committee	5,000	10,000 + 5,000 in the capacity of member of a specialized Committee	20,000	20,000
M. Lamant - Member of the Strategy Committee	-	-	-	-
O. Landel - Member of the Audit and Risk Committee and of the Strategy Committee	-	-	-	-
D. Lebègue - Chairman of the ARCGC	5,000	20,000	25,000	25,000

R. Mouchel Blaisot - Member of the ARCGC	5,000	10,000 + 5,000 in the capacity of member of a specialized Committee	20,000	20,000
C. Sirou - Member of the Audit and Risk Committee	5,000	10,000 + 5,000 in the capacity of member of a specialized Committee	20,000	20,000
Total	37,500	128,334	165,834	153,750

4.2. Management Board

Summary table - Procedures for exercising the duties of member of the Management Board and items of compensation

On March 26, 2020, the Supervisory Board approved the renewal of the terms of office of the members of the Management Board for a period of six (6) years. The term of office of the members will end, in accordance with the provisions of the Articles of Association, at the end of the Ordinary General Meeting called to approve the financial statements for the 2025 financial year and held in 2026.

	Mr. Yves Millardet, Chairman of the Management Board Term of office starts: January 6, 2014 Term of office ends: General Meeting in 2026 to approve the financial statements for the 2025 financial year	
Employment contract	No	Yves Millardet performs his duties under a mandate contract, the terms of which have been approved by the ARCGC and the Company's Supervisory Board.
Supplementary pension plan	Yes	The pension plan for Yves Millardet is modeled on the one applicable to the Company's employees (see description below).
Indemnities or benefits due or likely to be due as a result of the termination or a change of duties	No	Yves Millardet's mandate contract does not provide for any compensation of this type.
Indemnities in relation to a non-compete clause	Yes	Yves Millardet's mandate contract contains a non-compete clause applicable for a period of 12 months from the effective termination of his duties (see description below).

	Mr. Thiébaut Julin Member of the Management Board - Chief Financial Officer Term of office starts: March 25, 2014 Term of office ends: General Meeting in 2026 to approve the financial statements for the 2025 financial year	
Employment contract	Yes	Thiébaut Julin acts as Chief Financial Officer in accordance with the terms of an employment contract with the Company. Thiébaut Julin serves as a member of the Management Board on a non-remunerated basis. The exercise by Thiébaut Julin of his duties as a member of the Management Board is governed by the rules of the Articles of Association relating to the functioning and powers of the Management Board.
Supplementary pension plan	No	As an employee of the Company, Thiébaut Julin benefits from the pension plan applicable to all employees of the Company.
Indemnities or benefits due or likely to be due as a result of the termination or a change of duties	No	No such benefit or indemnity is provided for in the Articles of Association, or by a decision of the Supervisory Board, which is competent to decide on the compensation of the members of the Management Board, with respect to the termination of their duties as members of the Company's Management Board.
Indemnities in relation to a non-compete clause	No	Thiébaut Julin is not subject to a non-compete clause, either by virtue of his employment contract, or by the statutory provisions applicable to the duties of a member of the Management Board, or following a decision to this effect by the Supervisory Board.

	Ms. Ariane Chazel, Member of the Management Board - Head of Commitments and Risks Term of office starts: June 5, 2014 Term of office ends: General Meeting in 2026 to approve the financial statements for the 2025 financial year	
Employment contract	Yes	Ariane Chazel serves as Head of Commitments and Risks (formerly known as the Risk, Compliance and Control Department), in accordance with the terms of an employment contract with the Company. Ariane Chazel serves as a member of the Management Board on a non-remunerated basis. Ariane Chazel's duties as a member of the Management Board are governed by the statutory rules relating to the functioning and powers of the Management Board.
Supplementary pension plan	No	As an employee of the Company, Ariane Chazel benefits from the pension plan applicable to all employees of the Company.
Indemnities or benefits due or likely to be due as a result of the termination or a change of duties	No	No such benefit or indemnity is provided for in the Articles of Association, or by a decision of the Supervisory Board, which is competent to decide on the compensation of the members of the Management Board, with respect to the termination of their duties as members of the Company's Management Board.
Indemnities in relation to a non-compete clause	No	Ariane Chazel is not subject to a non-compete clause, either by virtue of his employment contract, or by the statutory provisions applicable to the duties of a member of the Management Board, or following a decision to this effect by the Supervisory Board.

4.2.1. Principles and terms of payment of compensation

In accordance with Article 14.6 of the AFL Articles of Association and the provisions of the French Monetary and Financial Code applicable to credit institutions, the Supervisory Board checks and approves the method and amount of the compensation of each member of the Management Board and reviews it annually, on the advice of the Company's ARCGC.

With the exception of the Chairman of the Management Board, with whom a mandate contract was concluded, the members of the Management Board perform their duties under employment contracts. The regulated nature of these agreements requires a strict annual review by the Supervisory Board and the General Meeting, it being specified that the streamlining of the procedures related to the regulated agreements now in force does not apply to them[14].

All elements of fixed, variable and exceptional compensation for members of the Management Board are reviewed by the Company's ARCGC and presented to the Supervisory Board.

The variable compensation of each member of the Management Board is defined on the basis of collective and individual allocation criteria approved at the beginning of each financial year by the ARCGC and the Supervisory Board, and included in the Company's compensation policy.

The criteria for awarding the variable compensation of the members of the Management Board for past financial years and for 2021 are appended to this report.

The allocation principles and the amount of compensation of the members of the Management Board and its Chairman are described below:

– Mr. Yves Millardet

Under his mandate contract, which took effect on January 6, 2014, under which he serves as a member and Chairman of the Management Board, the compensation of Mr. Yves Millardet is determined by reference to market practices for the functions of Chairman of a Management Board. The amount of compensation may be revised upwards annually by the Supervisory Board, if necessary, after consultation with the Appointments, Remuneration and Corporate Governance Committee.

This compensation breaks down into a fixed portion and a variable portion representing a maximum of 15% of the fixed portion. The vesting of the variable portion will be linked to the partial or total achievement of one or more qualitative and/or quantitative annual targets, which the Supervisory Board must define each year, after consultation with the Appointments Remuneration and Corporate Governance Committee.

In the event of exceptional circumstances or of a notable performance over the course of a year, notably by exceeding the targets set, the variable portion of 15% may become up to 25% of the gross annual fixed compensation.

[14] See paragraph 6 of this report.

As the payment of the compensation of Mr. Yves Millardet falls within the framework of the compensation policy in the same way as all salaried employees of the Company and the salaried members of the Management Board, an express reference to the compensation policy was inserted, by way of an amendment, presented for approval to the ARCGC and the Supervisory Board of the Company, in his mandate contract.

The pension plan applicable to Mr. Yves Millardet is modeled on the one for of all Company employees (i.e. contribution to the Agirc/Arrco plans calculated on the basis of his gross annual compensation). In this respect, he does not benefit from any "top hat pension".

In the event of termination of his duties as corporate officer, Mr. Yves Millardet will benefit from financial consideration under the non-compete clause included in his mandate contract since June 2015.

The principle behind the implementation of this non-compete clause was adopted after it was noted that Yves Millardet does not benefit from any form of protection of any kind whatsoever, related to his non-employee status (stock options, special protection plan, etc.).

The drafting of this non-compete clause was presented to the Appointments, Remuneration and Corporate Governance Committee for an opinion and then to the Supervisory Board for approval. Both the Committee and the Supervisory Board expressed support for this clause.

The non-compete clause used is as follows:

"In consideration for this non-compete obligation, Mr. Yves Millardet will receive, from the date of the effective termination of his duties and during the period of application of this clause, financial consideration paid monthly, on a monthly basis corresponding to the sum of the average gross monthly compensation paid to him during the last twelve (12) months preceding the effective date of termination of his duties."

On the basis of the favorable opinion of the Company's ARCGC and following the authorization granted by the Company's Supervisory Board on June 20, 2016, an amendment was made to the mandate contract of Mr. Yves Millardet with a view to including therein an express reference to the compensation policy, such as all employment contracts entered into with the Company's employees and members of the Management Board.

On the proposal of the Appointments, Remuneration and Corporate Governance Committee, the Supervisory Board of March 26, 2020 gave its approval for a company car, provided for since December 2013 in the mandate contract of Yves Millardet but which he had not activated pending the achievement of the break-even point for the Company, while specifying that the company car would be leased and personal use would be limited.

– <u>Mr. Thiébaut Julin</u>

Mr. Thiébaut Julin performs his duties as a member of the Management Board on an unpaid basis. Following the approval of the Appointments, Remuneration and Corporate Governance Committee on March 25, 2014, the Supervisory Board voted in favor of compensation due for the technical duties as Chief Financial Officer of AFL, under an employment contract entered into with the Company.

The compensation of Mr. Thiébaut Julin is set by reference to market practices for the position of Chief Financial Officer. This compensation breaks down into a fixed portion and a variable portion representing a maximum of 15% of the fixed portion. The vesting of the variable portion will be linked to the partial or total achievement of one or more qualitative and/or quantitative annual targets, which the Supervisory Board must define each year, after consultation with the Appointments Remuneration and Corporate Governance Committee.

After the Supervisory Board and the Appointments, Remuneration and Corporate Governance Committee approved the Company's compensation policy, the employment contract of Mr. Thiébaut Julin, as well as the employment contracts of all employees of the Company, was amended to include an express reference to the compensation policy.

On the proposal of the Appointments, Remuneration and Corporate Governance Committee, the Supervisory Board of March 26, 2020 approved the reimbursement of home-work travel, as benefits in kind.

– <u>Ms. Ariane Chazel</u>

Ms. Ariane Chazel performs her duties as a member of the Management Board on an unpaid basis. Following the approval of the Appointments, Remuneration and Corporate Governance Committee on March 5, 2014, the Supervisory Board voted in favor of compensation due for the technical duties as Director of Risk, Compliance and Control of AFL, under an employment contract entered into with the Company.

The compensation of Ms. Ariane Chazel is set by reference to market practices for the position of Director of Risk, Compliance and Control (a department which was renamed in the course of 2020 as the Commitments and Risks Department, with no change in responsibilities or the scope of duties). This compensation breaks down into a fixed portion and a variable portion representing a maximum of 15% of the fixed portion. The vesting of the variable portion will be linked to the partial or total achievement of one or more qualitative and/or quantitative annual targets, which the Supervisory Board must define each year, after consultation with the Appointments Remuneration and Corporate Governance Committee.

After the Supervisory Board and the Appointments, Remuneration and Corporate Governance Committee approved the Company's compensation policy, the employment contract of Ms. Ariane Chazel, as well as the employment contracts of all employees of the Company, was amended to include an express reference to the compensation policy.

On the proposal of the Appointments, Remuneration and Corporate Governance Committee, the Supervisory Board of March 26, 2020 approved the transition to full-time compensation for Ms. Ariane Chazel.

4.2.2. Amount of compensation awarded

In accordance with the recommendations of the AFEP-MEDEF Code, to which the Company refers, the following items of compensation and benefits of any kind paid or owed to the members of the Management Board in respect of the financial year ended on December 31, 2020 are presented below.

It should be noted that:

- the Company did not grant any retirement benefits or other lifetime benefits to the members of the Management Board;
- the Company did not grant any stock options or performance shares to the members of the Management Board in respect of the financial year ended on December 31, 2020;
- in the absence of unemployment insurance, the Company pays the Chairman of the Management Board specific insurance, corresponding to a benefit in kind, the amount of which is shown in the table detailing the amount of compensation below.

Summary table of compensation per executive corporate officer				
Mr. Yves Millardet Chairman of the Company's Management Board Deputy Chief Executive Officer of AFL-ST, it being specified that Mr. Millardet does not receive any specific compensation for his duties within AFL-ST. Compensation paid in respect of the corporate office of Mr. Yves Millardet in the Company.	Financial year ended 12/31/2019		Financial year ended 12/31/2020	
	Amounts due (in euros gross)	Amounts paid (in euros gross)	Amounts due (in euros gross)	Amounts paid (in euros gross)

Fixed compensation	262,504	262,504	260,100	260,100
Annual variable compensation	19,500	15,500 Corresponding to the payment of variable compensation granted in respect of previous financial years, the payment of which is staggered (see table below)	39,000	17,500 Corresponding to the payment of variable compensation granted in respect of previous financial years, the payment of which is staggered (see table below)
Exceptional compensation	0	0	0	0
Benefits in kind	8,194.50 corresponding to the cost of the above-mentioned specific insurance	8,194.50 corresponding to the cost of the above-mentioned specific insurance	9,499.78 corresponding to the cost of the above-mentioned specific insurance	9,499.78 corresponding to the cost of the above-mentioned specific insurance
	Total paid in 2019	**286,198.50**	**Total paid in 2020**	**287,099.78**

Ms. Ariane Chazel Member of the Company's Management Board Head of Commitments and Risks	**Financial year ended 12/31/2019**		**Financial year ended 12/31/2020**	
	Amounts due in respect of the financial year (in euros gross)	Amounts paid during the financial year (in euros gross)	Amounts due in respect of the financial year (in euros gross)	Amounts paid during the financial year (in euros gross)
Fixed compensation	157,213	157,213	174,506	174,506
Annual variable compensation	17,500	15,000 Correspondin g to the payment of variable compensatio n granted in respect of previous financial years, the	22,500	15,750 Correspondi ng to the payment of variable compensatio n granted in respect of previous financial years, the

		payment of which is staggered (see table below)		payment of which is staggered (see table below)
Exceptional compensation	0	0	0	0
Benefits in kind	0	0	0	0
	Total paid in 2019	**172,213**	**Total paid in 2020**	**190,256**

Mr. Thiébaut Julin Member of the Company's Management Board Chief Financial Officer	**Financial year ended 12/31/2019**		**Financial year ended 12/31/2020**	
	Amounts due in respect of the financial year (in euros gross)	Amounts paid during the financial year (in euros gross)	Amounts due in respect of the financial year (in euros gross)	Amounts paid during the financial year (in euros gross)
Fixed compensation	221,739	221,739	221,739	221,739
Annual variable compensation	17,500	15,000 Corresponding to the payment of variable compensation granted in respect of previous financial years, the payment of which is staggered (see table below)	28,500	15,750 Corresponding to the payment of variable compensation granted in respect of previous financial years, the payment of which is staggered (see table below)
Exceptional compensation	0	0	0	0
Benefits in kind	0	0	0	0
	Total paid in 2019	**236,739**	**Total paid in 2020**	**237,489**

Principle of staggering variable compensation

In accordance with regulatory requirements, in particular those of the French Monetary and Financial Code, AFL's 2020 compensation policy provides for a deferred payment of variable compensation for employees who have a significant impact on the company's risk and those who play a significant role ("*risk-takers*"), including members of the Management Board, the principles of which are as follows:

- deferred payment of the variable compensation allocated for year N-1 from the moment it represents an amount greater than €15K;

- payment in year N, subject to the presence of the employee in the workforce on 12/31/N-1, of the variable amount less than or equal to the threshold of €15K allocated for year N-1;

- deferred payment of the variable amount in excess of the €15K threshold allocated for financial year N-1: effective payment at the beginning of financial years N+1 and N+2, up to 50% of the balance for each of these financial years.

The payment threshold of €15K specifically concerns the variable compensation allocated for year N-1. The total amount corresponding to the items of variable compensation actually paid during a given financial year for previous financial years is therefore likely to exceed this €15K amount.

In accordance with the recommendations of the AFEP-MEDEF Code, the table below shows the variable compensation awarded to corporate officers, the payment of which is staggered over several financial years.

Variable compensation, published in all circumstances in the annual reports for the financial years in respect of which it is paid, whose the amount does not exceed €15,000 and whose payment was not staggered over several financial years in accordance with the above-mentioned compensation policy, is not mentioned in this table.

Name and position of the executive corporate officer	Financial year for which variable compensation is staggered, and amount of this variable compensation (in euros)	FY 2018 Amounts paid, corresponding to variable compensation for previous financial years (in euros)	FY 2019 Amounts paid, corresponding to variable compensation for previous financial years (in euros)	FY 2020 Amounts paid, corresponding to variable compensation for previous financial years (in euros)	FY 2021 Amounts paid, corresponding to variable compensation for previous financial years (in euros)	FY 2022 Amounts paid, corresponding to variable compensation for previous financial years (in euros)	FY 2023 Amounts paid, corresponding to variable compensation for previous financial years (in euros)
Mr. Yves Millardet Chairman of the Management Board	FY 2017 - Total amount awarded in respect of variable compensation: €16,000	15,000	500	500	-	-	-
	FY 2018 - Total amount awarded in respect of variable compensation: €19,000	-	15,000	2,000	2,000	-	-
	FY 2019 - Total amount awarded in respect of variable compensation: €19,500	-	-	15,000	2,250	2,250	-
	FY 2020 - Total amount awarded in respect of variable compensation: €39,000	-	-	-	15,000	12,000	12,000

Name and position of the executive corporate officer	Financial year for which variable compensation is staggered, and amount of this variable compensation (in euros)	FY 2018 Amounts paid, corresponding to variable compensation for previous financial years (in euros)	FY 2019 Amounts paid, corresponding to variable compensation for previous financial years (in euros)	FY 2020 Amounts paid, corresponding to variable compensation for previous financial years (in euros)	FY 2021 Amounts paid, corresponding to variable compensation for previous financial years (in euros)	FY 2022 Amounts paid, corresponding to variable compensation for previous financial years (in euros)	FY 2023 Amounts paid, corresponding to variable compensation for previous financial years (in euros)
Mr. Thiébaut Julin Member of the Management Board Chief Financial Officer	FY 2018 - Total amount awarded in respect of variable compensation: €16,500	-	15,000	750	750	-	-
	FY 2019 - Total amount awarded in respect of variable compensation: €17,500	-	-	15,000	1,250	1,250	-
	FY 2020 - Total amount awarded in respect of variable compensation: €28,500	-	-	-	15,000	6,750	6,750

Name and position of the executive corporate officer	Financial year for which variable compensation is staggered, and amount of this	FY 2018 Amounts paid, corresponding to variable	FY 2019 Amounts paid, corresponding to variable	FY 2020 Amounts paid, corresponding to variable	FY 2021 Amounts paid, corresponding to variable	FY 2022 Amounts paid, corresponding to variable	FY 2023 Amounts paid, corresponding to variable

	variable compensation (in euros)	compensation for previous financial years (in euros)	compensation for previous financial years (in euros)	compensation for previous financial years (in euros)	compensation for previous financial years (in euros)	compensation for previous financial years (in euros)	compensation for previous financial years (in euros)
Ms. Ariane Chazel Member of the Management Board Director of Risk, Compliance and Control	FY 2018 - Total amount awarded in respect of variable compensation: €16,500	-	15,000	750	750	-	-
	FY 2019 - Total amount awarded in respect of variable compensation: €17,500	-	-	15,000	1,250	1,250	-
	FY 2020 - Total amount awarded in respect of variable compensation: €22,500	-	-	-	15,000	3,750	3,750

5. General Meeting of Shareholders

5.1. Specific procedures for the participation of shareholders in the General Meeting or provisions of the Articles of Association providing for these procedures

The terms and conditions of shareholder participation in the General Meeting are set out in Title V of the Company's Articles of Association and refer to the applicable legal and regulatory provisions.

Any shareholder, duly represented, has the right to participate in General Meetings upon proof of their identity and the registration of their shares in the Company's financial statements on the day of the meeting.

In accordance with the legal provisions in force which offer these possibilities, shareholders may participate in General Meetings by attending them in person, or by giving a proxy to the Chairman of the General Meeting, or by voting by post.

5.2. Rules relating to amendments of the Articles of Association

The rules applicable to amendments to the Company's Articles of Association refer to the relevant legal and regulatory provisions.

In accordance with the provisions of Article L.225-96 of the French Commercial Code, the Extraordinary General Meeting of Shareholders is the only one empowered to amend the Articles of Association of the Company in all their provisions, save for exceptions duly governed by applicable legal provisions.

In practice and as part of the implementation of the delegation of authority granted to the Management Board enabling it to decide to carry out capital increases with or without waiver of preferential subscription rights, the Chairman of the Management Board, by sub-delegation, is required to ratify the corresponding amendment to Article 6 of the Articles of Association in order to update the Company's share capital accordingly, in accordance with the provisions of Articles L.225-129 et seq. of the French Commercial Code.

6. Regulated agreements

The so-called regulated agreements are the agreements referred to in Articles L.225-86 et seq. of the French Commercial Code, in particular entered into directly or through an intermediary between the Company and one of the members of the Management Board or the Supervisory Board, the conclusion of which must be authorized by the Supervisory Board of the Company and which must be reviewed by the Supervisory Board annually, prior to their presentation to the General Meeting of Shareholders.

As a result of the Company's shareholder structure, AFL-ST exercises exclusive control over its subsidiary, in accordance with the legal provisions in force requiring a minimum of two shareholders to set up a public limited company (société anonyme). The AFL Group thus benefits from the simplification of procedures relating to the control of regulated agreement, which are now limited to agreements involving a third party other than one of the two companies controlling the Group, provided that the parent company exercises exclusive control over its subsidiary in accordance with the provisions of Article L. 225-87, paragraph 1, of the French Commercial Code.

No new regulated agreements were entered into during the 2020 financial year. The regulated agreement agreements previously entered into and which continued to be implemented during the financial year are as follows:

Title of the agreement	Purpose of the agreement	Duration of the agreement	Impact on the financial statements for the financial year ended 12.31.20
Shareholders' Agreement concluded on June 24, 2014	The Shareholders' Agreement was not amended during the 2019 financial year. Its current version is the one in force on June 28, 2018.	Unknown	None
Employment contracts of employee members of the AFL Management Board	- Employment contract of Mr. Thiébaut Julin approved on March 25, 2014 by the Supervisory Board, - Employment contract of Ms. Ariane Chazel approved on June 5, 2014 by the Supervisory Board. These employment contracts, like the employment contracts of all of the Company's employees, were amended during the 2016 financial year to include an express reference to the compensation policy. These agreements, in their new form, were approved by the Supervisory Board on June 20, 2016, following a favorable opinion of the Appointments, Remuneration and Corporate	Unknown	Mr. Thiébaut Julin, Chief Financial Officer Gross annual amount paid during the 2020 financial year: Fixed portion: €221,739 gross Variable portion: €15,750 gross Ms. Ariane Chazel, Head of Commitments and Risks (formerly called the Risk, Compliance and Internal Control Department): Annual amount paid during the 2020 financial year:

	Governance Committee of January 28, 2016.		Fixed portion: €174,506 gross Variable portion: €15,750 gross

7. Capital, shareholding and control of the Company

In accordance with the provisions of Article L. 225-37-5 of the French Commercial Code, information relating to the shareholding structure of AFL and the Group formed with AFL-ST is presented below, it being specified that none of the elements mentioned below are likely to have an impact in the event of a public offer.

7.1. Capital structure of the company

Following the sale of shares held by the nine founding shareholders of AFL, finalized during the 2017 financial year, and to comply with the provisions of Article L.225-1 of the French Commercial Code, only AFL-ST and the Lyon Metropolitan Area remain shareholders of the Company.

As at December 31, 2020, the Company's share capital is composed as follows:

SHAREHOLDERS	AMOUNT SUBSCRIBED (IN EUROS)	NUMBER OF SHARES	% OWNERSHIP
Agence France Locale - Société Territoriale	168,399,900	1,683,999	99.9999%
Lyon Metropolitan Area	100	1	0.0001%
TOTAL	168,400,000	1,684,000	100%

Given the closed nature of its shareholding structure, the Company is not aware of any direct or indirect equity investments in its share capital pursuant to Articles L. 233-7 and L. 233-12 of the French Commercial Code, only AFL-ST having, by virtue of the provisions of the AFL Group legal corpus, the right to subscribe to the capital of the AFL, the share of the Lyon Metropolitan Area being diluted over time as capital increases are carried out by the AFL Group.

7.2. Restrictions on the exercise of voting rights and share transfers

- **Statutory restrictions**

The Company's Articles of Association do not provide for any restrictions on the exercise of shareholders' voting rights, as the voting rights attached to the shares comprising the share capital are proportional to the share of capital they represent. Each share thus gives the right to one vote at General Meetings.

The Company's Articles of Association provide that shares not fully paid up are not eligible for transfer.

In view of the specific shareholder structure of Agence France Locale - Société Territoriale, whose capital is currently held exclusively directly or indirectly by local authorities, public institutions for inter-municipal cooperation with their own tax system, and regional public institutions mentioned in Article L. 5219-2 of the French General Local and Regional Authorities and Mixed Unions Code, and of the need to maintain the stability and sustainability of the shareholding structure in order to enable the Company to conduct its activities under the best conditions, the Shareholders' Agreement strictly regulates the possibilities of transferring shares and other securities ("Securities") conferring access to the Company's share capital.

Thus, in principle, each of the AFL shareholders has undertaken, by adhering to the Shareholders' Agreement, to retain their AFL shares as long as they remain a shareholder of AFL-ST.

As an exception to the principle and in strictly defined cases, namely (i) loss of membership of the AFL Group, and (ii) at the request of AFL-ST, an AFL shareholder is required to sell the shares it holds in the capital of AFL to a person designated by the Board of Directors of AFL-ST.

It is on the basis of this second assumption that the nine shares held by nine of the Company's founding members were sold to AFL-ST in 2017.

In any event, the provisions of the Shareholders' Agreement provide that each shareholder of the Company grants AFL-ST a right of first refusal on any sale of Company Securities.

It should be noted that no agreement, including certain clauses that would provide for preferential conditions for the sale or acquisition of Company shares, has been brought to the attention of the Company pursuant to the provisions of Article L. 233-11 of the French Commercial Code, since the Company's shares are not eligible for trading on a regulated market.

- Restrictions by agreement

No agreement likely to result in restrictions on the transfer of shares and the exercise of voting rights has been entered into between AFL shareholders, as transactions involving AFL shares are, as indicated in the paragraph above, strictly governed by the Shareholders' Agreement.

Likewise, the Company has not entered into any agreement liable to end, or whose performance conditions are liable to be modified, in the event of a change of control of the Company.

7.3. Securities with special control rights

The Company does not issue securities with special control rights.

7.4. Employee shareholding

No transactions were carried out during the financial year ended on December 31, 2020 in respect of stock options or subscriptions of Company shares reserved for employees.

Indeed, the AFL Group's capital structure imposed by the legislator does not allow AFL employees to hold shares in the Company's capital.

7.5. Summary table of the use of the delegations granted to carry out capital increases by the General Meeting of Shareholders pursuant to Articles L. 225-129-1 and L. 225-129-2, and in accordance with the provisions of Article L. 225-37-4, paragraph 3 of the French Commercial Code.

Date of the General Meeting that granted a delegation	*Purpose of the delegation granted to the Management Board*	*Duration*	*Overall ceiling*	*Use over the 2020 financial year*
Combined General Meeting of May 3, 2019 (19th resolution)	Delegation of authority granted to the Management Board to increase the share capital, with preferential subscription rights, by issuing ordinary shares	**Duration:** 26 months **End-date:** July 4, 2021 at midnight	€150 million (nominal)	N/A
Combined General Meeting of May 3, 2019 (20th resolution)	Delegation of authority granted to the Management Board to increase the share capital, without preferential subscription rights for Société Territoriale, by issuing ordinary shares	**Duration:** 18 months **End-date:** November 4, 2020 at midnight		1. **Capital increase without preferential subscription rights for Société Territoriale** - Decisions of the Management Board of January 23, 2020 (decision to increase the share capital)

				- Decisions of the Chairman of the Management Board of March 13, 2020 (sub-delegation - acknowledgement of the definitive completion of the share capital increase) Amount: €3,200,000 2. **Capital increase without preferential subscription rights for Société Territoriale.** - Decisions of the Management Board of April 22, 2020 (decision to increase the share capital) - Decisions of the Chairman of the Management Board of June 15, 2020 (sub-delegation - acknowledgement of the definitive completion of the share capital increase) Amount: €1,000,000

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Date of the General Meeting that granted a delegation	*Purpose of the delegation granted to the Management Board*	*Duration*	*Overall ceiling*	*Use over the 2020 financial year*
Combined General Meeting of May 7, 2020 (10th resolution)	Delegation of authority granted to the Management Board to increase the share capital, with preferential subscription rights, by issuing ordinary shares	**Duration:** 26 months **End-date:** July 7, 2022 at midnight	€150 million (nominal)	N/A
Combined General Meeting of May 7, 2020 (11th resolution)	Delegation of authority granted to the Management Board to increase the share capital, without preferential subscription rights for Société Territoriale, by issuing ordinary shares	**Duration:** 18 months **End-date:** November 7, 2021 at midnight		**1. Capital increase without preferential subscription rights for Société Territoriale.** - Decisions of the Management Board of September 25, 2020 (decision to increase the share capital) - Decisions of the Chairman of the Management Board of September 28, 2020 (sub-delegation - acknowledgement of the definitive completion of the share capital increase) **Amount: €5,500,000**

				2. Capital increase without preferential subscription rights for Société Territoriale. - Decisions of the Management Board of December 14, 2020 (decision to increase the share capital) - Decisions of the Chairman of the Management Board of December 30, 2020 (sub-delegation - acknowledgement of the definitive completion of the share capital increase) **Amount: €11,900,000** **3. Capital increase without preferential subscription rights for Société Territoriale.** - Decisions of the Management Board of January 28, 2021 (decision to increase the share capital) - Decisions of the Chairman of the Management Board

				of March 23, 2021 (sub-delegation - acknowledgement of the definitive completion of the share capital increase) Amount: €9,400,000

8. Observations of the Supervisory Board on the management report issued by the Management Board in respect of FY 2020 and on the parent company financial statements prepared for the financial year ended December 31, 2020

It should be recalled that pursuant to Article L. 225-68, paragraph 6, of the French Commercial Code, the Supervisory Board must present to the Annual General Meeting of Shareholders its observations on the annual financial statements prepared for the financial year ended on December 31, 2020 approved by the Management Board, as well as on the management report submitted to said Meeting.

We would like to inform you that the annual financial statements for the financial year ended December 31, 2020, prepared in accordance with French standards and, on a voluntary basis, in accordance with IFRS, as well as the management report prepared by the Company's Management Board, were communicated to the Supervisory Board within the time limits set by legal and regulatory provisions after having been favorably reviewed by the Company's Audit and Risk Committee.

The financial statements for the financial year ended December 31, 2020 show the following main items:

	Under French standards (in thousands of euros)	Under IFRS (in thousands of euros)
Balance sheet total	5,372,461	5,729,846
Net banking income	141,457	13,759
Net income	2,887	2,295

The annual financial statements prepared for the financial year ended December 31, 2020 under French standards and, on a voluntary basis, under IFRS, as well as the related management report prepared by the Management Board, do not call for any particular observation from the Supervisory Board, which reviewed them on March 29, 2021.

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Lyon,
March 29, 2021,

The Supervisory Board of Agence France Locale,
Represented by its Chairman,
Mr. Sacha Briand

Appendix 1 - Criteria on the independence of directors - Article 9.5 of the AFEP-MEDEF Code

Criterion 1: *Employee corporate officer/Executive Director/Director of the company or its parent company or of the consolidated company in the previous five years* Not to be or not to have been during the previous five years: - an employee or executive corporate officer of the company; - an employee, executive corporate officer or director of a company that the company consolidates; - an employee, executive corporate officer or director of the parent company of the company or of a company consolidated by this parent company.
Criterion 2: *Cross-mandates* Not to be an executive corporate officer of a company in which the Company directly or indirectly holds a directorship or in which an employee appointed as such or an executive corporate officer of the Company (current or formerly within the last five years) has been a director.
Criterion 3: *Significant business relationships* Not to be a client, supplier, investment banker or consultant: - significant to the company or its group; - or for which the company or its group represents a significant part of business. The assessment of the significance or otherwise of the relationship with the company or its group is discussed by the Board and the quantitative and qualitative criteria that led to this assessment (continuity, economic dependency, exclusivity, etc.) are explained in the annual report.
Criterion 4: *Family ties* Not to have close family ties with a corporate officer.
Criterion 5: *Statutory Auditor* Not to have been a Statutory Auditor of the Company in the previous five years.
Criterion 6: *Term of office of more than 12 years* Not to have been a director of the Company for more than 12 years. The loss of the status of independent director occurs on the anniversary date of the twelve years.
Criterion 7: *Status of the non-executive corporate officer* A non-executive officer cannot be considered independent if he or she receives variable compensation in cash or securities or any compensation linked to the performance of the company or group.

Criterion 8: *Significant shareholder status* Directors representing major shareholders of the company or its parent company may be considered as independent if these shareholders do not participate in the control of the company. However, beyond a threshold of 10% of share capital or voting rights, the Board, on the basis of a report by the Appointments Committee, systematically examines whether they qualify as independent, taking into account the composition of the capital of the Company and the existence of a potential conflict of interest.

Appendix 2 - Criteria for the allocation of compensation to members of the Management Board for FY 2020

These criteria were favorably reviewed by the ARCGC on February 26, 2020 before being approved by the Company's Supervisory Board on March 26, 2020.

COMMON QUANTITATIVE TARGETS FOR THE MEMBERS OF THE MANAGEMENT BOARD
- Accelerate the roll-out of Agence France Locale's banking activities; - Implement the new multi-year development plan preserving financial balance from 2021; - Continue to build an exemplary image for Agence France Locale; - Maintain Agence France Locale's risk management and internal control system; - Promote an internal culture of responsibility and trust; - - Develop a draft Group CSR policy to be validated by AFL-ST and successfully launch an inaugural sustainable and environmental issue. -

COMMON QUANTITATIVE TARGETS FOR THE MEMBERS OF THE MANAGEMENT BOARD
- Achieve a minimum gross operating income of [+€0.2] million in 2020 as defined in the 2020 budget; - Comply with a target of overheads and operating expenses (excluding taxes, duties and mandatory contributions) set at a maximum of €10,711 million as defined in the 2020 budget; - Achieve a promised ICC target of at least €16 million and released ICCs of at least €8 million over the year; - Generate loans amounting to at least €800 million over the year as defined in the 2020 budget

TARGETS FOR YVES MILLARDET,

CHAIRMAN OF THE MANAGEMENT BOARD

Qualitative targets

- Promote the image of Agence France Locale among investors, French local authorities and the general public;
- Continue to oversee the implementation of the systems to enable activities to be carried out;
- Maintain Agence France Locale's risk management and internal control system.
- Successfully launch the inaugural sustainable and environmental issue

Quantitative targets

- Achieve a promised ICC target of at least €16 million and released ICCs of at least €8 million over the year;
-
- Issue €800 million in loans in 2020 under risk conditions that comply with the Agency's risk appetite and with a minimum average margin of 20 bp (excluding floor) as defined in the business plan for 2020-2022;

- Execute the 2020 borrowing program to finance Agence France Locale at a cost of at most Euribor +20 bp, while limiting the risk of liquidity transformation, as defined in the 2020 budget.

TARGETS FOR THIEBAUT JULIN

CHIEF FINANCIAL OFFICER

Qualitative targets

- Promote the signature of Agence France Locale among investors;
- Maintain the financial management, ALM management and accounting system alive, limit the operational risks thereof, consolidate the management control system and oversee the budget;
- Produce the financial statements in accordance with accounting standards, the management reports as well as the regulatory statements in collaboration with the DRCC, and on time;
- Update the EMTN program on an annual basis and, as necessary, the legal framework in which AFL's financing operations are carried out;
- Oversee relations with rating agencies and coordinate the annual review;
- Update the business plan, prepare the annual budget and monitor it;
- Ensure the effective launch of the TRICP mechanism;
- Successfully launch the "Market IS" project;
- Contribute to the risk management and internal control system;
- Successfully launch the inaugural sustainable and environmental issue.

Quantitative targets

- Execute the 2020 borrowing program to finance Agence France Locale at an average cost of 3M Euribor +[20bp], as defined in the 2020 budget, while limiting the risk of transformation into liquidity and maintaining or improving the spread between Agence France Locale and the BPI/AFD pair compared to 2019 (with unchanged rating);
- Optimize the investment of liquidity assessed against the 3-month Euribor within the framework of the financial policies approved by the Supervisory Board and in a controlled risk environment, so as to limit the carrying cost to the level mentioned in the 2020 budget.

TARGETS FOR ARIANE CHAZEL DIRECTOR OF RISK, COMPLIANCE AND CONTROL
- Consolidate the internal control and risk management infrastructures to support the transformation of the Agency and manage them; - Identify, measure, anticipate, prevent and manage, working with all the members of the Management Board and operational staff, all of the bank's risks: carry out aggregate and forward-looking risk analyzes on the Agency's risks on a quarterly basis, present them to the Management Board and annually to the ARC and SC, identify situations that fall outside the Agency's risk appetite framework and alert the Management Board of these situations, alert the Management Board - and possibly the SC - of the occurrence of major risks; - Help spread the risk culture through dedicated awareness-raising sessions and interviews with employees; - Ensure the compliance of each new product/new activity before its launch (CNP); - Develop and finalize the permanent second-level control as provided for in the permanent control plan approved by the Management Board; - Oversee relations with the supervisor; - Set up and implement the periodic control plan for 2020; - Ensure regulatory monitoring and participate in market consultations on regulatory matters - Produce compliant and timely regulatory statements working with the CFO; - Continue to coordinate internal CSR discussions.

Appendix 3 - Criteria for the allocation of compensation to members of the Management Board for FY 2021

COMMON QUALITATIVE TARGETS FOR THE MEMBERS OF THE MANAGEMENT BOARD - 10%
- Implement the new multi-year development plan by strengthening the recurring financial results for the year; - Define and implement an action plan to strengthen dialogue and relations with stakeholders; - Set up the internal control and risk management system for the new balance sheet management and financing products launched in 2021.

COMMON QUANTITATIVE TARGETS FOR THE MEMBERS OF THE MANAGEMENT BOARD - 20%
- Achieve minimum gross operating income of +€1.37 million in 2021 as defined in the 2021 budget, reviewed in the BP presented to the governing bodies of March 2021; - Comply with a target of overheads and operating expenses (excluding taxes, duties and mandatory contributions) set at a maximum of €12.04 million as defined in the 2021 budget; - Achieve a promised ICC target of at least €27 million and released ICCs of at least €17.6 million over the year, reviewed in the BP presented to the governing bodies in March 2021; - Generate loans amounting to at least €1 billion over the year as defined in the 2021 budget.

TARGETS FOR YVES MILLARDET,

CHAIRMAN OF THE MANAGEMENT BOARD

Qualitative targets - 20%

- Continue the actions undertaken with the public authorities on the 0% weighting of French local authorities and the best HQLA treatment for debt issued by AFL;
- Develop AFL's presence in the sustainable financing market (green and/or social and/or environmental);
- Carry out the 2021 component of the CSR action plan. Consolidate the roll-out of AFL's banking activities, in particular by continuing to set up the "Market IS" initiative and by developing the guiding principles for the automation of the credit chain.

Quantitative targets - 50%

- Achieve a promised ICC target of at least €27 million and released ICCs of at least €17.6 million over the year, reviewed in the BP presented to the governing bodies in March 2021;

- Generate loans amounting to at least €1 billion over the year as defined in the 2021 budget under risk conditions that comply with the risk appetite of Agence France Locale and with a minimum average margin of 20 bp as defined in the budget;

- Comply with a target of overheads and operating expenses (excluding taxes, duties and mandatory contributions) set at a maximum of €12.04 million as defined in the 2021 budget;

- Execute the 2021 borrowing program to finance Agence France Locale at a cost of at most Euribor +35 bp, while limiting the risk of liquidity transformation, as defined in the 2021 budget.

TARGETS FOR THIEBAUT JULIN CHIEF FINANCIAL OFFICER
Qualitative targets - 20% - Continue to roll out "Market IS" and develop its uses (ALM, new products); - Develop AFL's presence in the sustainable financing market (green and/or social and/or environmental); - Carry out the 2021 component of the CSR action plan for the portion in relation to the Finance Department. ***Quantitative targets -50%*** - Execute the 2021 borrowing program to finance Agence France Locale at an average cost of 3M Euribor +35bp, as defined in the 2021 budget, while limiting the risk of transformation into liquidity and maintaining or improving the spread between Agence France Locale and the BPI/AFD pair compared to 2020 (with unchanged rating); - Optimize the investment of liquidity assessed against the 3-month Euribor within the framework of the financial policies approved by the Supervisory Board and in a controlled risk environment, so as to limit the carrying cost to the level mentioned in the 2021 budget.

TARGETS FOR ARIANE CHAZEL HEAD OF COMMITMENTS & RISKS
Qualitative targets - 70% - Manage the 2021 component of the CSR action plan in association with AFL-ST; - Set up the internal control and risk management system for the new balance sheet management and financing products launched in 2021; - Set up and implement the periodic control plan for 2021;

- Steer the industrialization of the management of data generated by Opendata;
- Develop internal management tools and the model enabling AFL to be present in the sustainable financing market (green and/or social and/or environmental).

Appendix 3
Text of the resolutions submitted to the Combined General Meeting of Shareholders of Agence France Locale of May 6, 2021

THE RESOLUTIONS WILL BE APPROVED BY THE MANAGEMENT BOARD ON MARCH 22, 2021.

A. <u>Agenda</u>

Under the remit of the Ordinary General Meeting:

1. Approval of the parent company financial statements for the financial year ended December 31, 2020, prepared in accordance with French standards, and full powers without reservation for the performance of its mandate to the Management Board for said financial year;

2. Approval of the parent company financial statements for the financial year ended December 31, 2020 prepared in accordance with IFRS;

3. Appropriation of income for the financial year ended December 31, 2020;

4. Approval of agreements subject to the provisions of Articles L.225-86 et seq. of the French Commercial Code;

5. Presentation of the Supervisory Board's report on corporate governance;

6. Setting of the overall annual budget dedicated to the compensation of the members of the Supervisory Board for the 2021 financial year, to be distributed among them;

7. Advisory vote on the total amount of compensation of all types paid during the financial year ended December 31, 2020 to the persons mentioned in Article L. 511-71 of the French Monetary and Financial Code;

8. Appointment of members of the Supervisory Board;

Under the remit of the Extraordinary General Meeting:

9. Delegation of authority to be granted to the Company's Management Board to issue ordinary shares, with preferential subscription rights;

10. Delegation of authority to be granted to the Management Board to issue ordinary shares, without preferential subscription rights for Société Territoriale.

11. Delegation of authority to be granted to the Management Board to carry out a share capital increase reserved for employees who are members of a company savings plan with the cancellation of preferential subscription rights in favor of said employees;

12. Change in the Company’s corporate purpose;

13. Powers to carry out formalities

B. <u>Text of resolutions</u>

UNDER THE REMIT OF THE ORDINARY GENERAL MEETING:

First resolution

Approval of the parent company financial statements for the financial year ended December 31, 2020, prepared in accordance with French standards, and full discharge without reservation for the performance of its mandate to the Management Board for said financial year

The General Meeting, ruling under the conditions of quorum and majority required for Ordinary Meetings, having reviewed the Management Board's report to the General Meeting, the observations of the Supervisory Board and the Statutory Auditors' report on the financial statements for the financial year ended December 31, 2020, prepared in accordance with French standards, approves the parent company financial statements for the financial year prepared in accordance with French accounting standards, and grants the Management Board full and unreserved powers for the execution of its mandate for the said financial year.

The General Meeting, ruling pursuant to Article 223 quater of the French General Tax Code, approves the expenses and charges referred to in Article 39-4 of the said Code, which amount to zero (0), the theoretical charge of the corresponding corporate tax therefore being zero.

Second resolution

Approval of the parent company financial statements for the financial year ended December 31, 2020 prepared in accordance with IFRS

The General Meeting, ruling under the conditions of quorum and majority required for Ordinary Meetings, having reviewed the Executive Board's report to the General Meeting, the observations of the Supervisory Board and the Statutory Auditors' report on the financial statements for the financial year ended December 31, 2020 prepared in accordance with IFRS, approves the parent company financial statements for the financial year prepared in accordance with IFRS.

Third resolution

Appropriation of income for the financial year ended December 31, 2020

The General Meeting, ruling under the conditions of quorum and majority required for Ordinary Meetings, having reviewed the Management Board's report to the General Meeting, the Supervisory Board's observations and the Statutory Auditors' report on the parent company financial statements for the financial year ended December 31, 2020 prepared in accordance with French standards, resolves to allocate the income for the financial year, amounting to €2,887,489, to retained earnings.

Fourth resolution

Approval of agreements subject to the provisions of Articles L.225-86 et seq. of the French Commercial Code

The General Meeting, ruling under the conditions of quorum and majority required for Ordinary General Meetings, having reviewed the special report of the Statutory Auditors provided for in the third paragraph of Article L. 225-88 of the French Commercial Code on the agreements referred to in Article L. 225-86 of the French Commercial Code, duly notes the conclusions of this report and approves the agreements described therein.

Fifth resolution

Presentation of the Supervisory Board's report on corporate governance

The General Meeting, ruling under the conditions of quorum and majority required for Ordinary Meetings, duly notes of the report on corporate governance prepared by the Company's Supervisory Board, pursuant to Article L. 225-68, paragraph 6, of the French Commercial Code, appended to the Management Board's management report.

Sixth resolution

Setting of the overall annual budget dedicated to the compensation of the members of the Supervisory Board for the 2021 financial year, to be distributed among them

The General Meeting, ruling under the quorum and majority requirements for Ordinary General Meetings, sets the annual amount of compensation to be distributed among the members of the Supervisory Board at €220,000 for the 2021 financial year and subsequent financial years.

Seventh resolution

Advisory vote on the total amount of compensation of all types paid during the financial year ended December 31, 2020 to the persons mentioned in Article L. 511-71 of the French Monetary and Financial Code

The General Meeting, voting under the conditions of quorum and majority required for Ordinary General Meetings, in accordance with the provisions of Article L.511-73 of the French Monetary and Financial Code, duly notes the items of compensation of all kinds paid during the financial year ended December 31, 2020 to the persons referred to in Article L. 511-71 of the French Monetary and Financial Code, so-called "risk-takers", as they appear in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee, without comments being made.

Eighth resolution

Appointment of members of the Supervisory Board

As the term of office of the current members of the Supervisory Board expires at the end of this General Meeting, in accordance with the terms of Article 15.2.1 of the Company's Articles of Association, the General Meeting, voting under the quorum and majority conditions required for Ordinary General Meetings, pursuant to the provisions of Article L. 225-75 of the French Commercial Code, and having considered the opinions issued by the Company's Appointments, Remuneration and Corporate Governance Committee (ARCGC), as well as the ARCGC and the Board of Directors of Agence France Locale - Société Territoriale, hereby appoints to the

Supervisory Board, for a term of four years expiring at the end of the Ordinary General Meeting called to approve the financial statements for the financial year ending December 31, 2024, pursuant to the provisions of the Articles of Association in force:

- Ms. Victoire Aubry
- Ms. Carol Sirou
- Ms.Barbara Falk
- Ms. Pia Imbs
- Mr. Sacha Briand
- Mr. Lars Andersson
- Mr. François Drouin
- Mr. Rollon Mouchel-Blaisot
- Mr. Nicolas Fourt
- Mr. Olivier Landel

DE LA COMPETENCE DE L'ASSEMBLEE GENERALE EXTRAORDINAIRE

UNDER THE REMIT OF THE EXTRAORDINARY GENERAL MEETING:

Ninth resolution

Delegation of authority to be granted to the Company's Management Board to issue ordinary shares, with preferential subscription rights maintained

The General Meeting, ruling according to the quorum and majority required for Extraordinary General Meetings, after having reviewed the report of the Management Board and in accordance with the provisions of Articles L. 225-129 et seq. (notably Article L. 225-129-2) of the French Commercial Code:

➢ Delegates to the Management Board its authority to carry out capital increases, in one or more installments, in the proportions and at the times it so determines, by issuing shares, with maintenance of shareholders' preferential subscription rights, with subscriptions to these shares being paid in cash.

  This delegation of authority expressly excludes issues of preference shares and securities giving access by any means, immediately or in the future, to preference shares.

➢ Resolves that the maximum nominal amount of the immediate or future capital increases of the Company that may be carried out by virtue of the present delegation may not exceed one hundred and fifty (150) million euros, it being specified that the nominal amount of the capital increases of the Company pursuant to the tenth and eleventh resolutions shall be deducted from this ceiling. To this ceiling shall be added, as applicable, the additional nominal amount of the shares to be issued in order to preserve, in accordance with the applicable legal and regulatory provisions and any applicable contractual stipulations providing for other cases of adjustment, the rights of the holders of securities or other rights conferring access to the capital.

- **Resolves** that the shareholders may exercise, under the conditions provided for by the Management Board and within the limits set by applicable legal and regulatory provisions, their preferential subscription rights on an irreducible basis to the shares whose issue will be decided by the Management Board pursuant to this delegation of authority. In addition, the Management Board will have the option of granting shareholders a subscription right on a reducible basis, which will be exercised in proportion to their rights and within the limits of their requests. If the subscriptions on an irreducible basis and, where applicable, on a reducible basis, have not absorbed the entire issue of shares as defined above, the Management Board may use, at its discretion and in the order in which that it deems appropriate, one or more of the options offered by Article L. 225-134 of the French Commercial Code, namely:
  - limit the amount of the capital increase to the amount of subscriptions, provided that this amounts to at least three-quarters of the issue initially decided upon,
  - freely distribute all or part of the unsubscribed shares among the persons of its choice.

- **Resolves** that the amount due or which should be due to the Company for each of the shares issued under this delegation of authority shall be equal to the nominal value of such shares on the date of issue of such shares.

- **Confers** full powers to the Management Board to implement this delegation and in particular:

  - to determine the dates and terms of the issues as well as the form and characteristics of the shares to be created,
  - to determine the number of shares to be issued, as well as their terms and conditions, it being specified that the issue price of the shares to be issued will be equal to the nominal value of these shares on the date of issue of said shares,
  - to determine the method of paying up the shares issued,
  - to determine the date on which the shares to be issued will take effect, with or without retroactive effect,
  - to suspend, where necessary, the exercise of rights attached to securities previously issued by the Company for a maximum period of three months within the limits provided for by the applicable legal and regulatory provisions,
  - at its sole discretion, to charge the costs of any issue to the amount of the premiums relating thereto and to deduct from this amount the sums necessary to bring the legal reserve to one-tenth of the new capital after each increase, and
  - generally, to take all necessary measures, enter into all agreements, request all authorizations, carry out all formalities and do whatever is necessary to successfully complete the planned issues or to postpone them, if necessary by delegating powers to the Chairman of the

Management Board, and in particular to record the capital increase(s) resulting from any issue carried out by the use of this delegation, amend the Company's Articles of Association accordingly and ensure the financial service of the securities concerned and the exercise of the rights attached thereto.

- Resolves that this delegation of authority will be valid for a period of twenty-six (26) months from the date of the General Meeting, and that it cancels and replaces, for the remaining period, the delegation for the same purpose granted by the General Meeting of May 7, 2020.

Tenth resolution
Delegation of authority to be granted to the Management Board to issue ordinary shares, without preferential subscription rights for Société Territoriale

The General Meeting, ruling under the conditions of quorum and majority required for Extraordinary General Meetings, after having reviewed the Management Board's report and the Statutory Auditors' report, and in accordance with the provisions of Articles L. 225-129 et seq. (notably Article L. 225-129-2) and Article L. 225-138 of the French Commercial Code:

- Delegates to the Management Board its authority to carry out capital increases, on one or more occasions, in the proportions and at the times it will determine, by issuing, with cancellation of shareholders' preferential subscription rights, shares reserved for shareholders, for the benefit of named persons. The Management Board shall, if the delegation is used, determine the list of beneficiaries and the number of shares allocated to each of them on the basis of objective criteria. These shares will be subscribed in cash.

  This delegation of authority expressly excludes issues of preference shares and securities giving access by any means, immediately or in the future, to preference shares.

- Resolves that the maximum nominal amount of the immediate or future capital increases of the Company that may be carried out by virtue of the present delegation may not exceed one hundred and fifty (150) million euros, it being specified that the nominal amount of the capital increases of the Company pursuant to the ninth and eleventh resolutions shall be deducted from this ceiling. To this ceiling shall be added, as applicable, the additional nominal amount of the shares to be issued in order to preserve, in accordance with the applicable legal and regulatory provisions and any applicable contractual stipulations providing for other cases of adjustment, the rights of the holders of securities or other rights conferring access to the capital.

- **Resolves** that this delegation of authority entails the cancellation of shareholders' preferential subscription rights to the shares that may be issued.

- **Resolves** that the amount due or which should be due to the Company for each of the shares issued under this delegation of authority shall be equal to the nominal value of such shares on the date of issue of such shares.

- **Duly** notes that the issues carried out pursuant to this delegation of authority must be carried out within eighteen months of the General Meeting that approved the delegation, in accordance with the provisions of Article L. 225-138 of the French Commercial Code.

- **Confers** full powers to the Management Board to implement this delegation and in particular:
  - to determine the list of beneficiaries within the category of persons defined above and the number of shares to be allocated to each of them;
  - to determine the dates and terms of the issues as well as the form and characteristics of the shares to be created; to determine the number of shares to be issued, as well as their terms and conditions, it being specified that the issue price of the shares to be issued will be equal to the nominal value of these shares on the date of issue of said shares,
  - to determine the method of paying up the shares issued,
  - to determine the date on which the shares to be issued will take effect, with or without retroactive effect,
  - to suspend, where necessary, the exercise of rights attached to securities previously issued by the Company for a maximum period of three months within the limits provided for by the applicable legal and regulatory provisions,
  - at its sole discretion, to charge the costs of any issue to the amount of the premiums relating thereto and to deduct from this amount the sums necessary to bring the legal reserve to one-tenth of the new capital after each increase, and
  - generally, to take all necessary measures, enter into all agreements, request all authorizations, carry out all formalities and do whatever is necessary to successfully complete the planned issues or to postpone them, if necessary by delegating powers to the Chairman of the Management Board, and in particular to record the capital increase(s) resulting from any issue carried out by the use of this delegation, amend the Company's Articles of Association accordingly and ensure the financial service of the securities concerned and the exercise of the rights attached thereto.

- **Resolves** that the Management Board may limit the amount of the capital increase to the amount of subscriptions, provided that this amounts to at least three-quarters of the issue initially decided upon.

- **Resolves** that this delegation of authority will be valid for a period of eighteen (18) months from the date of the General Meeting, and that it cancels and replaces, for the remaining period, the delegation for the same purpose granted by the General Meeting of May 7, 2020.

Eleventh resolution
Delegation of authority to be granted to the Management Board to carry out a share capital increase reserved for employees who are members of a company savings plan with the cancellation of preferential subscription rights in favor of said employees

The General Meeting ruling under the conditions of quorum and majority required for Extraordinary General Meetings, after having reviewed the Management Board's report and the Statutory Auditors' report, and in accordance with the provisions of Articles L. 225-129-6 of the French Commercial Code, and L.3332-18 to L.3332-24 of the French Labor Code:

- **Delegates** to the Management Board its authority to carry out, on one or more occasions, in the proportions and at the times it deems appropriate, capital increases carried out under the conditions provided for in Articles L.3332-18 to L.3332-24 of the French Labor Code relating to capital increases reserved for employees participating in a company savings plan.

  This delegation of authority expressly excludes issues of preference shares and securities giving access by any means, immediately or in the future, to preference shares.
- **Resolves** that the maximum nominal amount of the immediate or future capital increases of the Company that may be carried out under this delegation may not exceed 3% of the amount of the share capital after the capital increase in question, it being specified that the nominal amount of capital increases of the Company pursuant to the ninth and tenth resolutions will be deducted from this ceiling. To this ceiling shall be added, as applicable, the additional nominal amount of the shares to be issued in order to preserve, in accordance with the applicable legal and regulatory provisions and any applicable contractual stipulations providing for other cases of adjustment, the rights of the holders of securities or other rights conferring access to the capital.

- **Resolves** that the subscription would be reserved for employees who are members of a company savings plan or a company mutual fund (or funds) to be set up to be set up as part of a company savings plan to be created, in accordance with the provisions of Article L.225-138-I of the French Commercial Code. The new shares would confer on their owners the same rights as the old shares.

- **Resolves** that this delegation of authority entails the cancellation of shareholders' preferential subscription rights to the shares that may be issued.

- **Resolves** that the subscription price of the new ordinary shares, determined under the conditions of Articles L.3332-18 to L.3332-24 of the French Labor

Code, would be set (i) in accordance with the objective methods used for the valuation of shares in taking into account, according to an appropriate weighting in each case, the net book value, profitability and business outlook of the company, or (ii) dividing the amount of the net asset value according to the most recent balance sheet by the number of existing shares. The decision setting the subscription date would be taken by the Board.

- Resolves that the decision setting the date of subscription would be taken by the Board, and that the period of time which may be granted to subscribers to pay up their shares may not exceed three years. The capital increase would only be carried out up to the amount of the shares actually subscribed, which would be paid up in accordance with legal provisions.

- Confers full powers to the Management Board to implement this delegation and in particular:
  - to decide on the list of beneficiaries and the number of shares to be allocated to each of them, up to the limit set by the General Meeting,
  - to set the date and terms of the issues to be carried out under this authorization, in accordance with legal and statutory requirements and, in particular, to set the subscription price in compliance with the rules defined above, the opening and closing dates for subscriptions, the dates from which shares will rank for dividend, and the deadlines for paying up shares, all within the legal limits,
  - to record the completion of capital increases up to the amount of shares that will actually be subscribed,
  - to carry out, directly or through an agent, all transactions and formalities,
  - to amend the Articles of Association to reflect the increases in share capital,
  - generally, to take all necessary measures, enter into all agreements, request all authorizations, carry out all formalities and do whatever is necessary to successfully complete the planned issues or to postpone them, if necessary by delegating powers to the Chairman of the Management Board, and in particular to record the capital increase(s) resulting from any issue carried out by the use of this delegation, amend the Company's Articles of Association accordingly and ensure the financial service of the securities concerned and the exercise of the rights attached thereto.

- Decides that this delegation of authority will be valid for a period of twenty-six (26) months from the date of the General Meeting, and that it cancels and replaces, for the remaining period, the delegation for the same purpose granted by the General Meeting of May 7, 2020.
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Twelfth resolution

Change in the Company's corporate purpose

The General Meeting, acting with the quorum and majority requirements for Extraordinary Meetings, after having reviewed the report of the Management Board, resolves to amend the Company's corporate purpose as set forth in Article 2.1 of the Company's Articles of Association so as to include in the scope of institutions that may join the AFL Group (shareholder members of Agence France Locale - Société Territoriale and borrowers guaranteeing Agence France Locale), all entities as defined in accordance with Article 67 of Law no. 2019-1461 of December 27, 2019 relating to involvement in local life and the proximity of public action, amending Article L. 1611-3-2 of the French General Code of Local Authorities.

The General Meeting, as a consequence of the adoption of the foregoing resolution, ruling in accordance with the quorum and majority requirements for Extraordinary General Meetings, having reviewed the report of the Board of Directors to the General Meeting, resolves to amend Article 2.1 of the Company's Articles of Association as follows:

Article 2 - Purpose - Goal

2.1 Purpose:

"*The Company's corporate purpose is:*

- *carry out all or some of the transactions listed below in accordance with the terms of its registration with the French Prudential Supervision and Resolution Authority:*
    - *grant loans and, where applicable, receive deposits or other reimbursable funds from the public and carry out any related operations with a view, in particular, to granting loans to <u>local authorities, their groupings and local public institutions</u>, as well as to any Entity that would be legally authorized to participate in the mechanism implemented by the Agence France Locale Group (the **Collectivities**), subject to their membership in accordance with the Articles of Association of the Société Territoriale (the **Members**),"*
    - *borrow funds, in particular by issuing bonds from institutional investors or individuals, or by any other means,*
    - *provide loans to Members,*
    - *assist Members with their financing by the Company,*
    - *provide any financial advice or other administrative and financial services to Members, in close connection with any financing, credit or loan transaction of the Company,*
    - *carry out arbitrage, brokerage and commission transactions, where applicable,*
    - *provide, where applicable, certain resources and services, particularly in administrative, legal, financial, accounting, commercial, management or advisory matters to Société Territoriale,*
- *and more generally, carry out all transactions, whether economic or legal, financial, civil or commercial, that may be related, directly or indirectly, to one of the above purposes or to any similar or related purpose.*"

Thirteenth resolution
Powers to carry out formalities

The General Meeting gives full powers to the bearer of the original, an extract or a copy of these minutes to carry out all formalities and disclosures provided for by the law and regulations in force relating to the decisions taken at this meeting.

APPENDIX 4

Provisional financial communication schedule for the 2021 financial year

The **Agence France Locale Group** consists of:

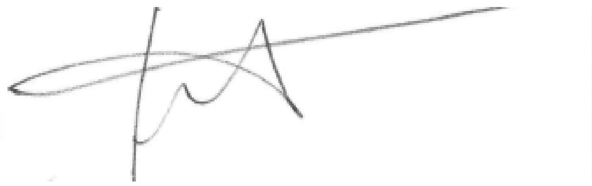
- Agence France Locale, a public limited company (société anonyme) with a Management Board and a Supervisory Board (***the Issuer***), and;
- Agence France Locale – Société Territoriale, the parent company, a public limited company with a Board of Directors (***Société Territoriale***).

Publication Date	Information
March 30, 2021 (before the start of trading), subject to subsequent amendment (**embargo period** starts on March 2, 2021)	▪ Press release on the Issuer's annual results and on the annual corporate and consolidated results of Société Territoriale for the financial year ended December 31, 2020
May 6, 2021	▪ Annual General Meeting of Shareholders of the Issuer, called notably to approve the parent company financial statements for the financial year ended on December 31, 2020, prepared in accordance with French and IFRS standards.
May 27, 2021	▪ Annual General Meeting of Shareholders of Société Territoriale, called notably to approve the parent company financial statements for the financial year ended on December 31, 2020, prepared in accordance with French standards, and the Group's consolidated financial statements for the financial year ended on December 31, 2020 prepared in accordance with IFRS
September 28, 2021 (before the start of trading), subject to subsequent amendment (**embargo period** starts on August 30, 2021)	▪ Press release on the issuer's half-year income and the consolidated half-year income of the Agence France Locale Group for the first half of the 2021 financial year ended June 30, 2021.

Responsibility for this management report prepared for the financial year ended December 31, 2020

I, the undersigned, Mr. Thiébaut Julin, acting as Chief Executive Officer, member of the Management Board and Chief Financial Officer of AFL, certify, to the best of my knowledge, that the financial statements were prepared in accordance with applicable accounting standards and give a true and fair view of the Company's assets, financial position and income, and that this management report presents a true and fair view of the Company's business, results and financial position and describes the main risks and uncertainties it faces.

Lyon, March 29, 2021,



Thiébaut Julin
Chief Executive Officer, member of the Executive Board, and Chief Financial Officer of Agence France Locale

Parent company financial statements prepared in accordance with French standards and IFRS and corresponding Statutory Auditors' reports

Agence France Locale S.A.

Statutory auditor's report on the financial statements

Year ended 31st December 2020

Agence France Locale S.A.

112 rue Garibaldi – 69006 Lyon

This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.
This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Agence France Locale S.A.

Registered office: 112 rue Garibaldi - 69006 Lyon
Share capital: €.168 400 000

Statutory auditors' report on the financial statements

For the year ended 31st December 2020

To the annual general meeting of Agence France Locale S.A.

Opinion

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying financial statements of Agence France Locale S.A. for the year ended 31st December 2020.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31st December 2020 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Statutory Auditors' Responsibilities for the Audit of the Financial Statements* section of our report.

Independence

We conducted our audit engagement in compliance with independence requirements of the French Commercial Code (code de commerce) and the French Code of Ethics (code de déontologie) for statutory auditors for the period from 1st January 2020 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014.

Justification of Assessments - Key Audit Matters

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (code de commerce) relating to the justification of our assessments, we inform you that we have assessed that there are no key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.

Specific Verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations.

Information given in the management report and in the other documents with respect to the financial position and the financial statements provided to the Shareholders

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given [in the management report of the Management Board and in the other documents with respect to the financial position and the financial statements provided to the Shareholders.

We attest the fair presentation and the consistency with the financial statements of the information relating to payment deadlines mentioned in Article D.441-6 of the French Commercial Code (Code de commerce).

As indicated in the management report, this information does not include banking and related operations, your company considering that they do not fall within the scope of the information to produce.

Report on corporate governance

We attest that the Supervisory Board's report on corporate governance sets out the information required by Articles L.225-37-4 and L.22-10-10 of the French Commercial Code.

Report on Other Legal and Regulatory Requirements

Format of presentation of the financial statements intended to be included in the Annual Financial Report

In accordance with Article 222-3, III of the AMF General Regulation, the Company's management informed us of its decision to postpone the presentation of the financial statements in compliance with the European single electronic format as defined in the European Delegated Regulation No 2019/815 of 17 December 2018 to years beginning on or after January 1st, 2021. Therefore, this report does not include a conclusion on the compliance with this format of the presentation of the financial statements intended to be included in the annual financial report mentioned in Article L.451-1-2, I of the French Monetary and Financial Code (code monétaire et financier).

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Agence France Locale S.A. by the annual general meeting held on 17th December 2013.

As at 31st December 2020, KPMG S.A. and Cailliau Dedouit et Associés were in their 7th year of total uninterrupted engagement, which are the 6^{h} year since securities of the Company were admitted to trading on a regulated market.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Management Board.

Statutory Auditors’ Responsibilities for the Audit of the Financial Statements

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.

- Assesses the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.

- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (code de commerce) and in the French Code of Ethics *(code de déontologie)* for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris La Défense, on the 29 March 2021

Paris, on the 29 March 2021

The statutory auditors

French original signed by

KPMG S.A.

Ulrich Sarfati
Partner

Cailliau Dedouit et Associés

Laurent Brun
Partner

AGENCE FRANCE LOCALE

BALANCE SHEET

Assets as of 31st of december 2020

(€ '000s)	Notes	31/12/2020	31/12/2019
Cash and central banks	2	601,780	165,609
Government paper and similar securities	1	755,005	629,454
Receivables on credit institutions	2	196,865	110,627
Loans and advances to customers	4	3,681,029	3,080,412
Bonds and other fixed income securities	1	9,985	28,064
Equities and other variable income securities			
Investments in non-consolidated companies and other long-term investments			
Investments in consolidated companies			
Intangible assets	5	2,305	2,098
Property, plant and equipment	5	156	92
Other assets	6	50,805	79,336
Accruals	6	74,532	51,547
TOTAL ASSETS		**5,372,461**	**4,147,239**

Liabilities as of 31st of december 2020

(€ '000s)	Notes	31/12/2020	31/12/2019
Central banks		142	26
Due to banks	3	24	9
Customer borrowings and deposits			
Debt securities	7	5,116,009	3,937,455
Other liabilities	8	11,030	6,300
Accruals	8	100,119	82,542
Provisions	9	65	322
Subordinated debt			
General banking risk fund (GBRF)			
Equity (excluding GBRF)	10	**145,073**	**120,586**
Share capital		168,400	146,800
Additional paid-in capital			
Reserves and retained earnings			
Revaluation differences			
Regulated provisions and investment subsidies			
Retained earnings (+/-)		(26,214)	(24,501)
Net income for the period (+/-)		2,887	(1,713)
TOTAL LIABILITIES		**5,372,461**	**4,147,239**

INCOME STATEMENT

(€ '000s)	Notes	31/12/2020	31/12/2019
+ Interest and similar income	12	89,814	77,819
- Interest and similar expenses	12	(78,121)	(67,773)
+ Income from variable income securities			
+ Fee and commission income	13	186	178
- Fee and commission expenses	13	(255)	(105)
+/- Net gains (losses) on held for trading portfolio	14	(6,531)	(2,863)
+/- Net gains (losses) on placement portfolio	14	5,820	3,390
+ Other banking income	15	3,244	
- Other banking expense	15		
NET BANKING INCOME		**14,157**	**10,647**
- General operating expenses	16	(10,090)	(10,101)
+ Other operating income			
- Depreciation and amortization	5	(1,160)	(2,259)
GROSS OPERATING INCOME		**2,906**	**(1,713)**
- Cost of risk			
OPERATING INCOME		**2,906**	**(1,713)**
+/- Net gains (losses) on fixed assets	17	(21)	
PRE-TAX INCOME ON ORDINARY ACTIVITIES		**2,886**	**(1,713)**
+/- Net extraordinary items			
- Income tax charge		2	
+/- Net allocation to FGBR and regulated provisions			
NET INCOME		**2,887**	**(1,713)**
Basic earnings per share		(1.17)	(1.17)

OFF-BALANCE SHEET

(€ '000s)

COMMITMENTS GIVEN AND RECEIVED	Notes	31/12/2020	31/12/2019
Commitments given		**457,583**	**317,666**
Financing commitments		398,775	317,666
Guarantee commitments		58,808	
Commitments on securities			
Commitments received		**2,219**	**2,345**
Financing commitments			
Commitments received from credit institutions			
Guarantee commitments		2,219	2,345
Commitments on securities			
Derivatives	11	**10,415,784**	**8,663,243**

NOTES TO THE INDIVIDUAL ACCOUNTS

I - Publication context

The 2020 financial statements were approved by the Board of Directors as of March 9, 2021.

II - Highlights from 2020 financial year

The year 2020 marks another significant increase in results linked to the loans business, which is part of the Company's development trajectory in accordance with its 2017-2021 strategic plan. The increase in results excluding non-recurring items, reflects the good dynamic of revenue generation from the lending activity since fiscal year 2015, the year in which AFL's activities began and which is measured in particular by the steady increase and constant of the outstanding portfolio of loans granted to member local authorities.

Regarding the production of medium and long-term loans by AFL in 2020, this amounted to 936.8 million euros against a target of 800 million euros. As a result, the symbolic threshold of 4.5 billion euros in loans granted since the creation of the AFL was reached at the end of 2020.

On July 13, 2020, AFL carried out its first sustainable bond issue for an amount of 500 million euros, contributing significantly to the total resources raised on the bond market in 2020, the amount of which amounted to € 1,130 million. In addition, this issuance of sustainable bonds, which attracted a significant number of new investors, is an important step in the Company's issuance strategy and its positioning as a public player committed to responsible market finance.

During the year, AFL put into production the central bank loan mobilization system (TRiCP - Data Processing of Private Claims) which provides it with a line of credit, available at any time, from the Bank of France in the amount of 70% of its outstanding balance sheet of medium-long term loans.

During the 2020 financial year, the AFL-ST, pursuing its corporate purpose, subscribed to capital of AFL in the amount of € 21.6 million with four capital increases, thus bringing the AFL share capital of 146.8 million euros as of January 1, 2020 to 168.4 million euros as of December 31, 2020. The AFL Group now has 411 members, including 59 new local authorithies, who have joined the AFL Group during the past financial year.

At the end of the 2020 financial year, the NBI generated by the activity amounted to € 14,157k compared to € 10,647k at December 31, 2019, a financial year which was characterized by capital gains on the sale of securities of an amount of € 500k.

NBI for 2020 mainly corresponds to a net interest margin of € 11,693k, up 16.4% compared to that of € 10,047k achieved over the previous year, in the amount of € 529k for capital losses on sales of investment securities from the management of the liquidity reserve, in € 405k for the cost of unwinding loan hedges and for € 3,244k of other banking operating income corresponding to capital gains on the sale of fixed-rate loans that the AFL had for a long time kept, with the objective of reinvesting equity.

The interest margin of €11,693k comes from three items:

• Firstly, income related to the loan portfolio, after hedging effects, in the amount of € 7,145k. Although outstanding loans have grown rapidly, interest income from the loan portfolio has fallen in nominal terms compared to its level on December 31, 2019, when it stood at € 8,128k. This is one of the effects of the fall in interest rates which transfers the income from the assets to the liabilities of the AFL, which in this case, taking into account negative short-term rates turn into products.

• Secondly, the negative income related to the management of the liquidity reserve in the amount of -4,946k € compared to -2,816k € at December 31, 2019, reflects the cost of carrying liquidity in an environment of negative interest rates. This increase in the cost of carrying liquidity, at constant profitability against 3-month Euribor, is the result of an increase in the volume of the liquidity reserve and a rapid fall in the 3-month Euribor rate during 2020.

• Lastly, the interest on the debt and the cost of collateral which amounted to € 9,494k after taking into account hedges, against € 4,735k as of December 31, 2019. In a negative interest rate environment, this interest in strong growth are now the main source of income for AFL. This very significant increase stems from the increase in AFL's outstanding debts during the year and the continued fall in the Euribor rate on which all of the debt after swaps of the AFL. This figure takes into account an increase in interest on margin calls which went from -397k € on December 31, 2019 to -445k € on December 31, 2020 and interest on short-term debt resulting from the issuance of debt securities. negotiable ECP sub-program, which amounted to € 737k compared to € 343k as of December 31, 2019.

The heading “Other banking incomes”, which represents an amount of € 3,224k, corresponds to capital gains on loan sales. In fact, AFL proceeded during the financial year to the sale of a few fixed-rate loans that it had for a long time kept with the aim of replacing its equity.

For the year ended December 31, 2020, general operating expenses represented € 10,090k compared to € 10,101k for the previous year. These costs include personnel costs for € 5,018k compared to € 4,732k in 2019. General operating costs also include administrative expenses, which amount to € 5,072k compared to € 5,369k as of December 31, 2019. This decrease comes from two items: the relocation of AFL into street Garibaldi which leads for the Company to a reduction in rent and rental charges and the Covid 19 crisis which has considerably reduced expenses relating to travel, to events marketing and all communication events. However, the administrative expenses for the year relating to IT fees are on the rise due to the start of the IT system dedicated to market activities.

At the end of the financial year, depreciation and amortization amounted to € 1,160k compared to € 2,259k at December 31, 2019, a decrease of € 1,099k. This change mainly reflects the end of the amortization of the core banking information system since Q4 of 2019 and which was put in place when AFL was created. In addition, the 2019 accounts included in depreciation and amortization a depreciation of the fixtures and fittings of the Tour Oxygène AFL location for € 271k. In 2020, the amount of amortization represents almost exclusively the amortization of the investment made by AFL in all of its information systems.

After depreciation and amortization, gross operating income as of December 31, 2020 stands at €2,906k, compared to €-1,713k for the 2019 financial year.

The result underscores the progress of AFL's recurring activities, of which that of outstanding loans to member local authorities is the main factor. These activities are now reaching a level sufficient to cover all current operating expenses and depreciation. Thus, during the year 2020, the cost / income ratio of AF, calculated on the basis of its recurring income, fell for the first time below the level of 100% to reach 96.2% as of December 31. 2020, thus confirming the Company's arrival at breakeven and the sustainability of its model.

Events after the end of the reporting period

No significant subsequent events occurred on the beginning of the 2021 year after the accounts closure date has to be reported.

Health crisis linked to Covid-19

In December 2019, a new form of coronavirus (Covid-19) appeared in China. The virus has spread out to many countries becoming pandemic in March 2020. Very important health measures have been taken at national level in most countries to prevent the transmission of the virus (border closing, travel ban, containment measures, etc.). To date, however, the pandemic is still not contained and new measures are being implemented on the date of closing of the yearly accounts.

Due to the internationalisation of economies, the considerable weight of trade and the internationalisation of supply chains, the effects of the pandemic affect all countries and economies without exception.

The consequences of this crisis for AFL are mainly at three levels:

• During 2020, the French local public sector financing market, which constitutes the market in which AFL realises all of its credit operations, was significantly affected by the health crisis linked to the Covid-19 epidemic, which notably resulted in the postponement of the second round of municipal elections. In 2021, departmental and regional elections are also postponed from March to June. The health crisis directly impacted local budgets in 2020. At the end of 2019, local authorities - despite strong disparities - posted a generally very healthy financial situation with increasing gross and net savings and a falling debt ratio. Faced with a favorable pre-crisis budgetary situation, the financial consequences of the health crisis are nevertheless still poorly understood today.

• The consequences for local public investment and the use of local government borrowing are still uncertain. Nevertheless, a few elements are likely to support them.

o The 100 billion euro stimulus plan announced in September 2020, currently being rolled out, and in which local authorities have a major role to play, could “distort” the electoral investment cycle according to which at the start of the mandate the financing needs of the communities are lower before recovering in the middle and end of their mandate.

o The Cour des Comptes (Public Auditors) considers in December 2020 that local public investment can be preserved: the communal bloc, regardless of the electoral investment cycle, and the regions could maintain a sustained level of capital expenditure.

• Even if this was not observed in the last quarter of 2020, which saw a significant tightening in the credit spreads of sovereign issuers on the markets, the significant increase in public debt in France, following government support spending to households and businesses could still lead to lenders in the French public sphere, of which the AFL is a part, an increase in their cost of refinancing on the markets, this being strongly linked to the price at which the French Government borrows itself.

This context led to an increase in the cost of risk for AFL in 2020. This increase reflects the impact of ex-ante provision for expected losses under IFRS 9 in connection with the health crisis. The cost of risk stood at € 355k for the year 2020 and corresponds to 1.4 basis point of exposures for 1 basis point at December 31, 2019. Insofar as the pandemic is not contained, the level of provisioning is likely to increase in the future.

However, in the environment described above, the production of medium and long-term loans of the AFL was dynamic to 936.8 million euros for 2020 and the AFL was able to resume its operations of refinancing from April 2020.

AFL's results and financial situation at December 31, 2020 were affected by the increase in spreads which impacted the cost of refinancing operations carried out by AFL between April 2020 and October 2020. The credit interest margin granted to local authorithies has evolved in parallel.

Uncertainty over the duration and scale of the Covid-19 pandemic makes it difficult to predict the impacts. The consequences for AFL will depend on the duration of the pandemic, the measures taken by governments and central banks and the evolution of the health, but also economic, financial and social context.

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. ANC regulation n ° 2020-10 of December 22, 2020 amending ANC regulation n ° 2014-07 and mainly relating to regulated savings and securities lending had no impact on the accounts of the 'AFL as of December 31, 2020.

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.

Accounting principles and methods

Loans and advances to banks and to customers

Loans and advances to banks include all loans connected with banking operations except for those materialized by a security. They are broken down into sight accounts and term accounts.

Loans and advances to customers comprise loans granted to local governments. The undrawn portion of signed loan agreements is recorded as an off-balance sheet item.

Interest on loans is recorded as Interest income prorata temporis for accrued amounts as is interest on past-dues.

Premiums paid on credit acquisitions are included in the amount of the principal repurchased and are therefore recognized in "Loans and advances to customers". In accordance with the Règlement 2014-07, these marginal transaction costs are spread over the life of the loans through the calculation of a new effective interest rate.

Doubtful loans

Loans and receivables to customers are classified as doubtful if they carry an identified credit risk arising from one of the following events:

. The loan or advance is in default for at least 90 days;

. The borrower's financial position is such that an identified risk exists regardless of whether the loan or advance is in arrears,

. The bank and borrower are in legal proceedings.

By applying the contagion principle, all of the outstanding amounts of the same borrower are downgraded to doubtful loans as soon as a receivable from this holder is downgraded within AFL.

Compromised non-performing loans are loans to borrowers whose recovery outlook is so downgraded that they are written off. Loans unpaid for more than one year are recorded in this category. Interest on these loans no longer contributes to the interest margin once they have been transferred to the category of compromised nonperforming loans.

Impairment charges are recognized for non-performing and compromised non-performing loans. Risk management determines the percentage of impaired capital in function of expected losses. Interest income is fully impaired. Impairment charges and reversals for credit risk are recognized as Cost of risk as well as the losses on non-recoverable loans and recoveries on amortized loans.

All default must have been settled, no default must therefore persist at the time of leaving the classification in doubtful.

A probation period of 6 months begins when all the conditions for the issue of default are met and the return to normal has been decided by the Credit Committee.

During the probationary period payments must resume regularly and without delay, an unpaid amount immediately causes the return in Doubtful loans.

The Credit Committee examines and validates the exit from the Doubtful loans classification.

Tangible and intangible fixed assets

Agence applyed CRC 2002-10 of 12 December 2002 relating to the amortization and impairment of assets and CRC 2004-06 on the recognition and measurement of assets, with the exception of costs relating to first establishment of the Local Agency France that have been recognized in balance sheet like intangible assets, as permitted by Article R.123-186 the Code de commerce.

The acquisition cost of fixed assets includes, besides the purchase price, incidental costs which are charges linked directly or indirectly to the acquisition for the use or for the state entry in the assets of the company.

Software acquired are recognized in gross value at acquisition cost.

IT costs are recognized in assets when they meet the conditions required by Regulation N° 2004-06, i.e. whether all the expenses are inccured for the etablishment of the information system.

Tangible and intangible assets are amortized over their estimated useful lives, with the exception of Start-up costs, which are amortized over a maximum period of 5 years, as permitted by the Code de Commerce (Article R.123-187).

At each balance sheet date, or more frequently where events or changes in circumstances dictate, property, plant and equipment is assessed for indications of impairment. If such indications are present, these assets are subject to an impairment review. If impaired, the carrying values of assets are written down by the amount of any impairment and the loss is recognised in the income statement in the period in which it occurs.

Fixed assets are amortised over their estimated useful lives in the following manner:

Fixed asset	Estimated useful life
Start-up costs	5 years
Software	5 years
Website	3 years
Fixtures and fittings	10 years
Computer equipment	3 years
Office furniture	9 years
Software development	5 years

The amortization method is straight-line.

Securities portfolio

Accounting policies for securities transactions are defined by CRB regulation 90-01 as amended by CRC Regulations 2005-01, 2008-07 and 2008-17 endorsed by Regulations 2014-07 and by CRC Regulation 2002-03 for the determination of credit risk and impairment of fixed-income securities, endorsed as well by Regulations 2014-07.

Securities are presented in the financial statements according to their type:

"Government and public securities" for Treasury bills and similar securities,

"Bonds and other fixed income securities" for notes and interbank debt instruments, shares and other income securities variable

"Equities and other variable income securities"

The item “Government and public securities" includes debt securities issued by public sector entities that may be refinanced through the European System of central banks.

They are classified in portfolios defined by regulation (trading, investment securities, placement securities, long term equities investment, medium term portfolio, other long term equity investments and investments in subsidiaries and affiliates), depending on the initial intention for holding the securities at the time they were acquired.

Placement securities

Securities that do not fit in any existing category are recognized as placement securities.

Placement securities are recorded at acquisition cost including fees.

. **Bonds and other fixed income securities:**

These securities are recognised at acquisition cost excluding interest accrued at the acquisition date. Accrued interest at the date of acquisition is recorded separately as "Accrued interest".The difference between the purchase price and the redemption value is spread over the remaining life of the security on an actuarial basis.

Interests on these securities are recorded in Income statement as "Interest income on bonds and fixed income securities".

At the end of the reporting period, in application of the principle of prudence, placement securities are recorded on the balance sheet at their acquisition cost or selling price at the end of the reporting period, whichever is lower, after accounting, when relevant, for the value of the micro-hedge swap.

Excluding conterparty risk, when the decrease in the value of the security exceeds the unrealized gain on the micro-hedge, the decrease in net value is recorded in Net gains (losses) on placement portfolio as loss or gain on sales.

If the decrease in the value of the security arises from a risk relating specifically to the issuer of the security, impairment is recorded under “Cost of risk”, in accordance with ANC regulation 2014-07 on credit risk.

If appropriate, Impairment intended to take into account counterparty risk and recognised under the cost of risk is booked on fixed income securities as follows:

. in the case of listed securities, impairment is based on market value, which intrinsically reflects credit risk. However, if Agence has specific information on the issuer’s financial position that is not reflected in the market value, a specific impairment loss is recorded;

. in the case of unlisted securities, impairment is recorded in the same way as on loans and receivables to customers based on identified probable losses.

. **Equities and other variable-income securities:**

Equities are recognised on the balance sheet at their purchase price including transaction expenses. The associated dividends are recorded as income under “Income from variable-income securities”.

Income from mutual funds is recognised when received under the same heading.

At each reporting date, short term investment securities are measured at the lower of acquisition cost and market value. If the current value of an item or a homogeneous set of securities (calculated from market prices at the reporting date, for example)is lower than its carrying amount, an impairment loss is recorded for the unrealised loss without being offset against any gains recognised on other categories of securities.

Investment securities

Investment securities are fixed income securities with a fixed maturity date that have been acquired or transferred to this category with the manifest intention of holding them until maturity.

This category only includes securities for which Agence has the necessary financial ability to continue holding them until maturity and that are not subject to any legal or other restriction that could interfere with its intention to hold them until maturity.

Securities considered as Investment securities are recorded on the date of purchase at acquisition clean price including fees. Accrued interest at the date of acquisition is recorded separatly as "Accrued interest". Interest on these securities is recorded in income as "Interest income on bonds and fixed income securities".

The difference between the purchase price and the redemption value is spread over the remaining life of the security on an actuarial basis.

Impairment is not booked for long term investment securities if their market value falls below cost. On the other hand, if the impairment arises from a risk relating specifically to the issuer of the security, impairment is recorded under “Cost of risk”, in accordance with CRC regulation 2002-03 on credit risk.

In the case of the sale or reclassification to another category of long term investment securities and representing a material amount, during the current financial year and the next two financial years, the reporting entity is no longer authorised to classify securities previously bought and to be bought as long term investment securities, in accordance with CRC regulation 2005-01, except in the special cases provided by that regulation and by CRC regulation 2008-17.

Market price

The market price at which the various categories of securities are measured is determined as follows:

. Securities traded on an active market are measured at the latest price;

. If the market on which the security is traded is not or no longer considered active or if the security is unlisted, Agence determines the likely value at which the security concerned would be traded using valuation techniques. Firstly, these techniques take into account recent transactions carried out in normal competition conditions. If required, Agence uses valuation techniques commonly used by market participants to price these securities, when it has been demonstrated that these techniques provide reliable estimates of prices obtained in actual market transactions.

Recording date

Agence records securities classified as investment securities on the settlement date. Other securities, regardless of type or classification, are recognised on the trading date.

Disclosures on Placement securities and Investment securities

The Regulation CRC 2000-03, Appendix III, paragraph 1. 1.2, supplemented by Regulation No. 2004-16 of 23 November 2004 and Regulation CRC No. 2005-04 requires credit institutions to provide:

. A breakdown of Investment portfolio and Placement portfolio, public bills and similar securities, bonds and other fixed-income securities.

. For Placement securities, the amount of unrealized gains corresponding to the difference between the market value and acquisition cost is disclosed. The amount of unrealized gains on Placement securities subject to a provision in the balance sheet as well as investment securities unrealized losses not subject to provision.

Debt due to banks

Debt due to banks is broken down according to the initial maturity (sight or term debt).

Repurchase agreements (represented by certificates or securities) are included under these type according to the initial maturity. Accrued interest on these deposits is recognised under accrued interest and taken to profit and loss.

Debt securities issued

These debt securities are recorded at nominal value. Redemption and issue premiums are amortized on an actuarial basis over the maturity of the securities prorate temporis. They are recorded on the balance sheet in the same categories as the corresponding debt. Amortization of these premiums is recorded in the income statement as "Interest expense on bonds and other fixed income securities".

If bonds are issued above par, amortization of issue premiums is deducted from interest expense on bonds and other fixed income securities. Interest on bonds is recorded as Interest expense for accrued amounts calculated prorata temporis. Bond issue costs and commissions are amortized on an actuarial basis over the maturity of the related loans.

Derivative transactions

Agence engages in derivative transactions to hedge the interest rate and foreign exchange risks to which it is exposed in its activity.

Depending on their purpose, these transactions are assigned to micro-hedge or macro-hedge portfolios in accordance with CRB regulations 88-02 and 90-15 endorsed by ANC Regulations 2014-07. Valuation methods and accounting principles are determined according to the portfolio to which they are assigned.

Micro-hedge transactions

Transactions are booked as micro-hedges when they are designed to hedge against the interest rate risk related to an item or set of homogeneous items identified from the start. They involve swaps used to hedge issues of debt securities, fixed-income secuties recognised as placement securities and loans and advances to customers.

Macro-hedge transactions

This category includes transactions designed to hedge and manage the Company’s overall exposure to interest rate risk on assets, liabilities and off-balance sheet items, excluding micro-hedge transactions.

The reduction measurement of the Company’s global interest rate risk is done by making a sensitivity analysis of macro-hedge portfolios.

Hedging transactions accounting

Expense and income on these transactions are recorded in the income statement in the same way income and expense on the hedged item or set of homogeneous items are recorded.

Expense and income on these transactions are recorded in the income statement prorata temporis respectively as Interest expense or Interest income.

Unrealised gains and losses on derivatives valuation are not recorded.

Payments at the inception of hedging derivatives are recorded in other assets and other liabilities and amortized over their maturity according to an actuarial method.

In the event of early reimbursement or the sale of the hedged item, or early repayment within the framework of the renegotiation of the hedged item, the termination fee received or paid because of the early interruption of the hedging instrument is recorded in in the income statement if the hedging instrument has been cancelled.

Currency transactions

In accordance with ANC regulation 2014-07, AFL accounts for transactions in currencies in open accounts in each currency.

Foreign exchange position and currency exchange rate accounts are opened in each currency.

At each reporting date, the differences between the amounts resulting from the valuation of the foreign exchange position accounts at the market price on the closing date and the amounts entered in currency exchange rate accounts are recorded in the income statement.

Currency hedging transactions

As part of hedging its foreign exchange risk, AFL contract cross currency swaps. These operations are set up in order to eliminate at inception the risk of a change in currency rate related to an asset or a liability. This is mainly the hedging of debts issued by AFL in foreign currency.

The accounting principle used to recognize the result of the foreign exchange transactions of Cross currency swaps is to recognize in income prorata temporis over the duration of the contract, the interest rate gap between the forward and the spot currency rate.

Cost of risk

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

Provisions

Agence applies CRC regulation 2000-06 on liabilities relating to the recognition and measurement of provisions falling within the scope of this regulation.

Provisions are recorded at present value when the three following conditions are met:

• Agence has a present legal or constructive obligation as a result of past events;

• It is probable that an outflow of resources representing economic benefits will be required to settle the obligation;

• A reliable estimate of the amount of the obligation can be made.

Tax consolidation

Since January 1, 2015, the Agence belongs to the tax group headed up by Agence France Locale - Société Térritoriale. This entity pays the total income tax owed by the group. The Agence records in its accounts the amount of tax for which it would be liable if it were not a member of the tax group. Tax savings realized by the tax group are recorded in the accounts of Agence France Locale - Société Térritoriale.

Post-employment benefits

Agence has applied ANC recommendation 2013-02 of 7 November 2013 relating to the measurement and recognition of retirement and similar benefit obligations.

In accordance with this recommendation, Agence sets aside provisions to cover its retirement and similar benefit obligations falling within the category of defined-benefit plans.

These obligations are stated on the basis of actuarial, financial and demographic assumptions, and in accordance with the projected unit credit method. Under this method, for each year of service, a charge is booked in an amount corresponding to the employee's vested benefits for the period. The charge is calculated based on the discounted future benefit.

The entity has opted for method 2 in recommendation 2013-02 which allows in particular for the recognition of gains or losses arising from changes to defined-benefit plans when the curtailment or settlement occurs.

The entity elected to immediately recognise the actuarial gains or losses in profit or loss over the expected average remaining working lives of the employees participating in the scheme. Accordingly the amount of the provision is equal to:

. the present value of the obligation to provide the defined benefits at the reporting date, calculated in accordance with the actuarial method advised by the recommendation;

. plus any actuarial gains (less any actuarial losses) not recognized,

. less, where applicable, the fair value of plan assets. These may be represented by an eligible insurance policy. In the event that the obligation is fully covered by such a policy, the fair value of the policy is deemed to be the value of the corresponding obligation, i.e. the amount of the corresponding actuarial liability.

The recommendation also allows for the recognition of actuarial gains and losses using the "corridor method" or any other method that results in faster recognition in profit or loss.

Identity of the parent company consolidating the accounts of the Agence as of December 31, 2020

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

IV - Notes to the Balance Sheet

Note 1 - PORTFOLIO

(€ '000s)

31/12/2020	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	753,823	9,985		763,808
Unlisted securities				-
Accrued interest	1,182	-		1,182
Impairment	-	-		
Net carrying amount	**755,005**	**9,985**	**-**	**764,990**
Residual net Premium/Discount	5,731	(65)		5,666

31/12/2019				
Fixed or variable income securities				
Listed securities	628,453	28,064		656,517
Unlisted securities				-
Accrued interest	1,225	-		1,225
Impairment	(224)	-		(224)
Net carrying amount	**629,454**	**28,064**	**-**	**657,518**
Residual net Premium/Discount	3,710	(111)		3,599

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 31/12/2020	Total 31/12/2019
Government paper and similar securities								
Net amount	49,034	181,824	238,177	284,788	753,823	1,182	755,005	629,454
NET CARRYING AMOUNT	**49,034**	**181,824**	**238,177**	**284,788**	**753,823**	**1,182**	**755,005**	**629,454**
Bonds and other fixed income securities								
Net amount			9,985	-	9,985	-	9,985	28,064
NET CARRYING AMOUNT	**-**	**-**	**9,985**	**-**	**9,985**	**-**	**9,985**	**28,064**

Analysis by type of portfolio

Portfolio *(€ '000s)*	Gross amount 31/12/2019	Additions	Disposals	Transfers	Prem/Disc Amort.	Change in accrued interest	Impairment	Total 31/12/2020	Unrealized gains/(losses)
Transaction									
Held-for-sale	632,150	665,827	(662,079)		(546)	(142)	224	635,433	14,721
Investment	25,368	105,676	(867)		(720)	100		129,557	948
NET CARRYING AMOUNT	**657,518**	**771,503**	**(662,946)**	**-**	**(1,266)**	**(43)**	**224**	**764,990**	**15,670**
Of which Premium/Discount	3,599	7,729	(4,396)		(1,266)			5,666	

Note 2 -RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	31/12/2020	31/12/2019
Mandatory reserve deposits with central banks	601,780	165,609
Other deposits		
Cash and central banks	**601,780**	**165,609**

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 31/12/2020	Total 31/12/2019
Credit institutions								
Loans and receivables								
- demand	81,754				81,754		81,754	15,601
- time	115,000				115,000	111	115,111	95,026
Securities bought under repurchase agreements								
TOTAL	**196,754**	**-**	**-**	**-**	**196,754**	**-**	**196,865**	**110,627**
Impairment								
NET CARRYING AMOUNT	**196,754**	**-**	**-**	**-**	**196,754**	**-**	**196,865**	**110,627**

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 31/12/2020	Total 31/12/2019
Credit institutions								
Accounts and Overdrafts								
- demand	24				24		24	9
- time								
Securities sold under repurchase agreements								
TOTAL	**24**	**-**	**-**	**-**	**24**	**-**	**24**	**9**

Note 4 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	31/12/2020	31/12/2019
Short-term credit facilities	9,265	9,971
Other loans	3,671,763	3,070,442
Customers transactions before impairment charges	**3,681,029**	**3,080,412**
Impairment		
Net carrying amount	**3,681,029**	**3,080,412**
Of which related receivables	6,852	6,945
Of which gross doubtful receivables	4,159	3,794
Of which gross non-performing doubtful receivables		

Doubtful loans correspond to a default for at least 90 days unpaid loans and by contagion to all of the outstanding amounts of counterparties in default. Although classified as doubtful loans, these loans have not been subject to impairment. Impairments are established on the basis of the recoverable amount of the receivable, i.e. the present value of the estimated future flows recoverable. However, on the closing date, the AFL intends to recover all of its debts as well as the interest attached to them.

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 31/12/2020
Loans and advances to customers	103,263	91,952	156,987	1,021,741	2,300,234	**3,674,177**	**6,852**	**3,681,029**

Note 5 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible assets	31/12/2019	Additions	Transfers	Disposals	Amort.	Impairments	Other movements	31/12/2020
Intangible assets	**12,704**	**810**		**(388)**			**122**	**13,248**
Start-up costs	2,123							2,123
IT development costs	10,031	810					122	10,963
Web site	522			(360)				162
Software	28			(28)				-
Intangible assets in progress	**122**	**510**					**(122)**	**510**
Intangible assets amortisation	**(10,728)**			**368**	**(1,093)**			**(11,453)**
Net carrying amount	**2,098**	**1,320**		**(20)**	**(1,093)**			**2,305**

Property, plant & equipment	31/12/2019							31/12/2020
Property, plant & equipment	841	139		(32)			(13)	935
Tangible assets in progress	-							-
Tangible assets amortization	(749)			32	(67)		5	(779)
Net carrying amount	**92**	**139**		**(0.4)**	**(67)**			**156**

Note 6 - OTHER ASSETS AND ACCRUALS

(€ '000s)	31/12/2020	31/12/2019
Other assets		
Cash collateral paid	50,023	79,260
Other assets	782	76
Impairment		
Net carrying amount	**50,805**	**79,336**
Accruals		
Deferred charges on bond issues	12,031	13,461
Deferred charges on hedging transactions	43,525	21,150
Prepaid charges	252	206
Accrued interest not yet due on hedging transactions	15,601	14,626
Other deferred income	16	
Other accruals	3,107	2,105
TOTAL	**74,532**	**51,547**

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 31/12/2020	Total 31/12/2019
Negotiable debt securities	140,000				140,000		140,000	89,015
Bonds	81,493		2,250,000	2,630,156	4,961,649	14,360	4,976,009	3,848,440
Other debt securities					-		-	-
TOTAL	**221,493**	**-**	**2,250,000**	**2,630,156**	**5,101,649**	**14,360**	**5,116,009**	**3,937,455**

Note 8 - OTHER LIABILITIES and ACCRUALS

(€ '000s)	31/12/2020	31/12/2019
Other liabilities		
Cash collateral received	8,247	4,228
Miscellaneous creditors	2,783	2,072
TOTAL	**11,030**	**6,300**
Accruals		
Transaction to pay and settlement accounts		
Premium EMTN issue	42,512	17,907
Unrealised gains on hedging instruments	47,263	54,599
Unearned income	493	
Accrued expenses on hedging instruments	9,851	10,037
Other accrued expenses		
Other accruals		
TOTAL	**100,119**	**82,542**

Note 9 - PROVISIONS

(€ '000s)	Balance as of 31/12/2019	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 31/12/2020
Provisions						
Financing commitment execution risks						
Provisions for other litigations						
Provisions for employee retirement and similar benefits	65	-	-	-	-	65
Provisions for other liabilities to employees						
Other provisions	257	-	(197)	(59)	-	-
TOTAL	**322**	**-**	**(197)**	**(59)**	**-**	**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 31/12/2018	**138,700**	**--**	**-**	**-**	**-**	**-**	**(22,622)**	**(1,878)**	**114,199**
Change in share capital	8,100 (1)								8,100
Change in share premium and reserves									
Allocation of 2017 net profit							(1,878)	1,878	
Net income as of 31/12/2019								(1,713)	(1,713)
Other changes									
Balance as of 31/12/2019	**146,800**	**--**	**-**	**-**	**-**	**-**	**(24,501)**	**(1,713)**	**120,586**
Dividend paid for 2019									
Change in share capital	21,600 (1)								21,600
Change in share premium and reserves									
Allocation of 2019 net profit							(1,713)	1,713	
Net income as of 31/12/2020								2,887	2,887
Other changes									
Balance as of 31/12/2020	**168,400**	**-**	**-**	**-**	**-**	**-**	**(26,214)**	**2,887**	**145,073**

(1) The share capital of Agence France Locale which amounts on 31 of December, 2020 to € 168,400,000 consists of 1,684,000 shares. The Company carried out four capital increases during the year 2020 subscribed on 19th March 2020 to € 3,200k, on 15th June 2020 for € 1,000k, on 28th Septembre 2020 for € 5,500k and 30th December 2020 for € 11,900k.

Note 11 - DERIVATIVES

Outstanding notional and Fair value

(€ '000s)	31/12/2020				31/12/2019			
	Hedging transactions		Others than Hedging transactions		Hedging transactions		Others than Hedging transactions	
	Outstanding notional	Fair value	Outstanding notional	Fair value	Outstanding notional	Fair value	Outstanding notional	Fair value
FIRM TRANSACTIONS	**9,429,669**	**(39,449)**	**986,115**	**(182)**	**7,677,128**	**(42,641)**	**986,115**	**486**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**9,429,669**	**(39,449)**	**986,115**	**(182)**	**7,677,128**	**(42,641)**	**986,115**	**486**
Interest rate contracts	9,102,562	(47,879)	986,115	(182)	7,442,154	(44,831)	822,100	(140)
FRA								
Cross Currency Swaps	327,107	8,431			234,974	2,190	164,015	626
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 31/12/2020 8,525,789 (€ '000s)
Amount of macro-hedge transaction as of 31/12/2020 903,880 (€ '000s)
Amount of trading transaction as of 31/12/2020 986,115 (€ '000s)

Notional amount by maturity

(€ '000s)	31/12/2020					
	Hedging transactions			Others than Hedging transactions		
	Less than 1 year	1 year to 5 years	more than 5 years	Less than 1 year	1 year to 5 years	more than 5 years
FIRM TRANSACTIONS	**340,737**	**2,822,963**	**6,348,204**	**77,200**	**540,900**	**285,780**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts						
Other contracts						
Over-the-counter markets	**340,737**	**2,822,963**	**6,348,204**	**77,200**	**540,900**	**285,780**
Interest rate contracts	113,786	2,822,963	6,248,047	77,200	540,900	285,780
FRA						
Cross Currency Swaps	226,951		100,156			
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)	31/12/2020	31/12/2019
Interest and similar income	**89,814**	**77,819**
Due from banks	133	50
Due from customers	33,445	28,440
Bonds and other fixed income securities	2,074	2,024
from Held-for-sale securities	*1,890*	*1,924*
from Investment securities	*184*	*100*
Income from interest rate instruments	54,162	47,304
Other interest income		
Interest and similar expenses	**(78,121)**	**(67,773)**
Due to banks	(3,182)	(1,162)
Due to customers		
Debt securities	(24,035)	(23,451)
Expense from interest rate instruments	(50,904)	(43,159)
Other interest expenses		
Interest margin	**11,693**	**10,047**

Note 13 - NET FEE AND COMMISSION INCOME

(€ '000s)	31/12/2020	31/12/2019
Commission income	**186**	**178**
Interbank transactions		
Customer transactions	186	178
Securities transactions		
Forward financial instruments transactions		
Currencies transactions		
Financing commitments and guarantee		
Other commissions recieved		
Commission expenses	**(255)**	**(105)**
Interbank transactions	(11)	(5)
Securities transactions		
Forward financial instruments transactions	(125)	(100)
Currencies transactions		
Financing commitments and guarantee		
Other commissions paid	(118)	
Net fee and commission income	**(69)**	**72**

Note 14 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS

(€ '000s)	31/12/2020	31/12/2019
Gains/(losses) on Trading book		
Gains/(losses) on forward financial instruments	(6,531)	(2,862)
Gains/(losses) on foreign currency transactions	(0.1)	(0.2)
Gains or (losses) on trading portfolio	**(6,531)**	**(2,863)**
Gains/(losses) from disposal of held-for-sale securities	5,596	3,363
Other income/(expenses) from held-for-sale securities		
Impairment (charges) and reversals on held-for-sale securities	224	27
Gains or (losses) on held-for-sale portfolio	**5,820**	**3,390**

Note 15 - OTHER BANKING INCOME

(€ '000s)	31/12/2020	31/12/2019
Capital gains on loan disposals	3,244	
Other banking income		
Other banking income	**3,244**	**-**
Capital losses on loan disposals		
Other banking expense		
Other banking expense	**-**	**-**
TOTAL	**3,244**	

Note 16 - GENERAL OPERATING EXPENSES

(€ '000s)	31/12/2020	31/12/2019
Employee expenses		
Wages and salaries	3,206	2,991
Post-employment benefit expenses	347	324
Other expenses	1,466	1,417
Total Employee expenses	**5,018**	**4,732**
Operating expenses		
Taxes and duties	690	495
External services	5,509	5,818
Total Administrative expenses	**6,199**	**6,313**
Charge-backs and reclassification of administrative expenses	(1,127)	(943)
Total General operating expenses	**10,090**	**10,101**

Note 17 - +/- Net gains (losses) on fixed assets

(€ '000s)	31/12/2020	31/12/2019
Gains on sales of Investment securities		
Gains on sales of tangible or intangible assets		
Reversal of impairment		
Total Gains on fixed assets	**-**	**-**
Losses on sales of Investment securities		
Losses on sales of tangible or intangible assets	(21)	
Charge of impairment		
Total Losses on fixed assets	**(21)**	**-**

Note 18 - STAFF

	31/12/2020	31/12/2019
Director (corporate officer)	1	1
Managers	29	25
Technicians & employees	0.3	1
Apprentices and professional trainng contracts	7	6
Average staff during the year	**37**	**33**
Staff at year-end	**36**	**35**

Note 19 - REMUNERATIONS

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

Neither members of AFL Board nor Group's Director benefited from a payment in actions in conformance with the exercise 2020 and a compensation was settled because of termination of contract of employment. No other long-term advantage was granted to them.

Their Director's remunerations on the exercise 2020 were the following ones :

(€ '000s)	31/12/2020
Fixed remuneration	656
Variable remuneration	49
Payments in kind	9
Total	**715**

Members of the AFL Supervisory Board received €154k attendance fees.

Note 20 - EXTERNAL AUDITOR FEES

	Caillau Dedouit et Associés		KPMG Audit	
	2020 (€ '000s)	2019 (€ '000s)	2020 (€ '000s)	2019 (€ '000s)
Audit				
Fees related to statutory audit, certification, examination of:				
AFL-Société Opérationelle	65	66	65	66
Sub-total	**65**	**66**	**65**	**66**
Other fees and benefits (*) :				
AFL-Société Opérationelle	30	54	29	34
Sub-total	**30**	**54**	**29**	**34**
TOTAL	**95**	**120**	**94**	**100**

(*) Other fees and benefits are related to issue prospectus audit, capital increases, reliance letter, IFRS 9 First Time Application review and social, environmental and societal data audits.

Note 21 - INCOME TAX CHARGE

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

Tax losses amounting to €22.1m at 2020 year-end closing were not recognised as deferred tax assets.

Note 22 - RELATED PARTIES

There are, on 31 December 2020, an agreement of administrative services and a licensing for the use of a mark, as well as a professional lease, which were concluded which have been concluded between Agence France Locale - Société térritoriale at normal market conditions.

Agence France Locale S.A.

Statutory Auditor's report on the "financial statements"

Year ended 31st December 2020

Agence France Locale S.A.

112 rue Garibaldi - 69006 Lyon

This is a free translation into English of a 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, professional auditing standards applicable in France.

Agence France Locale S.A.

Registered office: 112 rue Garibaldi - 69006 Lyon
Share capital: €.168,400,000

Statutory Auditor's report on the "financial statements"

Year ended 31st December 2020

Ladies and Gentlemen,

In our capacity as Statutory Auditors of Agence France Locale S.A. and in compliance with your request within the framework of financial information communication to investors, we have audited the accompanying "financial statements", of Agence France Locale S.A. for the year ended 31 December 2020, 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.

Management Board is responsible for the preparation and fair presentation of these "financial statements" in the context of sanitary crisis of Covid-19. Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of the audits.

Our responsibility is to express an opinion on these "financial statements" based on our audit.

We conducted our audit 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; these standards require that we plan and perform the audit to obtain reasonable assurance whether the "financial statements" are free from material misstatement. An audit involves performing procedures, on a test basis or by other means of selection, to obtain audit evidence about the amounts and disclosures in the "financial statements". An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall presentation of the "financial statements". We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the "financial statements" present fairly, in all material respects, the financial position and assets and liabilities of Agence France Locale S.A. as of 31 December 2020, and of the results of its operations for the year then ended in accordance with the International Financial Reporting Standards as adopted in the European Union.

This report does not correspond to the legal report related to the annual financial statements established under the French accounting rules and principles issued under the article L.823-9 of the French Code (“Code de commerce”).

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 shall be governed by, and construed in accordance with 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, on the 29 March 2021	Paris, on the 29 March 2021
French original signed by	
KPMG S.A.	Cailliau Dedouit et Associés
Ulrich Sarfati *Partner*	Laurent Brun *Partner*

AGENCE FRANCE LOCALE IFRS GAAP

BALANCE SHEET

Assets as of December 31, 2020

(€ '000s)	Notes	31/12/2020	31/12/2019
Cash, central banks	5	601,746	165,604
Financial assets at fair value through profit or loss	1	20,000	15,962
Hedging derivative instruments	2	211,916	130,957
Financial assets at fair value through other comprehensive income	3	614,697	535,900
Securities at amortized cost	4	166,864	135,387
Loans and receivables due from credit institutions and similar items at amortized cost	5	246,908	189,822
Loans and receivables due from customers at amortized cost	6	3,831,563	3,160,500
Revaluation adjustment on interest rate risk-hedged portfolios		26,697	14,284
Current tax assets			
Deferred tax assets	7	5,401	5,635
Accruals and other assets	8	510	381
Intangible assets	9	2,305	2,098
Property, plant and equipment	9	1,240	171
Goodwill			
TOTAL ASSETS		**5,729,846**	**4,356,701**

Liabilities as of December 31, 2020

(€ '000s)	Notes	31/12/2020	31/12/2019
Central banks		142	26
Financial liabilities at fair value through profit or loss	1	20,182	15,476
Hedging derivative instruments	2	251,365	173,597
Debt securities	10	5,295,982	4,036,974
Due to credit institutions	11	8,271	4,236
Due to customers			
Revaluation adjustment on interest rate hedged portfolios			
Current tax liabilities			
Deferred tax liabilities	7	248	19
Accruals and other liabilities	12	3,847	2,310
Provisions	13	82	207
Equity		**149,728**	**123,854**
Equity, Group share		**149,728**	**123,854**
Share capital and reserves		168,400	146,800
Consolidated reserves		(21,380)	(20,189)
Reevaluation reserve			
Gains and losses recognised directly in equity		412	(1,566)
Profit (loss) for the period		2,295	(1,191)
Non-controlling interests			
TOTAL LIABILITIES		**5,729,846**	**4,356,701**

Income statement

(€ '000s)	Notes	31/12/2020	31/12/2019
Interest and similar income	14	89,884	77,822
Interest and similar expenses	14	(78,093)	(67,747)
Fee & Commission Income	15	186	178
Fee & Commission Expense	15	(255)	(105)
Net gains (losses) on financial instruments at fair value through profit or loss	16	(6,804)	(2,444)
Net gains or losses on financial instruments at fair value through other comprehensive income	17	5,596	3,363
Net gains and losses on derecognition of financial assets at amortised cost	18	3,244	
Income on other activities			
Expenses on other activities			
NET BANKING INCOME		**13,759**	**11,066**
Operating expenses	19	(9,733)	(9,354)
Net depreciation, amortisation and impairments of tangible and intangible assets	9	(1,514)	(2,221)
GROSS OPERATING INCOME		**2,512**	**(508)**
Cost of risk	20	(352)	5
OPERATING INCOME		**2,160**	**(503)**
Net gains and losses on other assets	21	(21)	**(461)**
INCOME BEFORE TAX		**2,139**	**(964)**
Income tax	22	156	(227)
NET INCOME		**2,295**	**(1,191)**
Non-controlling interests			
NET INCOME GROUP SHARE		**2,295**	**(1,191)**
Basic earnings per share (in EUR)		1.36	(0.81)
Diluted earnings per share (in EUR)		1.36	(0.81)

Net income and other comprehensive income

(€ '000s)	31/12/2020	31/12/2019
Net income	**2,295**	**(1,191)**
Items will be reclassified subsequently to profit or loss	**1,235**	**(156)**
Revaluation of financial assets at fair value through other comprehensive income recyclable to income	1,604	(213)
Other items recognized through other comprehensive income recyclable to income		
Related taxes	(369)	57
Elements not recyclable in profit or loss	**744**	**(9)**
Revaluation in respect of defined benefit plans		**(9)**
Revaluation of financial assets at fair value through to equity	991	
Other items recognized through other comprehensive income not recyclable to income		
Related taxes	(248)	
Total gains and losses recognized directly in equity	**1,979**	**(164)**
COMPREHENSIVE INCOME	**4,274**	**(1,356)**

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 1 january 2019	**138,700**	**-**	**(18,468)**	**(1,411)**	**-**	**-**	**-**	**(1,712)**	**117,109**	**-**	**117,109**
Increase in share capital	8,100								8,100		8,100
Elimination of treasury shares											
Allocation of profit 2018			(1,712)					1,712			
Dividends 2018 paid											
Sub-total of changes linked to transactions with shareholders	**8,100**	**-**	**(1,712)**	**-**	**-**	**-**	**-**	**1,712**	**8,100**	**-**	**8,100**
Changes in fair value through equity				(397)					(397)		(397)
Change in value of through profit or loss				184					184		184
Changes in actuarial gains on retirement benefits			(9)						(9)		(9)
Related taxes				57					57		57
Changes in gains and losses recognized directly in equity	**-**	**-**	**- 9**	**(156)**	**-**	**-**	**-**	**-**	**(164)**	**-**	**(164)**
2019 Net income								(1,191)	(1,191)		(1,191)
Sub-total	**-**	**-**	**- 9**	**(156)**	**-**	**-**	**-**	**(1,191)**	**(1,356)**	**-**	**(1,356)**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 31 December 2019	**146,800**	**-**	**(20,189)**	**(1,566)**	**-**	**-**	**-**	**(1,191)**	**123,854**	**-**	**123,854**
Increase in share capital	21,600 (1)								21,600		21,600
Elimination of treasury shares											
Allocation of profit 2019			(1,191)					1,191			
Dividends 2019 paid											
Sub-total of changes linked to transactions with shareholders	**21,600**	**-**	**(1,191)**	**-**	**-**	**-**	**-**	**1,191**	**21,600**	**-**	**21,600**
Changes in fair value through equity				953					953		953
Change in value of through profit or loss				651					651		651
Revaluation of financial assets at fair value through not recyclable equity							991		991		991
Changes in actuarial gains on retirement benefits											
Related taxes				(369)			(248)		(616)		(616)
Changes in gains and losses recognized directly in equity	**-**	**-**	**-**	**1,235**	**-**	**-**	**744**	**-**	**1,979**	**-**	**1,979**
2020 Net income								2,295	2,295		2,295
Sub-total	**-**	**-**	**-**	**1,235**	**-**	**-**	**744**	**2,295**	**4,274**	**-**	**4,274**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 31 December 2020	**168,400**	**-**	**(21,380)**	**(331)**	**-**	**-**	**744**	**2,295**	**149,728**	**-**	**149,728**

(1) The share capital of Agence France Locale which amounts on 31 of December, 2020 to € 168,400,000 consists of 1,684,000 shares. The Company carried out four capital increases during the year 2020 subscribed on 19th March 2020 to € 3,200k, on 15th June 2020 for € 1,000k, on 28th Septembre 2020 for € 5,500k and 30th December 2020 for € 11,900k.

Cash flow statement

(€ '000s)	31/12/2020	31/12/2019
Net income before taxes	**2,139**	**(964)**
+/- Net depreciation and amortisation of tangible and intangible non-current assets	1,514	2,221
+/- Net provisions and impairment charges	95	113
+/- Expense/income from investing activities	(6,395)	(6,024)
+/- Expense/income from financing activities	605	474
+/- Other non-cash items	3,077	(615)
= Non-monetary items included in net income before tax and other adjustments	**(1,104)**	**(3,831)**
+/- Cash from interbank operations		
+/- Cash from customer operations	(600,773)	(857,188)
+/- Cash from financing assets and liabilities	(1,450)	(36,808)
+/- Cash from not financing assets and liabilities	3,664	4,236
- Income tax paid		
= Decrease/(increase) in cash from operating activities	(598,559)	(889,759)
= CASH FLOW FROM OPERATING ACTIVITIES (A)	**(597,523)**	**(894,555)**
+/- Flows linked to financial assets and investments	(122,154)	(24,639)
+/- Flows linked to investment properties		
+/- Flows linked to tangible and intangible non-current assets	(1,460)	(748)
= CASH FLOW FROM INVESTING ACTIVITIES (B)	**(123,613)**	**(25,387)**
+/- Cash from or for shareholders	21,600	8,100
+/- Other cash from financing activities	1,201,862	964,293
= CASH FLOW FROM FINANCING ACTIVITIES (C)	**1,223,462**	**972,393**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)		
Increase/(decrease) in cash equivalents (A + B+ C + D)	**502,325**	**52,452**
Cash flow from operating activities (A)	(597,523)	(894,555)
Cash flow from investing activities (B)	(123,613)	(25,387)
Cash flow from financing activities (C)	1,223,462	972,393
Effect of changes in exchange rates on cash and cash equivalents (D)		
Cash and cash equivalents at the beginning of the period	**181,209**	**128,757**
Cash and balances with central banks (assets & liabilities)	165,609	121,654
Interbank accounts (assets & liabilities) and loans/deposits at sight	15,600	7,103
Cash and cash equivalents at the end of the period	**683,534**	**181,209**
Cash and balances with central banks (assets & liabilities)	601,780	165,609
Interbank accounts (assets & liabilities) and loans/deposits at sight	81,754	15,600
CHANGE IN NET CASH	**502,325**	**52,452**

NOTES TO THE YEAR END FINANCIAL STATEMENTS ACCORDING TO IFRS STANDARDS

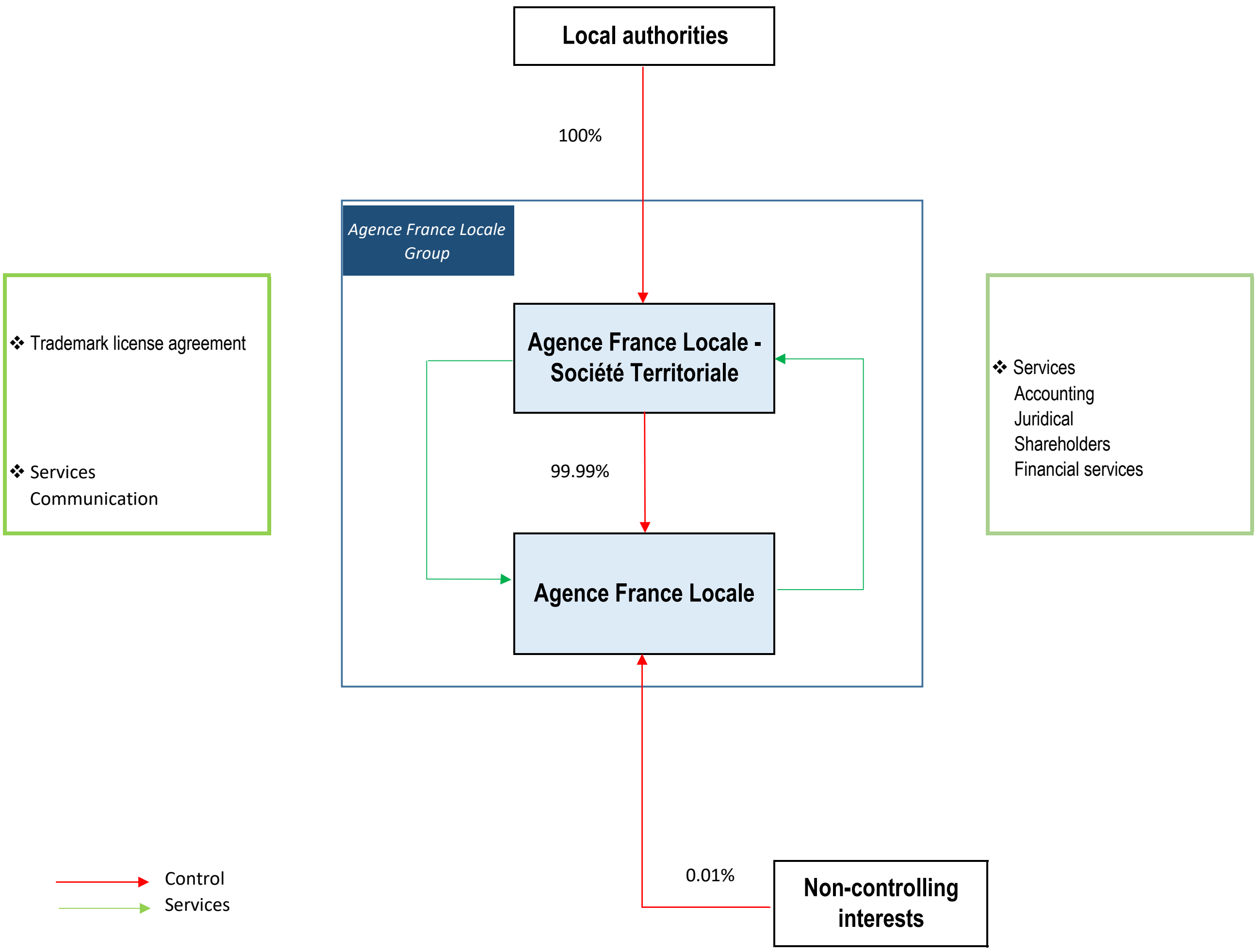
General framework

AFL (« Agence ») presentation

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

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

The diagram below shows the structure of the AFL group:



I - Publication context

The 2020 financial statements were approved by the Board of Directors as of March 9, 2021.

II - Highlights from 2020 financial year

The year 2020 marks another significant increase in results linked to the loans business, which is part of the Company's development trajectory in accordance with its 2017-2021 strategic plan. The increase in results excluding non-recurring items, reflects the good dynamic of revenue generation from the lending activity since fiscal year 2015, the year in which AFL's activities began and which is measured in particular by the steady increase and constant of the outstanding portfolio of loans granted to member local authorities.

Regarding the production of medium and long-term loans by AFL in 2020, this amounted to 936.8 million euros against a target of 800 million euros. As a result, the symbolic threshold of 4.5 billion euros in loans granted since the creation of the AFL was reached at the end of 2020.

On July 13, 2020, AFL carried out its first sustainable bond issue for an amount of 500 million euros, contributing significantly to the total resources raised on the bond market in 2020, the amount of which amounted to € 1,130 million. In addition, this issuance of sustainable bonds, which attracted a significant number of new investors, is an important step in the Company's issuance strategy and its positioning as a public player committed to responsible market finance.

During the year, AFL put into production the central bank loan mobilization system (TRiCP - Data Processing of Private Claims) which provides it with a line of credit, available at any time, from the Bank of France in the amount of 70% of its outstanding balance sheet of medium-long term loans.

During the 2020 financial year, AFL-ST, pursuing its corporate purpose, subscribed to AFL's capital in the amount of € 21.6 million in the context of four capital increases, thus bringing the AFL share capital of 146.8 million euros as of January 1, 2020 to 168.4 million euros as of December 31, 2020. The AFL Group now has 411 members, including 59 new local authorities, who have joined the AFL Group during the past financial year.

At the end of the 2020 financial year, the net banking income generated by the business amounted to € 13,759k as compared to € 11,066k at 31 December 2019, a year which was characterized by a net capital gains on investment securities disposal of € 500k.

NBI for 2020 mainly corresponds to a net interest margin of € 11,791k, up 17% compared to that of € 10,076k achieved over the previous year, in the amount of € 2,721k for capital gains on sales of loans, € 529k of losses on sales of investment securities from the management of the liquidity reserve, and a result of hedge revaluations of €-272k. These last non-recurring transactions contributed € 2,309k to the AFL's NBI in 2020.

The interest margin of €11,791k comes from three items:

• Firstly, an income of € 7,145k from the loan portfolio. Although outstanding loans have grown rapidly, interest income from the loan portfolio has fallen in nominal terms compared to its level on December 31, 2019, when it stood at € 8,128k. This is one of the effects of the fall in interest rates which transfers the income from the assets to the liabilities of the AFL, which in this case, taking into account negative short-term rates turn into products.

• Secondly, the negative income related to the management of the liquidity reserve in the amount of €-4,843k compared to €-2,778k at December 31, 2019, reflects the cost of carrying liquidity in an environment of negative interest rates. This increase in the cost of carrying liquidity, at constant profitability against 3-month Euribor, is the result of an increase in the volume of the liquidity reserve and a rapid fall in the 3-month Euribor rate during 2020.

• Lastly, the interest on the debt and the cost of collateral which amounted to € 9,494k after taking into account hedges, against € 4,727k as of December 31, 2019. In a negative interest rate environment, this interest in strong growth are now the main source of income for AFL. This very significant increase stems from the increase in AFL's outstanding debts during the year and the continued fall in the Euribor rate on which all of the debt after swaps of the AFL. This figure takes into account an increase in interest on margin calls which went from €-397k on December 31, 2019 to €-445k on December 31, 2020 and interest on short-term debt resulting from the issuance of debt securities. negotiable ECP sub-program, which amounted to € 737k compared to € 343k as of December 31, 2019.

Net income from hedge accounting came to €-272k. It comes from two items. It represents the sum of the fair value differences of the hedged items and their hedging. Among these differences, € 578k relate to valuation differential charges on instruments classified as macro-hedges and €-1,343k 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. Finally, the result of the hedge accounting includes the negative valuation differential of the hedging swaps related to the change in the benchmark index from EONIA to €STR of an amount of €-493k €. It will be noted that this valuation differential has been compensated with a fee received by AFL which represents the reduction in the remuneration of collateral paid until the maturity of the covered instruments, now calculated on the basis of the €STR index.

For the year ended December 31, 2020, general operating expenses represented € 9,733k compared to € 9,354k for the previous year. These costs include personnel costs for € 5,018k compared to € 4,732k in 2019. General operating costs also include administrative expenses, which amount to € 4,715k compared to € 4,622k at December 31, 2019. This stabilization of administrative charges is the combined result of the Covid 19 crisis which, on the one hand, considerably reduced expenses relating to travel, marketing events and all of the Company's communication events and, on the other hand, increases in fees IT related to the start of the market Information System but also taxes and regulatory contributions. It should also be noted that the 2020 accounts also reflect the first very positive effects of the move of AFL to its new location in Lyon, which has resulted in the disappearance of the rents which were treated under IFRS 16 by an amortization.

At the end of the financial year, depreciation charges amounted to € 1,514k compared to € 2,221k at December 31, 2019, a decrease of € 707k. This change also reflects the end of the amortization of the core banking information system since the fourth quarter of 2019, a system that was put in place when the AFL was created. In addition to the amortization of investment expenditures made annually by the AFL Group in all of its information systems, the amount of the allowances also includes the amortizations related to the acquisition of the offices on street Garibaldi and to the works that have been carried out for their rehabilitation.

The financial year ended December 31, 2020 is closed with a gross operating income of € 2 512k, a net increase compared to €-508k as of December 31, 2019.

The cost of risk relating to ex-ante depreciation for expected losses on financial assets under IFRS 9 is increasing for 2020 with an additional provision of € 352k. This increase stems from the re-estimation of the parameters of the macroeconomic scenarios underlying the AFL model, following the crisis caused by the Covid-19 epidemic and the increase in outstanding loans and financial assets of the liquidity reserve.

The increase in provisions on outstanding loans and receivables only amounted to € 56k following the re-estimation of the parameters of the macroeconomic scenarios because these outstandings are low risk. For other financial assets, including the liquidity reserve, i.e. securities and deposits made by AFL, the increase in the cost of risk, albeit limited, is mainly the product of a size effect and a maturity effect, depreciations being very sensitive to the duration of the assets.

Finally, after derecognition of € 21k of intangible assets and € 156k of deferred tax income related to IFRS restatements, the 2020 financial year closes with a net result of € 2,295k against €-1 191k the previous year. This result underlines the progression of AFL's recurring activities, of which the increase in outstanding loans to member local authorities is the main factor. These activities are now reaching a level sufficient to cover all current operating expenses and depreciation. Thus, during the year 2020, the cost / income ratio of AFL calculated on the basis of its recurring income fell for the first time below the level of 100% to reach 95.4% as of December 31, 2020, thus confirming the Company's breakheaven and the sustainability of its model.

Events after the end of the reporting period

No significant subsequent events occurred on the beginning of the 2021 year after the accounts closure date has to be reported.

III - Principles and methods applicable to AFL Group, 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 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 31 December 2020, 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.

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 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).

Health crisis linked to Covid-19

In December 2019, a new form of coronavirus (Covid-19) appeared in China. The virus has spread out to many countries becoming pandemic in March 2020. Very important health measures have been taken at national level in most countries to prevent the transmission of the virus (border closing, travel ban, containment measures, etc.). To date, however, the pandemic is still not contained and new measures are being implemented on the date of closing of the yearly accounts.

Due to the internationalisation of economies, the considerable weight of trade and the internationalisation of supply chains, the effects of the pandemic affect all countries and economies without exception.

The consequences of this crisis for AFL are mainly at three levels:

• During 2020, the French local public sector financing market, which constitutes the market in which AFL realises all of its credit operations, was significantly affected by the health crisis linked to the Covid-19 epidemic, which notably resulted in the postponement of the second round of municipal elections. In 2021, departmental and regional elections are also postponed from March to June. The health crisis directly impacted local budgets in 2020. At the end of 2019, local authorities - despite strong disparities - posted a generally very healthy financial situation with increasing gross and net savings and a falling debt ratio. Faced with a favorable pre-crisis budgetary situation, the financial consequences of the health crisis are nevertheless still poorly understood today.

• The consequences for local public investment and the use of local government borrowing are still uncertain. Nevertheless, a few elements are likely to support them.

o The 100 billion euro stimulus plan announced in September 2020, currently being rolled out, and in which local authorities have a major role to play, could “distort” the electoral investment cycle according to which at the start of the mandate the financing needs of the communities are lower before recovering in the middle and end of their mandate.

o The Cour des Comptes (Public Auditors) considers in December 2020 that local public investment can be preserved: the communal bloc, regardless of the electoral investment cycle, and the regions could maintain a sustained level of capital expenditure.

• Even if this was not observed in the last quarter of 2020, which saw a significant tightening in the credit spreads of sovereign issuers on the markets, the significant increase in public debt in France, following government support spending to households and businesses could still lead to lenders in the French public sphere, of which the AFL is a part, an increase in their cost of refinancing on the markets, this being strongly linked to the price at which the French Government borrows itself.

This context led to an increase in the cost of risk for AFL in 2020. This increase reflects the impact of ex-ante provision for expected losses under IFRS 9 in connection with the health crisis. The cost of risk stood at € 355k for the year 2020 and corresponds to 1.4 basis point of exposures for 1 basis point at December 31, 2019. Insofar as the pandemic is not contained, the level of provisioning is likely to increase in the future.

However, in the environment described above, the production of medium and long-term loans of the AFL was dynamic to 936.8 million euros for 2020 and the AFL was able to resume its operations of refinancing from April 2020.

AFL's results and financial situation at December 31, 2020 were affected by the increase in spreads which impacted the cost of refinancing operations carried out by AFL between April 2020 and October 2020. The credit interest margin granted to local authorithies has evolved in parallel.

Uncertainty over the duration and scale of the Covid-19 pandemic makes it difficult to predict the impacts. The consequences for AFL will depend on the duration of the pandemic, the measures taken by governments and central banks and the evolution of the health, but also economic, financial and social context.

Amendment to IAS 39 and IFRS 9: reform of reference rates [phase 1 and phase 2]

As a reminder, on September 26, 2019, the IASB published an amendment to IFRS 9 and IAS 39 relating to the reform of benchmark interest rates which are used as the basis of valuation of many financial instruments. This amendment is divided into two phases:

- Phase 1 for an application from January 1, 2020, was applied in advance by AFL in its consolidated financial statements at December 31, 2019;

- Phase 2 for a retrospective application from January 1, 2021, with possible early application (subject to adoption by the European Union) was not applied in advance by AFL in its consolidated financial statements at December 31, 2020.

This amendment comes in the context of replacing the globally offered interbank benchmark rates ("IBOR") with new benchmarks. In Europe, the main rates concerned are the EONIA and the EURIBOR which are respectively replaced by the €STR and the hybrid Euribor.

The main issues of the reform concern the potential end of hedge accounting, the modification or de-recognition of certain contracts and the application of a gain or loss linked to the modification of certain contracts.

Phase 1 of the reform only concerns the implications in terms of hedge accounting before the entry into force of the new benchmark rates.

Phase 2 of the reform introduces simplifications on the accounting consequences linked to contractual modifications of financial instruments resulting from the reform of benchmark interest rates. It proposes to treat any change in the basis of determination of cash flows related to the IBOR reform as a new prospective valuation of the effective interest rate, with no impact on net income, if and only if this change:

- is a direct consequence of the IBOR reform,
- is carried out on an equivalent economic basis.

The IASB published on August 27, 2020, amendments dealing with matters related to the replacement of the benchmark rates by their alternative rate (phase 2). These amendments modify the standards IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 on the modifications of financial assets and financial liabilities (including debts related to leases) in connection or not with the entry into force of clauses existing contractual agreements (ie “fallback” clauses), hedge accounting and the information to be published. These amendments were adopted by the European Commission on January 13, 2021. Its application date has been set for January 1, 2021 with possible early application. The AFL has chosen to opt for early application on December 31, 2020.

The work to identify the potential impacts of the reform on contracts for securities, credit or debt hedging instruments that AFL had initiated in 2019 was completed in 2020 without highlighting contractual “Fallback” clauses in the contracts referring to IBOR rates involving an impact on its financial statements as of December 31, 2020.

The impact of the reference rates change that took place in 2020 will have been:

• The change in the remuneration conditions for deposits called daily in margin. As AFL is structurally called in margin, it was compensated in 2020 by its various depositaries following the establishment of €STR.
• The change in the valuation of hedging instruments, which until June 30, 2020 were valued using an OIS (Eonia) curve and which are now valued using a €STR curve.
As the two changes are opposite and symmetrical, the change in the reference rate had no impact on AFL's income statement for the year.
Furthermore, AFL has not applied phase 2 of the IBOR reform in advance in its 2020 consolidated financial statements and does not expect any impacts related to the mandatory application of this amendment on January 1, 2021.

Other benchmarks may change in the future, including the 3-month EURIBOR. AFL is closely monitoring this index because it constitutes almost all of the benchmark rates of its hedging contracts. At this stage, we can see that this index, established on the basis of the EURIBOR Hybrid, should change only marginally without having any impact on AFL's accounts in the future.

IV - Accounting principles applied to the financial statements

Classification and measurement

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

Business model

The entity's business model represents the way in which it manages its financial assets to produce cash flow. Judgment must be exercised to assess the business model.
The choice of business model must take into account all information regarding the manner in which cash flows were generated in the past, along with all other relevant information.
For example:
- the way in which the performance of financial assets is assessed and presented to the main company directors;
- risks which have an impact on the business model's performance, in particular the way in which these risks are managed;
- the way in which directors are paid (for example, if pay is based on the fair value of assets under management or on the contractual cash flows received);
- the frequency of, volume of and reason for sales.

The IFRS 9 standard uses three business models:
- a business model whose objective is to hold financial assets in order to receive contractual cash flows ("hold to collect model"). This model, under which the concept of "holding" is relatively similar to holding to maturity, remains valid if disposals occur under the following conditions:
o the disposals are due to an increase in credit risk;
o the disposals occur just before maturity and at a price that reflects the contractual cash flows that are still owed;
o other disposals may also be compatible with the "hold to collect" model's objectives if they are in frequent(even if their value is significant) or if their value is insignificant when considered both individually and overall (even if they are frequent).
AFL 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".

- Debt instruments measured at fair value through other comprehensive income not recyclable to income

AFL Group does not hold any debt instruments measured at fair value through non-recyclable equity.

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;

Factors to detect an increase in credit risk for local government loans are:

- Degradation of three (3) points or more of the internal note
- Change to an internal note greater than 6.5
- Non-technical outstanding payment for more than 30 days all loans combined,
- Restructuring of a loan meaning that the local hautority is having difficulty meeting its deadlines,
- Significant internal or external event

Regarding the assets of the liquidity reserve the criteria retained are:

- Degradation of two (2) notchs or more of the internal note
- Non-technical outstanding payment for more than 30 days from a contractual cash flow, a security or any other product with the counterparty,
- Significant internal or external event
- Restructuring of the debt

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

When all the elements allowing to note a degradation of the risk are solved, the exposures are considered as having no more risk of degradation.

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;

When all the criteria having triggered the classification in default are cleared, that there is no new one whatever its nature, the counterparty can leave the default category.

All outstanding payment must have been regularized, no unpaid must therefore continue at the time of the release of the the default category.

A probationary period of 6 months begins when all the conditions of the default are met and the healthy return has been decided by the Credit Committee.

During the probationary period, payments must continue on a regular basis and without delay, an unpaid amount immediately causes the return to default category.

The Credit Committee instructs and validates the exit of the default category.

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 given at quarterly meetings.

The process is framed by two committees. The Provision Committee deals with the parameters used in the calculation of provisions: it sets the probability of realization of business cycle evolution scenarios and validates the calculation of default probabilities and losses in case of default. The Provision Credit Committee scans line by line exposures and validates their treatment in terms of provision.

- 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 recorded in the profit and loss statement. That impairment changes the depreciation schedule of the asset going forwards. The impairment is reversed in the event of a change in the estimated recoverable value or the evidence of impairment disappears.

Tangible assets

Tangible assets are depreciated linearly over their expected useful life.

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

Intangible assets

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

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

Intangible assets are depreciated linearly over their expected useful life.

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

Debt

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

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 impairment relating to guarantee commitments given, losses on receivables, and the recovery of amortised receivables.

Current tax expense

The current income tax expense is calculated using a 25% rate which is the effective tax rate for the 31 December 2020 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

	31/12/2020		31/12/2019	
(€ '000s)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Financial assets held for trading	20,000	20,182	15,962	15,476
Financial assets at fair value option through profit or loss				
Total financial assets at fair value through profit or loss	**20,000**	**20,182**	**15,962**	**15,476**

Financial assets held for trading

	31/12/2020		31/12/2019	
(€ '000s)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Equity instruments				
Debt securities				
Loans and advances				
Derivatives	20,000	20,182	15,962	15,476
Total Financial assets held for trading	**20,000**	**20,182**	**15,962**	**15,476**

	31/12/2020				31/12/2019			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**451,940**	**451,940**	**20,000**	**20,182**	**493,058**	**493,058**	**15,962**	**15,476**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**451,940**	**451,940**	**20,000**	**20,182**	**493,058**	**493,058**	**15,962**	**15,476**
Interest rate contracts	451,940	451,940	20,000	20,182	411,050	411,050	15,336	15,476
FRA								
Cross Currency Swaps					82,008	82,008	626	
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

	31/12/2020		31/12/2019	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Derivatives designated as fair value hedges	207,981	220,174	125,690	152,729
Derivatives designated as cash flow hedges				
Derivatives designated as portfolio hedges	3,936	31,191	5,267	20,868
Total Hedging derivatives	**211,916**	**251,365**	**130,957**	**173,597**

Detail of derivatives designated as fair value hedges

	31/12/2020				31/12/2019			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**4,961,649**	**3,838,625**	**207,981**	**220,174**	**3,924,974**	**3,148,740**	**125,690**	**152,729**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**4,961,649**	**3,838,625**	**207,981**	**220,174**	**3,924,974**	**3,148,740**	**125,690**	**152,729**
Interest rate contracts	4,780,000	3,693,167	194,277	214,901	3,690,000	3,148,740	121,793	151,022
FRA								
Cross Currency Swaps	181,649	145,458	13,704	5,273	234,974		3,897	1,707
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Detail of derivatives designated as interest rate hedged portfolios

	31/12/2020				31/12/2019			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**98,160**	**613,470**	**3,936**	**31,191**	**87,910**	**515,504**	**5,267**	**20,868**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**98,160**	**613,470**	**3,936**	**31,191**	**87,910**	**515,504**	**5,267**	**20,868**
Interest rate contracts	98,160	613,470	3,936	31,191	87,910	515,504	5,267	20,868
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)	31/12/2020	31/12/2019
Government paper and similar securities	614,697	535,900
Bonds		
Other fixed income securities		
Net amount in balance sheet	**614,697**	**535,900**
Including depreciation	(374)	(245)
Including net unrealised gains and losses	14,424	13,248

Expected credit losses on debt instruments	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 31 December 2019	**(245)**	**-**	**-**	**-**
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	**(129)**	**-**	**-**	**-**
Acquisitions	(109)			
Re-estimate of parameters	(106)			
Bad debts written off				
On sales	86			
Expected losses as of 31 December 2020	**(374)**	**-**	**-**	**-**

Fixed-income securities - Analysis by contreparty

(€ '000s)	31/12/2020	31/12/2019
Local public sector	599,801	521,278
Financial institutions and other financial corporations	14,896	14,621
Non-financial corporations	-	-
Net amount in balance sheet	**614,697**	**535,900**

Fixed income securities held on Financial institutions include € 14,896k 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 31/12/2019	Additions	Disposals	Change in fair value recognised in equity	Change in accrued interest	Prem/Disc Amort.	Total amount as of 31/12/2020
Government paper and similar securities	535,900	665,827	(591,581)	5,056	(117)	(388)	614,697
Bonds	-	-	-	-	-	-	-
Other fixed income securities	-	-	-	-	-	-	-
TOTAL	**535,900**	**665,827**	**(591,581)**	**5,056**	**(117)**	**(388)**	**614,697**

Note 4 - SECURITIES AT AMORTIZED COST

Fixed-income securities - Analysis by nature

(€ '000s)	31/12/2020	31/12/2019
Government paper and similar securities	156,791	107,216
Bonds	10,073	28,171
Other fixed income securities		
Net amount in balance sheet	**166,864**	**135,387**
Including expected credit losses on debt instruments	(176)	(75)

Expected credit losses on securities at amortized cost	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 31 December 2019	**(75)**	**-**	**-**	**-**
Transfers from 12-month to maturity				
Transfers from maturity to 12-month				
Transfers from expected to incurred losses				
Total des mouvements de transfert	**-**	**-**	**-**	**-**
Movment attributable to financial instruments recognized over the period	**(101)**	**-**	**-**	**-**
Acquisitions	(118)			
Re-estimate of parameters	(11)			
Bad debts written off				
On sales	28			
Expected losses as of 31 December 2020	**(176)**	**-**	**-**	**-**

Fixed-income securities - Analysis by contreparty

(€ '000s)	31/12/2020	31/12/2019
Local public sector	144,578	48,083
Financial institutions and other financial corporations	22,285	87,304
Non-financial corporations		
Net amount in balance sheet	**166,864**	**135,387**

Fixed income securities held on Financial institutions include € 8,186k of securities guaranteed by States of the European Economic Area.

Changes in securities at amortized cost

(€ '000s)	Total amount as of 31/12/2019	Additions	Disposals	Interest rate Reevaluation	Change in accrued interest	Prem/Disc Amort.	Expected credit losses change	Total 31/12/2020
Government paper and similar securities	107,216	105,676	(57,182)	2,035	74	(924)	(104)	156,791
Bonds	28,171	-	(18,128)	(19)	-	46	4	10,073
Other fixed income securities	-	-	-	-	-	-	-	-
TOTAL	**135,387**	**105,676**	**(75,310)**	**2,016**	**74**	**(878)**	**(101)**	**166,864**

Note 5 - RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	31/12/2020	31/12/2019
Mandatory reserve deposits with central banks	601,780	165,609
Other deposits		
Cash and central banks	**601,780**	**165,609**
Impairment	(35)	(6)
Net amount in balance sheet	**601,746**	**165,604**

Receivables on credit institutions

(€ '000s)	31/12/2020	31/12/2019
Loans and receivables		
- on demand and short notice	81,754	15,601
- term	115,253	95,064
Cash collateral paid	49,954	79,190
Securities bought under repurchase agreements		
TOTAL	**246,960**	**189,855**
Impairment for expected losses	(52)	(33)
NET CARRYING AMOUNT	**246,908**	**189,822**

Note 6 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	31/12/2020	31/12/2019
Short-term credit facilities	9,335	9,971
Other loans	3,822,360	3,150,593
Customers transactions before impairment charges	**3,831,695**	**3,160,563**
Impairment	(132)	(63)
Net carrying amount	**3,831,563**	**3,160,500**
Of which individual impairment	(132)	(63)
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 31 December 2019	**(94)**	**(7)**	**-**	**-**
Transfers from 12-month to maturity	0.2	(0.2)		
Transfers from maturity to 12-month				
Transfers from expected to incurred losses				
Total transfer movment	**0.2**	**(0.2)**	**-**	**-**
Movment attributable to financial instruments recognized over the period	**(115)**	**(3)**	**-**	**-**
Production and acquisition	(66)	(3)		
Re-estimate of parameters	(56)	(1)		
Bad debts written off				
Repayments	6	1		
Expected losses as of 31 December 2020	**(210)**	**(9)**	**-**	**-**

SUMMARY OF PROVISIONS ON SECURITIES, LOANS AND FINANCING COMMITMENTS

(€ '000s)	31/12/2019	Depreciation charges	Reversals amounts not used	Net charge	Utilised	31/12/2020
Financial assets at fair value through other comprehensive income						
Depreciations on performing assets	245	215	(86)	**129**		**374**
Depreciations on non-performing assets						**-**
Depreciations on doubtfull assets						**-**
Total	**245**	**215**	**(86)**	**129**		**374**
Financial assets at amortized cost						
Depreciations on performing assets	169	250	(34)	**216**		**386**
Depreciations on non-performing assets	7	4	(1)	**3**		**9**
Depreciations on doubtfull assets						**-**
Total	**176**	**254**	**(35)**	**219**		**395**

CLASSIFICATION OF FINANCIAL ASSETS BY RISK LEVEL

	Gross amount			Depreciation			Net Amount
(€ '000s)	Step 1	Step 2	Step 3	Step 1	Step 2	Step 3	
Accounts with central banks	601,780			(35)			**601,746**
Financial assets at fair value through other comprehensive income	615,071			(374)			**614,697**
Securities at amortized cost	167,040			(176)			**166,864**
Loans and receivables due from credit institutions at amortized cost	246,960			(52)			**246,908**
Loans and receivables due from customers at amortized cost	3,821,641	5,909	4,145	(124)	(6)	(3)	**3,831,563**

Note 7 - DEFERRED TAX

The movement on the deferred tax account is as follows:

(€ '000s)	31/12/2020	31/12/2019
Net asset as at 1st of january	**5,616**	**5,671**
Of which deferred tax assets	5,635	5,671
Of which deferred tax liabilities	19	
Recognised in income statement	**154**	**(227)**
Income statement (charge) / credit	154	(227)
Recognised in equity	**(616)**	**172**
Financial assets at fair value through other comprehensive income	(369)	57
Cash flow hedges	(248)	
Other		114
Net asset as at	**5,154**	**5,616**
Of which deferred tax assets	5,401	5,635
Of which deferred tax liabilities	248	19

Deferred tax are attributable to the following items:

(€ '000s)	31/12/2020	31/12/2019
Financial assets at fair value through other comprehensive income	235	604
Cash flow hedges		
Losses carried forward	5,031	5,031
Other temporary differences	135	
TOTAL DEFERRED TAX ASSETS	**5,401**	**5,635**

(€ '000s)	31/12/2020	31/12/2019
Financial assets at fair value through other comprehensive income		
Cash flow hedges	248	
Other temporary differences		19
TOTAL DEFERRED TAX LIABILITIES	**248**	**19**

Note 8 - OTHER ASSETS AND ACCRUALS

(€ '000s)	31/12/2020	31/12/2019
Other assets		
Deposits	70	70
Other assets	96	76
Impairment		
Total	**166**	**146**
Accruals		
Prepaid charges	252	206
Other deferred income	16	
Transaction to recieve and settlement accounts	58	
Other accruals	19	30
Total	**344**	**236**
TOTAL OTHER ASSETS AND ACCRUALS	**510**	**381**

Note 9 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible fixed assets	31/12/2019	Additions	Transfers	Disposals	Amort. and provisions	Other	31/12/2020
Intangible fixed assets							
IT development costs	10,031	810				122	10,963
Other intangible assets	550			(388)			162
Intangible assets in progress	122	510				(122)	510
Intangible fixed assets gross amount	**10,703**	**1,320**	**-**	**(388)**	**-**	**-**	**11,635**
Depreciation and allowances - Intangible fixed assets	(8,606)			368	(1,093)		(9,331)
Intangible fixed assets net carrying amount	**2,097**	**1,320**	**-**	**(20)**	**(1,093)**	**-**	**2,305**

Tangible fixed assets	31/12/2019	Additions	Transfers	Disposals	Amort. and provisions	Other	31/12/2020
Commercial leases	206	1,232				(206)	1,232
Property, plant & equipment	841	139		(32)		(13)	935
Tangible fixed assets gross amount	**1,047**	**1,371**	**-**	**(32)**	**-**	**(219)**	**2,166**
Depreciation and allowances - Tangible fixed assets	(876)			32	(421)	338	(927)
Tangible fixed assets net carrying amount	**171**	**1,371**	**-**	**(0.4)**	**(421)**	**119**	**1,240**

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

Note 10 - DEBT SECURITIES

(€ '000s)	31/12/2020	31/12/2019
Negotiable debt securities	140,071	88,923
Bonds	5,155,912	3,948,052
Other debt securities		
TOTAL	**5,295,982**	**4,036,974**

NOTE 11 - DUE TO CREDIT INSTITUTIONS

(€ '000s)	31/12/2020	31/12/2019
Loans and receivables		
- on demand and short notice	24	9
- term		
Cash collateral paid	8,247	4,228
Securities bought under repurchase agreements		
TOTAL	**8,271**	**4,236**

Note 12 - ACCRUALS AND OTHER LIABILITIES

(€ '000s)	31/12/2020	31/12/2019
Other liabilities		
Miscellaneous creditors	2,974	1,618
Total	**2,974**	**1,618**
Accruals		
Transaction to pay and settlement accounts		
Other accrued expenses	844	661
Unearned income		
Other accruals	28	31
Total	**872**	**692**
TOTAL ACCRUALS AND OTHER LIABILITIES	**3,847**	**2,310**

Note 13 - PROVISIONS

(€ '000s)	Balance as of 31/12/2019	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 31/12/2020
Provisions						
Financing commitment execution risks	3	7		(3)		7
Provisions for litigations						
Provisions for employee retirement and similar benefits	75					75
Provisions for other liabilities to employees						
Other provisions	129		(70)	(59)		-
TOTAL	**207**	**7**	**(70)**	**(63)**	**-**	**82**

OFF-BALANCE SHEET

(€ '000s)	31/12/2020	31/12/2019
Commitments given	**457,583**	**317,666**
Financing commitments	398,775	317,666
For credit institutions		
For customers	*398,775*	*317,666*
Guarantee commitments	58,808	
For credit institutions		
For customers	*58,808*	
Commitments on securities		
Securities to be delivered to the issuance		
Other securities to be delivered		
Commitments received	**2,219**	**2,345**
Financing commitments		
From credit institutions		
Guarantee commitments	2,219	2,345
From credit institutions		
From customers	*2,219*	*2,345*
Commitments on securities		
Securities receivable		

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 31 December 2019	3	-	-	-
Transfers from 12-month to maturity				
Transfers from maturity to 12-month				
Transfers from expected to incurred losses				
Total transfer movement	-	-	-	-
Movment attributable to financial instruments recognized over the period	4			
Charge	7			
Utilised				
Reversal untilised	(3)			
Expected losses as of 31 December 2020	7	-	-	-

VI - Notes to the Income Statement

Note 14 - INTEREST INCOME AND EXPENSES

(€ '000s)	31/12/2020	31/12/2019
Interest and similar income	**89,884**	**77,822**
Due from banks	236	88
Due from customers	33,411	28,405
Bonds and other fixed income securities	2,074	2,024
Financial assets at fair value through other comprehensive income	*1,853*	*2,050*
Securities at amortized cost	*221*	*(26)*
Income from interest rate instruments	54,162	47,304
Other interest income		
Interest and similar expenses	**(78,093)**	**(67,747)**
Due to banks	(3,187)	(1,171)
Due to customers		
Debt securities	(24,035)	(23,451)
Expense from interest rate instruments	(50,871)	(43,125)
Other interest expenses		
Interest margin	**11,791**	**10,076**

Note 15 - NET FEE AND COMMISSION INCOME

(€ '000s)	31/12/2020	31/12/2019
Fee & Commission Income	**186**	**178**
Interbank transactions		
Customer transactions	36	59
Securities transactions		
Forward financial instruments transactions		
Currencies transactions		
Financing commitments and guarantee	150	118
Other commissions recieved		
Fee & Commission Expense	**(255)**	**(105)**
Interbank transactions	(11)	(5)
Securities transactions		
Forward financial instruments transactions	(125)	(100)
Currencies transactions		
Financing commitments and guarantee		
Other commissions paid	(118)	
Net Fee and Commission income	**(69)**	**72**

Note 16 - NET RESULT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(€ '000s)	31/12/2020	31/12/2019
Gains/(losses) on Trading book	0.1	1.1
Net result of hedge accounting	(6,802)	(2,444)
Net result of foreign exchange transactions	(2)	(1.8)
TOTAL	**(6,804)**	**(2,444)**

Analysis of net result of hedge accounting

(€ '000s)	31/12/2020	31/12/2019
Fair value hedges		
Fair value changes in the hedged item attributable to the hedged risk	34,297	13,724
Fair value changes in the hedging derivatives	(35,147)	(13,736)
Hedging relationship disposal gain	(6,531)	(2,862)
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	13,479	11,835
Fair value changes in the hedging derivatives	(12,901)	(11,404)
Net result of hedge accounting	**(6,802)**	**(2,444)**

Note 17 - NET GAINS (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(€ '000s)	31/12/2020	31/12/2019
Gains from disposal of fixed income securities	5,878	3,734
Losses from disposal of fixed income securities	(282)	(371)
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	**5,596**	**3,363**

Note 18 - NET GAINS AND LOSSES ON DERECOGNITION OF FINANCIAL ASSETS AT AMORTISED COST

(€ '000s)	31/12/2020	31/12/2019
Gains on derecognition of fixed income securities at amotised cost		
Losses on derecognition of fixed income securities at amotised cost		
Gains on loans sold	3,244	
Losses on loans sold		
Total Net gains and losses on derecognition of financial assets at amortised cost	**3,244**	**-**

Note 19 - GENERAL OPERATING EXPENSES

(€ '000s)	31/12/2020	31/12/2019
Employee expenses		
Wages and salaries	3,206	2,991
Post-employment benefit expenses	347	324
Other expenses	1,466	1,417
Total Employee expenses	**5,018**	**4,732**
Operating expenses		
Taxes and duties	690	495
External services	4,147	4,228
Total Administrative expenses	**4,837**	**4,723**
Charge-backs and reclassification of administrative expenses	(122)	(101)
Total General operating expenses	**9,733**	**9,354**

Note 20 - COST OF RISK

(€ '000s)	31/12/2020	31/12/2019
Net charge to provisions	(348)	3
for financial assets at fair value through other comprehensive income	*(129)*	*(16)*
for financial assets at amortized cost	*(219)*	*20*
Net charge to provisions	(4)	2
for financing commitments	*(4)*	*2*
for guarantee commitments		
Irrecoverable loans written off not covered by provisions		
Recoveries of bad debts written off		
Total Cost of risk	**(352)**	**5**

Note 21 - NET GAINS AND LOSSES ON OTHER ASSETS

(€ '000s)	31/12/2020	31/12/2019
Gains on sales of Investment securities		
Gains on sales of tangible or intangible assets		
Reversal of impairment		
Total Gains on other assets	**-**	**-**
Losses on sales of Investment securities		
Losses on sales of tangible or intangible assets	(21)	(461)
Charge of impairment		
Total Losses on other assets	**(21)**	**(461)**

Note 22 - INCOME TAX

(En milliers d'euros)	31/12/2020	31/12/2019
Expense and income of current tax	2	
Expense and income of differed tax	154	(227)
Ajustement on previous period		
Total Income tax	**156**	**(227)**

Note 23 - EXTERNAL AUDITOR FEES

	Caillau Dedouit et Associés		KPMG Audit	
	2020 (€ '000s)	**2019** (€ '000s)	**2020** (€ '000s)	**2019** (€ '000s)
Audit				
Fees related to statutory audit, certification, examination of:				
AFL-Société Opérationelle	65	66	65	66
Sub-total	**65**	**66**	**65**	**66**
Other fees and benefits (*) :				
AFL-Société Opérationelle	30	54	29	34
Sub-total	**30**	**54**	**29**	**34**
TOTAL	**95**	**120**	**94**	**100**

(*) Other fees and benefits are related to issue prospectus audit, capital increases and social, to the review of the first application of IFRS 9, reliance letter review and environmental and societal data audits.

Note 24 - RELATED PARTIES

There are, on 31 December 2020, an agreement of administrative services and a licensing for the use of a brand, which have been concluded between the Agence and the Agence France Locale - Territorial Corporation at normal market conditions.

Remuneration for Board of AFL and the CEO of the Territorial Company :

Members of AFL Board benefited from a payment in actions in conformance with the exercise 2020 and a compensation was settled because of termination of contract of employment. No other long-term advantage was granted to them.

Their Director's remunerations on the exercise 2020 were the following ones :

(€ '000s)	31/12/2020
Fixed remuneration	656
Variable remuneration	49
Payments in kind	9
Total	**715**

In addition, members of the AFL Supervisory Board received €154k attendance fees.

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)	31/12/2020			
	Total	Measured using		
		Level 1	Level 2	Level 3
Financial assets				
Financial assets at fair value through profit or loss	**20,000**	-	20,000	-
Hedging derivative instruments	**211,916**	-	211,916	-
Government paper and similar securities	614,697	614,697	-	-
Bonds	-	-	-	-
Other fixed income securities	-	-	-	-
Total Financial assets at fair value through other comprehensive income	**614,697**	**614,697**	**-**	**-**
Total Financial assets	**846,613**	**614,697**	**231,916**	**-**
Financial liabilities				
Financial liabilities at fair value through profit or loss	**20,182**	-	20,182	-
Hedging derivative instruments	**251,365**	-	251,365	-
Total Financial liabilities	**271,547**	**-**	**271,547**	**-**

Fair values of instruments carried at amortised cost:

(€ '000s)	31/12/2020				
	Net Carrying value	Fair value	Measured using		
			Level 1	Level 2	Level 3
Financial assets					
Cash, central banks and issuing institutions	**601,746**	**601,746**	-	-	601,746
Government paper and similar securities	156,791	156,830	121,781	-	35,048
Bonds	10,073	10,070	10,070	-	-
Other fixed income securities	-	-	-	-	-
Total Securities at amortized cost	**166,864**	**166,900**	131,852	-	35,048
Loans and receivables due from credit institutions	**246,908**	246,908	-	-	246,908
Loans and advances to customers	**3,858,260**	3,858,260	-	-	3,858,260
Total Financial assets	**4,873,778**	**4,873,814**	**131,852**	**-**	**4,741,962**
Financial liabilities					
Debt securities	**5,295,982**	5,319,053	4,530,732	648,250	140,071
Total Financial liabilities	**5,295,982**	**5,319,053**	**4,530,732**	**648,250**	**140,071**

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 31 December 2020 for financial assets with exposure to credit risk, without taking account of collateral held or other credit risk mitigation.

(€ '000s)	Performing assets	Past due but not impaired	Impairment allowance	Total 31/12/2020
Cash, central banks	601,780		(35)	**601,746**
Financial assets at fair value through profit or loss	20,000			**20,000**
Hedging derivative instruments	211,916			**211,916**
Financial assets at fair value through other comprehensive income	614,697			**614,697**
Securities at amortized cost	167,040		(176)	**166,864**
Loans and receivables due from credit institutions	246,960		(52)	**246,908**
Loans and advances to customers	3,827,550	4,145	(132)	**3,831,563**
Revaluation adjustment on interest rate hedged portfolios	26,697			**26,697**
Current tax assets				**-**
Other assets	166			**166**
Sub-total Assets	**5,716,806**	**4,145**	**(395)**	**5,720,556**
Financing commitments given	398,775			**398,775**
TOTAL Credit risk exposure	**6,115,581**	**4,145**	**(395)**	**6,119,331**

Exposure analysis by counterparty

(€ '000s)	Total 31/12/2020
Central banks	601,746
Local public sector	5,001,416
Credit institutions guaranteed by the EEA States	23,081
Credit institutions	443,038
Other financial corporations guaranteed by the EEA States	
Other financial corporations	49,954
Non-financial corporations guaranteed by the EEA States	
Non-financial corporations	96
Total Exposure by counterparty	**6,119,331**

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 31/12/2020
France	5,499,705
Supranational	227,512
Japan	170,765
Canada	86,427
Finland	51,088
Belgium	30,116
New Zealand	26,213
Netherland	14,896
China	9,052
Denmark	3,558
Total exposure by geographic area	**6,119,331**

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 31/12/2020
Cash, central banks	601,746				**601,746**			**601,746**
Financial assets at fair value through profit or loss	21	177	9,029	9,818	**19,044**	**955**		**20,000**
Hedging derivative instruments	971	3,526	40,448	153,098	**198,043**	**13,874**		**211,916**
Financial assets at fair value through other comprehensive income								
Government paper and similar securities	49,027	151620.253	212,011	186,773	599,431	842	14,424	614,697
Bonds								
Total Financial assets at fair value through other comprehensive inc	**49,027**	**151,620**	**212,011**	**186,773**	**599,431**	**842**	**14,424**	**614,697**
Securities at amortized cost								
Government paper and similar securities		30,172	26,147	97,910	154,230	341	2,221	156,791
Bonds			9,971		9,971		102	10,073
Total Securities at amortized cost		**30,172**	**36,118**	**97,910**	**164,201**	**341**	**2,322**	**166,864**
Loans and receivables due from credit institutions	131,655		100,000		**246,655**	253		**246,908**
Loans and advances to customers	103,263	248,806	1,021,741	2,300,234	**3,674,044**	**6,852**	**150,666**	**3,831,563**
Revaluation adjustment on interest rate hedged portfolios							**26,697**	**26,697**
Current tax assets								**-**
Other assets	166				**166**			**166**
TOTAL ASSETS								**5,720,556**
Central banks						**142**		**142**
Financial assets at fair value through profit or loss	21	177	9,027	9,818	**19,043**	**1,139**		**20,182**
Hedging derivative instruments	5,305	371	13,793	224,635	**244,104**	**7,261**		**251,365**
Debt securities	221,559		2,247,767	2,662,804	**5,132,130**	**14,360**	**149,493**	**5,295,982**
Due to credit institutions	8,271				**8,271**			**8,271**
Revaluation adjustment on interest rate hedged portfolios								**-**
Other liabilities	2,974				**2,974**			**2,974**
TOTAL LIABILITIES								**5,578,916**

Agence France Locale oversees the transformation of its balance sheet into liquidity by monitoring several indicators, including the difference in average maturity between assets and liabilities which is limited to 12 months, temporarily increased to 18 months, and limits in gaps.

D - Interest rate risk: sensitivity to interest rate changes

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

Interest rate risk includes the risk that AFL will suffer losses due to unfavourable 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 least 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 hedging strategy for interest rate risk translated into a notional outstanding amount of swaps of €10.1 billion at December 31, 2020.

As of December 31, 2020, the sensitivity of the AFL Group's NPV was -0.1% under the assumption of a parallel shift of over 100 basis points and plus 0.7% under the assumption of a shift of minus 200 basis points of the yield curve.

Throughout 2020, the sensitivity of AFL's net present value to a change of plus or minus 200 basis points remained below 15% of equity. The table below shows the sensitivity of the NPV since December 31, 2018.

	31/12/2020	30/06/2020	31/12/2019	31/12/2018	Limite
Sc. +100bp	0,3%	0,3%	-3,3%	-3,9%	±15%
Sc. -100bp	-0,1%	0,0%	4,1%	4,7%	±15%
Sc. -100bp (floor)	0,0%	0,0%	1,9%	2,3%	±15%
Sc. +200bp	0,7%	0,9%	-6,0%	-7,2%	±15%
Sc. -200bp	0,1%	0,4%	9,0%	10,2%	/
Sc. -200bp (floor)	0,0%	0,0%	1,9%	2,5%	±15%

In 2020, AFL implemented the scenarios for calculating the sensitivity of the net present value (NPV) of its equity to non-linear variation of the yield curve (IRRBB) assumptions.

	31/12/2020	30/06/2020	31/12/2019
Parallel shock up + 200 bps	0,7%	0,9%	-6,0%
Parallel shock down - 200 bps	0,1%	0,4%	9,0%
Short rates shock up	2,8%	4,0%	2,2%
Short rates shock down	-2,9%	-4,1%	-2,3%
Steepener shock	-2,7%	-3,8%	-5,3%
Flattener shock	2,9%	4,1%	4,6%

Throughout 2020, the sensitivity of AFL Group's net present value to different interest rate variation scenarios remained below 15% of equity.

Currency risk covers the risk for the AFL Group through AFL of generating losses on capital borrowed or loaned in currencies other than the euro. AFL's policy aims to systematically hedge this risk by setting up currency micro-hedging swaps, also called cross currency swaps. Thus, assets and liabilities denominated in currencies other than the euro are systematically swapped into euros as soon as they are entered on the balance sheet and until their final maturity.