2017 ANNUAL REPORT

AGENCE FRANCE LOCALE

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Financer l'investissement de nos collectivités

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GLOSSARY

ICC	Initial Capital Contribution
ACC	Additional Capital Contribution
ACPR	French Prudential Supervision and Resolution Authority (Autorité de Contrôle Prudentiel et de Résolution)
AFL	Agence France Locale
AFL - ST	Agence France Locale – Société Territoriale
ALM	Asset and Liabilities Management
AMF	Autorité des Marchés Financiers (French Financial Markets Authority)
ASW	Asset Swap
ECB	European Central Bank
RAC	Risk Audit Committee
ICC	Internal Control Committee
CET1	Common Equity Tier 1
FGTC	French General Tax Code
GRC	Global Risk Committee
ALT	Average lifetime
EAPB	European Association of Public Banks
ECP	Euro Commercial Paper
EMTN	Euro Medium Term Notes
EPCI	Groupings of municipalities (Établissement public de coopération intercommunale)
HQLA	High Quality Liquid Assets
DTA	Deferred tax asset
IMR	Initial margin requirement
LCR	Liquidity Coverage Ratio
LGFA	Local government funding agency
NMI	Net margin of interest
NSFR	Net Stable Funding Ratio
NBI	Net banking income
GOP	Gross operating profit
NP	Net profit
RWA	Risk Weighted Asset
NDS	Negotiable debt securities
NPV	Net Present Value

1. Introductory reminders: Company background, shareholding structure, business model and rating

1.1. Background and shareholding structure

The creation of Agence France Locale ("AFL") was authorized by Act No. 2013-672 of July 26, 2013 for the separation and regulation of banking activities. AFL was created on October 22, 2013, when its incorporating documents were signed.

The Agence France Locale Group is organized around a twofold structure consisting of Agence France Locale - Société Territoriale (the parent company with the status of financial company) and of Agence France Locale (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 (Agence France Locale), from the shareholder representation and financial strategy, handled by Société Territoriale. This separation of responsibilities aims to ensure that:

- member regional and local authorities do not interfere in AFL's day-to-day management activities;
- stakeholders are empowered to complete their missions;
- there are suitable monitoring and control 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 Société Territoriale, the Group's parent company, are as follows:

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

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

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

1.2. AFL's business model

- **A robust structure**

AFL is an investment financing facility for local authorities in which they are the exclusive shareholders through Société Territoriale, the majority shareholder and over 99.9% owner of AFL. Like the local authorities financing agencies in Northern Europe[1], which have existed for several decades, and agencies in New Zealand or Japan, AFL was established to be a long-term player in the financing of local investments. The Agence France Locale model draws directly on its Nordic counterparts while integrating the restrictions specific to French law. More specifically, the Agence France Locale Group's model is largely inspired by Swedish and Finnish agencies, which have financed local authorities in their respective countries since the late 1980s. This model is based on borrowing from the capital markets, through bond issues in particular, to grant simple fixed- or floating-rate loans to local authority shareholders.

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

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

- On the one side, the "Member Guarantees" granted by local authorities that are Société Territoriale 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 amount of borrowings of over 364 days contracted by each member local authority with AFL2. As a result, a creditor has the option of calling on several regional and local authorities as guarantors. A local authority called to act as a guarantor by a creditor is obliged to inform Société Territoriale, which in turn can call all of the other members as guarantors in proportion to the amount of their loans contracted with the Company. 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 loan. In order to have sufficient liquidity, the amounts borrowed by AFL are intended to be higher than the amounts it lends to members, and the securities issued by AFL are not fully covered by the Member Guarantee mechanism:
    - approximately 70% of the total amount of AFL borrowings issued on the markets is used to provide medium- and long-term loans to members;
    - approximately 30% of the total amount of borrowings issued by AFL on the markets are retained both to ensure AFL's liquidity in accordance with its regulatory obligations and good management practices, and to offer cash credits to members under the conditions and within the limits set by AFL's financial policies.
- On the other, the "Société Territoriale Guarantee" granted by AFL–ST to any financial creditor of AFL providing the possibility to call on AFL-ST as a guarantor, which then makes it the sole counterparty of the creditor. The ceiling of the Société Territoriale Guarantee is set by the Board of Directors. It covers all of the commitments of its Agence France Locale subsidiary to its financial creditors. The amount of the guarantee granted by Société Territoriale to the creditors is set by the Société Territoriale Board of Directors. It was increased from €3.5 to €5 billion by the Société Territoriale Board of Directors on February 16, 2017.

This two-part mechanism allows the beneficiaries of 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 Société Territoriale 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 "Société Territoriale Guarantee" may be called on behalf of the financial creditors at the request of AFL under the terms of a protocol between the two companies. The purpose of this mechanism for third parties to call on direct beneficiaries of the "Member Guarantee" is to be able to mobilize guarantees to prevent non-compliance with the regulatory ratios or an event of default.

Apart from credit risk to local authorities, all of AFL's financial risks (other credit risks, currency risks, interest rate risks and liquidity risks) are meant to be limited, supervised or even neutralized.

[2] Each medium-term and long-term loan granted by AFL to one of its Members on the primary market is conditional on the granting by that Member of a guarantee commitment for an amount equivalent to the said financing. It follows from this principle that the total amount guaranteed under the Member Guarantee is equal to the sum of the medium- and long-term loans granted and mobilized by AFL to the Members. The outstanding medium-term and long-term credits of each Member and therefore the amount of their guarantee are published each working day on the AFL website. As the lending institution has widened its commercial offer and proposes short-term cash loan agreements to its member local authorities, the initial Membership Guarantee Model (Membership Guarantee Model 2014.1) has changed in order to expressly exclude cash loans for which the outstanding amount is likely to record significant changes from the guarantee base. Membership Guarantee Model 2016.1 came into effect on April 30, 2016 following the completion of the Shareholders' Agreement amending process. Lastly, the lending institution is called upon to carry out loan repurchases on the secondary market. Local authorities are therefore called upon to guarantee these loans ex-post.

With respect to prudential requirements, AFL is monitored for the use of equity at the consolidated level and for liquidity at the lending institution level. The AFL Group has set itself the following prudential limits for liquidity and equity:

- a solvency ratio (Common Equity Tier One at AFL-ST level) at 12.5% minimum (9.281% regulatory limit);
- thirty-day (LCR) and one-year (NSFR) liquidity ratios above 150% for AFL (100% regulatory limits).

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

In this respect, the regulatory requirements on leverage ratios should be subject to separate treatment for development banks. In November 2016, the European Commission announced an amendment proposal for the regulation 575/2013 of June 26, 2013 with a separate definition of the leverage ratio for development banks; public development banks may exclude certain assets such as development loans from their leverage exposure.

Local authorities financing agencies are considered to be an integral part of the development banks category and this amended leverage ratio may apply to the AFL Group.

- **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 Société Territoriale. Société Territoriale's responsibility is to pursue the Group's strategy, promote the interests of all borrowers and pool each one's interests for the benefit of all local authorities.

Secondly, since the Company's creation, through the implementation of online services that combine efficiency, security and rapidity.

Lastly, through a dedicated team responsible for relations with local authorities enabling it to meet each one's specific requirements.

1.3. Rating of bonds issued by AFL

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

The Agence France Locale EMTN issuance program is also rated by Moody's. The rating of AFL bonds is at the top echelon for quality of credit, namely ("high grade"), with an Aa3 rating and a stable outlook.

2. Review of the activities carried out during the past financial year

2.1 Key events of the past financial year

- **Company's financial market operations**

i. Bond issues as part of the EMTN program

As it does annually, AFL updated the Base Prospectus for the EMTN Debt Issuance Programme, to a cumulative total amount of €3,000,000,000 (three billion euros). On April 21, 2017, the French Financial Markets Authority (*Autorité des marchés financiers* - **AMF**) gave its approval (No. 17-170).

As an extension to the closure of its half-yearly financial statements, AFL also prepared a supplement to this Base Prospectus, which was approved by AMF (approval No. 17-530) on October 4, 2017.

On this basis and with the authorization of a €900 million medium- and long-term loan program by the Supervisory Board of December 14, 2016, AFL carried out various transactions on the bond market:

- the top-up in January 2017 of the €500 million *benchmark May 2023 issue* for an amount of €250 million at OAT (French Treasury Bond) plus 27 bps, contributed to increasing the bond issue's liquidity and enabled around twenty additional investors, including major central banks, to take part in this transaction;

- in January 2017, a two-year US$100 million private placement contributed to diversifying AFL's financing sources AFL, outside of the euro bond market, and was carried out at very attractive conditions once hedged for exchange rate risk;

- a new seven-year euro-labeled benchmark-type issue for €500 million with a fixed rate was carried out at OAT (French Treasury Bond) plus 25 bps margin in May 2017, consolidating AFL's signature on the euro debt bond market, with a significant diversification in the investor base, in terms of both geography and typology.

At the end of the financial year, the early disbursements on the estimated end of year production of credits and the secondary market credit purchase operation described hereafter, combined with the extremely attractive bond market conditions, led AFL to carry out an increase in its 2017 medium- and long-term loan program to €1.2 billion. This increase approved by the Supervisory Board resulted in the top-up of the 2024 bond issue for €250 million at OAT plus 27 bps. This top-up increased the 2024 issue to €750 million in line with the 2022 and 2023 issues, and thus contributed to greater liquidity.

This last bond issue implemented during the 2017 financial year contributed to bringing forward part of AFL's loan program for the 2018 financial year, and showed the Company's ability to raise resources at competitive levels, which is a key factor for the development of its business.

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

The implementation of an ECP program at the end of 2016 enabled AFL to issue negotiable debt securities on the money market from the start of the 2017 financial year, in order to diversify its financing sources.

These issues, carried out exclusively in US dollars, are hedged for exchange rate risk and enable resources to be raised under very attractive conditions. They aim to optimize the management of AFL's liquidity reserve.

During the past financial year, AFL was able to reinforce its signature on the money market, by renewing the drawdowns of ECP labeled in US dollars, throughout the financial year, up to the limit authorized by the Supervisory Board of €200 million in outstanding amounts. The average outstanding amount issued by AFL over the period amounted to an equivalent of €126 million.

iii. Debt repurchase

AFL carried out the repurchase of debt from loan agreements signed with seven local authority members of the AFL Group. This operation on the secondary market, which had been entered into the 2017 business plan with a start on January 1, 2018, for an amount of €100 million, represented an acquisition of loans amounting to €135.6 million.

- **Capital increases**

During the 2017 financial year, AFL saw its capital increase by €21.5 million to €132.5 million at December 31, 2017 compared to €111 million on December 31, 2016, following three capital increases subscribed exclusively by its parent company, AFL-ST. Following these capital increase operations, the total number of local authority shareholders in the Agence France Locale Group was taken to 223 thus enabling the membership of 50 new local authorities in AFL-ST. The data on AFL's capital and shareholder structure are presented in item 11 hereafter and additional information on the new memberships is presented in AFL-ST's consolidated management report.

The completion of AFL's capital increase operations is correlated with the continued memberships of new local authorities in AFL-ST, providing AFL with almost all of the capital contributions of the AFL Group's local authority members under the conditions stipulated in the Shareholders' Agreement.

- **Production of credits**

Since the start of its loan activity in April 2015, AFL has lent a total of €1,608 million to local authority members of the AFL Group in the form of medium- and long-term loans.

The production of medium- and long-term loans over the 2017 financial year amounted to €555.8 million for 142 loan agreements compared to €544.1 million and 101 agreements in 2016. In addition to traditional medium- and long-term loans, this production includes mobilization phase loans which enable borrowers to mobilize resources as they require them, up to a drawdown date when the loan must be fully drawn down. These mobilization phase loans led to an increase in off-balance sheet commitments to €238.8 million for the financial year compared to €133.7 million at December 31, 2016, including €176.1 million in mobilization phase loan commitments at December 31, 2017 compared to €71.9 million at the close of the previous financial year.

As in 2016, the 2017 production cycle saw the same seasonality with 60% generated during the fourth quarter.

At December 31, 2017, AFL had €1,429.9 million[3] in outstanding credit in its balance sheet assets, including €135.6 million from the acquisition of loans from other financial institutions, along with €238.8 million in off-balance sheet loan commitments. There was a corresponding number of 332 loan agreements with 169 local authorities.

This production of credit represents an estimated market share of over 25% of the financing requirements carried out in 2017 by the members of the Agence France Locale Group. These 142 medium- and long-term loans were signed with 107 local authorities compared to 77 in 2016, with an average maturity of 16.5 years compared to 15.7 years in 2016. These fixed or floating rate loans range from €11,000 to €40 million.

AFL has also granted €64.2 million to local authority members of the AFL Group pursuant to cash loan agreements, whose outstanding amount is expressly excluded from the 2016.1 Member Guarantee base in force.

- **Governance**

In accordance with the statutory provisions of Agence France Locale which provide, by way of exception, for a term of office of three years for the initial members of the Supervisory Board, the composition of the said Board was renewed by the annual Combined General Meeting called to approve the financial statements for the financial year ended December 31, 2016.
With the exception of Simon Munsch, who resigned from his functions from January 31, 2017, midnight, all of the Supervisory Board members indicated their wish to renew their terms of office.

The following were therefore renewed for a duration of four year as members of the Supervisory Board:

- Lars Andersson;
- Victoire Aubry-Berrurier;
- Richard Brumm;
- François Drouin;
- Nicolas Fourt;
- Mélanie Lamant;

[3] The outstanding amount corresponds to customer loans and receivables, amounting to €1,430.83 million as at December 31, 2017 (IFRS), to which must be added the fair value revaluation of rate hedges which represents -€963 thousand.

- Olivier Landel;
- Daniel Lebègue;
- Rollon Mouchel- Blaisot;
- Dominique Schmitt.

On June 22, 2017, the Ordinary General Meeting also approved the appointment of Jacques Pélissard as a member of the Supervisory Board.

At this date, and in the continuation of this Ordinary General Meeting, the Supervisory Board appointed Richard Brumm as Chairman and Jacques Pélissard as Vice Chairman, thus complying with the statutory provisions on the composition of the Supervisory Board.

On December 14, 2017, Dominique Schmitt resigned from his functions within the Company's Supervisory Board.

All elements relating to the composition, functioning and compensation of the management bodies are presented in the Supervisory Board's corporate governance report in the appendix to this management report.

- **End of the tax audit procedure**

After the opening at the end of the 2016 financial year of an audit period of the 2014 and 2015 financial statements, the Tax authorities indicated to AFL on May 22, 2017 that this procedure was now completed and that this audit did not lead to a rectification.

The provision for risk resulting from this procedure and taken into account by the Company in the financial statements for the 2016 financial year was, therefore, fully reversed during the 2017 financial year.

2.2 Results of the past financial year – Key IFRS figures

The NBI for the 2017 financial year amounted to €10,682 thousand compared to €9,220 thousand in 2016. This corresponds mainly to a margin of interest of €6,507 thousand, up significantly compared to that of €4,667 thousand observed during the previous financial year, net gains on disposals of investment securities of €4,494 thousand, and a loss on negative hedge relationships of -€303 thousand.

The general operating expenses over the period amounted to €8,619 thousand compared to €9,486 thousand for the previous financial year. After depreciation expenses of €1,913 thousand compared to €1,855 thousand at December 31, 2016, the gross operating profit is positive for the first time since the start of AFL's activities on an annual basis, at €149 thousand at the end of the financial year compared to -€2,121 thousand for the previous year.

After taking into account a deferred tax expense of €575 thousand resulting from a change in corporate income tax in the 2018 finance law, the 2017 financial year ends with a net loss of -€427 thousand compared to -€3,365 thousand for the previous year.

3. Significant events since the balance sheet date

- **Share capital increase**

Agence France Locale Group welcomed twenty-six new local authorities for its fifteenth capital increase which ended on February 14. Agence France Locale – Société Territoriale now includes 249 local authority shareholders. Its capital was taken to €142 million. Simultaneously, AFL's capital was subject to a new increase fully subscribed by AFL-ST, and bringing the latter's paid-up capital to €135 million.

This capital increase, which is the 15th since the creation of the AFL Group, is characterized by the significant diversification of the new subscribers, thus contributing to reinforcing the diversity of its local authority footprint[4].

- **Market operations**

In January 2018, for the first time since the start of its activities, AFL carried out a very long-term fund-raising operation; the issue is for €100 million over 15 years in the form of a private placement with a margin of 25 base points compared to OAT. This transaction was followed by a second private placement of €25 million over 10 years carried out under the same margin conditions compared to OAT. These two issues enable AFL to open access to the long part of the euro market curve at a very attractive level, in line with the 7-year benchmark issues carried out over the last three years.

[4] Additional details are presented in the AFL-ST management report.

4. Balance sheet assets as at December 31, 2017 (IFRS)

As at December 31, 2017, AFL's assets consist of a steady increase in loans to member local authorities, as well as a higher volume of assets held in the Company's liquidity reserve.

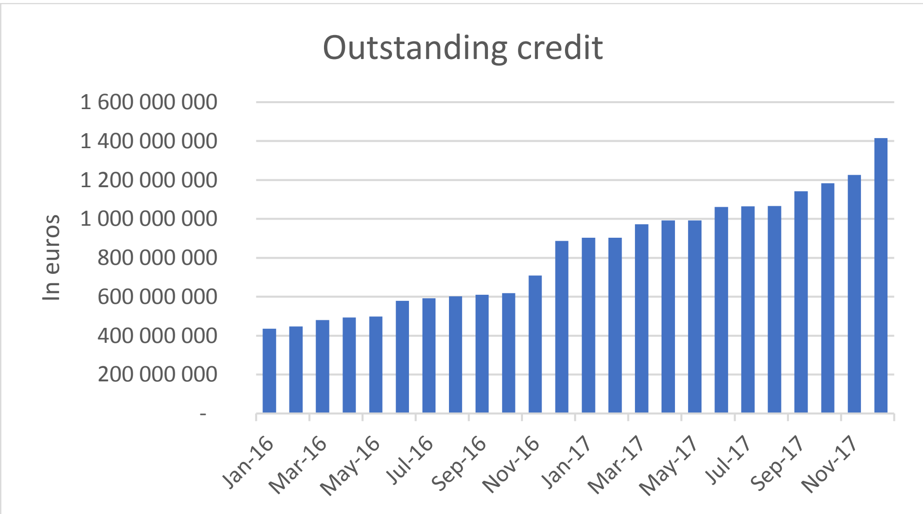
Excerpts of main assets as at December 31, 2017 (IFRS)

in thousands of euros	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Loans and customer transactions	1,430,829	892,227	383,527	-
Available-for-sale securities	358,964	354,081	456,497	-
Assets held to maturity	-	-	-	30,755
Loans and receivables from credit institutions	211,233	23,412	45,982	5,919
Margin calls	68,376	20,682	12,985	-
Cash in hand, central banks	420,351	57,929	-	-
Derivative hedging instruments	15,629	16,777	-	-

4.1 Loans to local authorities

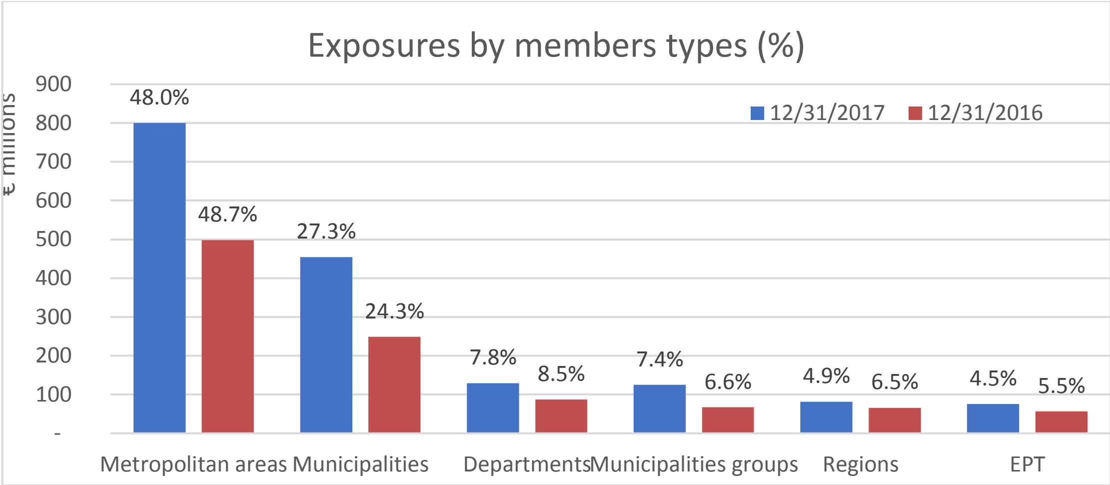
The credit portfolio recognized on AFL's balance sheet among assets amounted to €1,430.8 million at December 31, 2017, compared with €892.2 million at December 31, 2016, after taking into account the amortized cost due to hedge accounting of the impact from changes in interest rates. This portfolio must be supplemented by loans signed but not disbursed that appear off the balance sheet, in order to have a complete view of AFL's outstanding credit. At December 31, 2017, off-balance sheet commitments amounted to €238.8 million, compared with €133.8 million at December 31, 2016. As at December 31, 2017, the sum of balance sheet and off-balance sheet exposures of loans to local authorities amounted to €1,669.6 million compared to €1,026 at December 31, 2016.

The monthly changes for 2017 in the outstanding principal of the medium- and long-term credit portfolio under French GAAP are shown in the graph below.



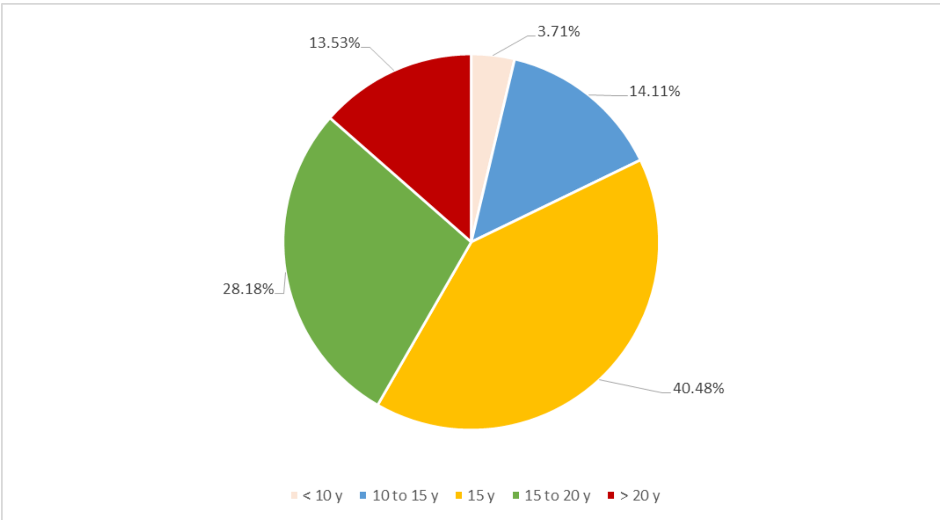
Agence France Locale lends exclusively to French local authorities that are shareholders of Société Territoriale. 48% of direct exposures in the loan portfolio are to metropolitan areas and more than 80% to the municipal block. As shown in the graph below, there were very limited changes between 2016 and 2017 in the breakdown of exposure by type of local authority.

Graph:
Breakdown of exposures by type of local authority as at December 31, 2017



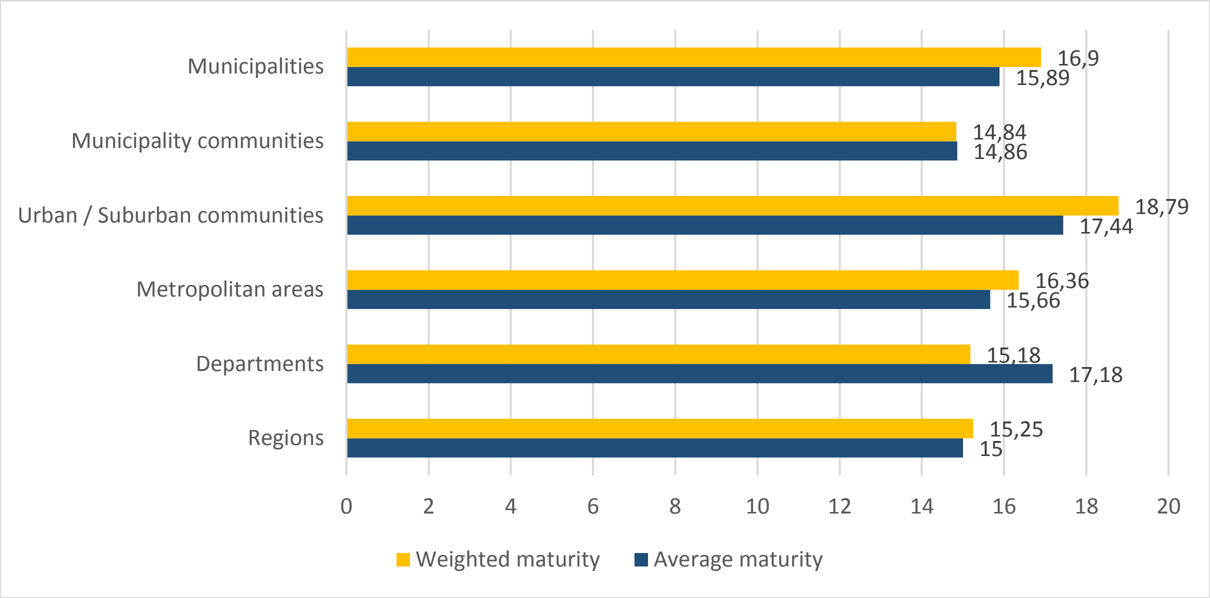
Almost 70% of loans made by AFL in 2017 had a maturity of between 15 and 20 years, 14% between 10 and 15 years and almost the same percentage for loans of over 20 years. The share of loans in 2017 with maturity of less than 10 years is the residual amount.

Graph:
Breakdown of the production of loans to local authorities by maturity in 2017



The graph below shows the average maturities and weighted maturities, by segment of local authorities and for the entire production of loans by AFL since the start of its activities, at December 31, 2017. We can observe a certain homogeneity from one category to another, with use of slightly longer financing for urban and suburban communities. However, whatever the category of local authority, the average maturity, both weighted and non-weighted by the amounts outstanding, is between 15 and 20 years.

Graph:
Average maturity of loans produced by type of local authority at December 31, 2017



4.2 Liquidity reserve

Other assets in the balance sheet consist mainly of the liquidity reserve, which corresponds to the portion of the resources not yet distributed in the form of loans and kept for the liquidity objectives of the credit institution in accordance with good management practices, Agence France Locale's liquidity policy and regulatory requirements.

The chief purpose of AFL's liquidity reserve is to meet the institution's cash flow requirements, primarily with the provision of the liquidity required for credit activities and debt servicing, but also for the margin calls that AFL may have to handle due to the significant use of interest rate and currency hedging instruments in accordance with its financial policies and objectives for market risk management. This liquidity has to be available regardless of market circumstances, with the understanding that the only resources that can be mobilized by AFL are funds raised on the capital markets.

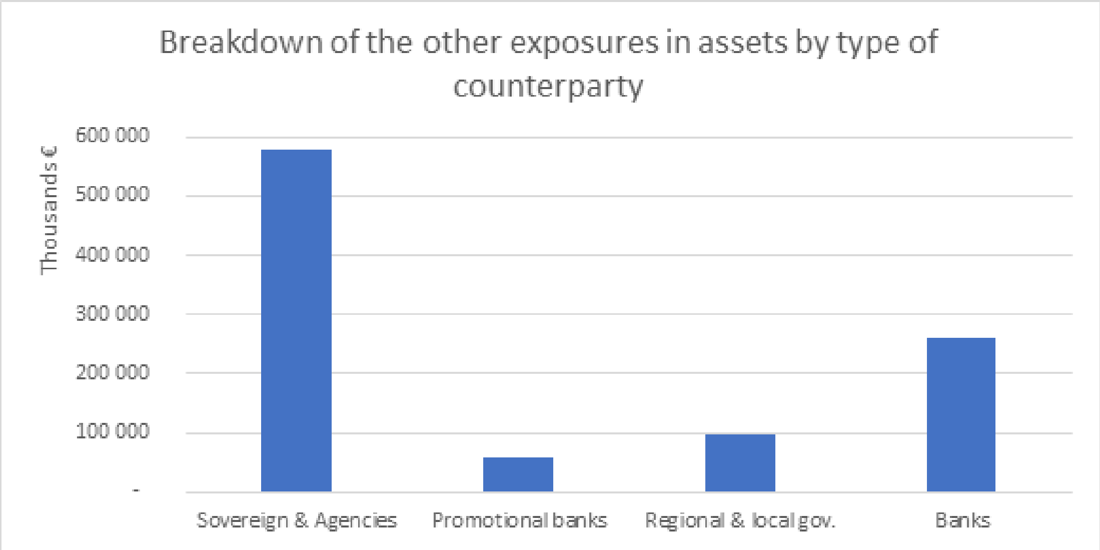
As at December 31, 2017, the assets comprising the liquidity reserve amounted to €990.6 million including €359 million represented by securities issued or guaranteed by the French government or European Union governments or supranational institutions that have the best ratings, as well as to a lessor extent securities issued by financial institutions, some of which are guaranteed by European States. The other financial assets that make up the liquidity reserve are deposits with French banks, the Treasury and Banque de France.

The AFL liquidity reserve is divided into two segments:

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

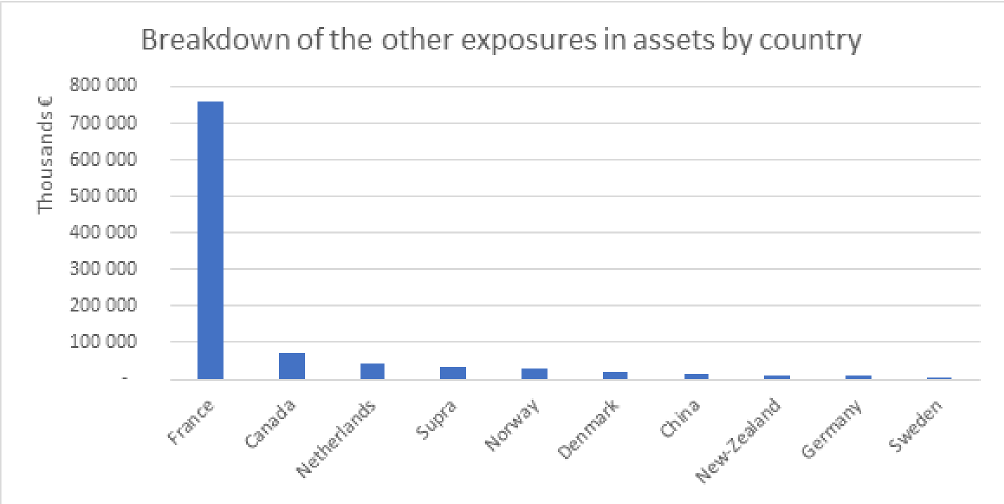
As a result of its liquidity reserve investments, AFL incurs credit risk on the issuers of the assets it acquires or the exposures it takes. However, this credit risk is limited in view of the quality of the counterparties, which all enjoy the best rating levels from the major rating agencies. At December 31, 2017, 74% of the liquidity reserve comprised so-called "HQLA" assets mainly on sovereigns and public agencies issuers as shown in the graph below. The remaining 26% consist mainly of nostro accounts and a few exposures in securities on the banking sector.

Graphs:
Breakdown of liquidity reserve exposures by type of counterparty[5] and by country



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

It should be noted that the vast majority of assets in the liquidity reserve relate to French issuers as shown in the graph below.



4.3 Margin calls

Most of the balance of financial assets on AFL's balance sheet consists of margin calls on interest-rate and currency hedging activities which are paid to AFL counterparty banks (from which are deducted margin calls received) and the LCH Clearnet clearing house, given that AFL hedges most of its production of rate derivatives. These margin calls increased by €47.7 million over the financial year. This increase is firstly due to an initial margin call of €22.4 million, after the hedging of secondary loans, issued in a context of very different interest rates, secondly to the change in value of currency hedges for debt instruments in US dollars, and lastly, for a more limited share, to the increase in rates which marginally impacted the total value of the interest rate swaps that AFL contracted as part of its interest rate hedge strategy for balance sheet instruments.

4.4 Subsidiaries and shareholdings

4.4.1 Activities of Company subsidiaries and companies under its control

AFL has no subsidiaries or shareholdings in other companies.

4.4.2 Equity investments and takeovers

AFL has no shareholdings in companies with registered offices in France or abroad during the financial year ended December 31, 2017.

AFL does not control any company as at December 31, 2017, as defined by Article L. 233-3 of the French Commercial Code. Therefore, no treasury shares are held by a controlled company.

4.4.3 Cross-shareholdings

AFL did not have to dispose of any shares in order to terminate the cross-shareholdings prohibited by Articles L. 233-29 and L. 233-30 of the French Commercial Code.

4.5 Returns on assets

AFL's net profit is now positive under French standards, but remains slightly negative under IFRS, with the return on assets for 2017 showing a very strong improvement. This situation can be explained by AFL's recent start-up of its banking activities, which are developing rapidly.

5. Balance sheet liabilities and debt management (IFRS)

AFL's liabilities consist mainly of debts incurred in connection with bond issues that have been made since the beginning of AFL's activities and have not yet matured. At the close of the financial year ended December 31, 2017, outstanding debt amounted to €2,336 million after taking into account at amortized cost, due to hedge accounting, the impact of changes in interest rates since the dates of issuance of the debt instruments. The outstanding debt amounted to €1,259 million at December 31, 2016, which shows the sustained issue activity during the 2017 financial year. No collateral from margin calls paid by AFL was received at December 31, 2017 due mainly to the increase in interest rates to which AFL is structurally exposed, but this is limited when we compare the change in margin calls to the total stock of hedging swaps.

After the three capital increases carried out during 2017 which contributed to increasing the subscribed capital to €21.5 million, AFL's equity amounted to €114.9 million at December 31, 2017 (IFRS) corresponding to €109.9 million under French standards.

Excerpts of main liabilities as at December 31, 2017 (IFRS)

In thousands of euros	12/31/2016	12/31/2016	12/31/2015	12/31/2014
Dettes securities	2,335,802	1,259,073	840,536	-
Equity	114,856	93,529	62,046	2,916

5.1 Financial debt of AFL

The 2017 loan program, approved by the Supervisory Board on December 14, 2016, had been set at an amount of €1.1 billion broken down into €900 million for the medium- and long-term part and €200 million for short-term debt securities issued as part of the ECP program.

On November 23, 2017, the ceiling for the medium- and long-term program was raised by €250 million to allow for an additional operation for the same amount.

In total, during 2017, AFL issued €1,094 million in bonds via its EMTN program, at a very stable margin level compared to the OAT (French Treasury Bond) curve. Including drawdowns carried out as part of the ECP program, which reached a maximum of €200 million during the period, the average cost of the debt issued in 2017 was carried out under very good conditions.

We can note that in 2017 the volume of issues was the most significant since the start of AFL's activities, at €1,219 million, taking into account the average outstanding amount of ECP drawdowns carried out during the period, the more cost-effective, due to the effects of these drawdowns and the margin obtained for the last €250 million bond transaction, and consistent with the average maturity of the issues carried out in previous years.

In 2017, AFL began drawdowns under the ECP program. The latter were carried out exclusively in US dollars, as this market benefits from a significant investor base and is traditional for public issuers such as AFL. These drawdowns represented on average between 25 to 50 million over durations of 1 to 3 months at very competitive levels. This tool has shown its effectiveness in terms of costs and flexibility.

The second highlight of 2017 was the start of the top-up operations on existing bond issues to better smooth fund-raising and benefit from market opportunities. This was the case in January 2017 with a top-up of €250 million on the 2023 bond issue, in anticipation of a long and uncertain electoral period, then at the end of the year when AFL's needs and an extremely attractive valuation of public sector bond securities justified a top-up of €250 million on the 2024 bond issue.

The third highlight was the launch of a €500 million issue in May 2017, subsequent to the significant narrowing of margins on OAT and French public sector bonds in general after the election of the President of the French Republic. This transaction, which is the third benchmark issue since the start of AFL's activities in April 2015, was carried out at 25 base points above the OAT curve and was consistent with the valuation of the other French public banks. This issue confirmed the anchoring of AFL's signature on the euro bond market, as shown by the both numerous and diversified participation of domestic and international investors.

Over 30 investors participated in the transaction, for a total order amount of €630 million. The result of this transaction is the same quality as those obtained during the issue in May 2016 and the inaugural issue in March 2015.

The breakdown was as follows:

- a significant representation of German and Austrian investors at 29%, followed by domestic investors for 26%, Italy for 18%, Asia for 9%, Switzerland for 8%, Denmark and the UK at 4% each and the Netherlands at 2%;
- this typology underlines the weight of bank treasuries at 55%, asset managers for 21%, central banks and official institutions for 13%, and corporate treasuries for 10%.

Lastly, a private placement of $100 million with a maturity of 2 years was carried out at the start of 2017 to maintain a still limited but strategic presence on the dollar market.

5.2 Breakdown of accounts payable and accounts receivable

The figures presented below relate to the breakdown of the balance of accounts payable by Agence France Locale suppliers at the close of the financial year ended December 31, 2017, in compliance with Articles L. 444-6-1 and D. 441-4 of the French Commercial Code. Accounts payable are characterized by a settlement period of less than thirty days.

It should be noted that given the nature of AFL's activities, the figures presented in the table only represent supplier payables, AFL's accounts receivable result exclusively from the loan contracts described in paragraph 5.1 above. In this respect, no unpaid amounts were recognized at December 31, 2017.

Breakdown of Agence France Locale accounts payable (amounts including tax)

Total amount of accounts payable (including tax in euros)			
12/31/2017	**12/31/2016**	**12/31/2015**	**12/31/2014**
€449,140	€747,054	€707,874	€609,810

The table below shows the number and amounts including tax of supplier invoices received and not yet paid at the closing date of the financial year. Information on late payments is provided by late payment tranches as a percentage of the total amount of purchases during the financial year. These invoices exclude those relating to disputed debts and payables or not recorded. The benchmark payment times used to prepare this table are the contractual payment times.

Invoices received but not paid at 12/31/2017 for which the term has expired (including tax in euros)						
Late payment tranches	No late payment	1 to 30 days	31 to 60 days	61 to 90 days	91 days and over	**Total of invoices concerned by late payment**
Number of invoices concerned	40				4	**4**
Total amount of invoices concerned	150,655				51,480[6]	**51,480**
Percentage of the total amount of purchases in the financial year	3.47%				1.19%	**1.19%**

Invoices excluded from the table as relating to disputed supplier payables	
Number of invoices excluded	-
Total amount of invoices excluded	-

[6] Invoices with late payments exceeding 91 days remain unpaid not due to legal disputes, but due to partially executed or incomplete services.

6. Results of the financial year ended December 31, 2017

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

The annual financial statements were prepared in accordance with French GAAP, unchanged from the previous year, and in accordance with the provisions of the general accounting plan for credit institutions. Additional explanations are provided in the notes to the financial statements.

AFL also prepared IFRS financial statements, on a voluntary basis, for the financial year ended December 31, 2017, which are discussed in this report.

6.1 Financial statements prepared according to French GAAP

The financial year ending December 31, 2017 resulted in a positive gross operating profit and net profit of the same amount of €146 thousand, up significantly compared to the 2016 financial year, in which the gross operating loss and net loss amounted to -€2,642 thousand. Thus, 2017 marks a new significant increase in AFL's results after 2016, compared to the 2015 financial year in which AFL's activities started, and which ended with a gross operating loss of -€11,411 thousand and a net loss of -€12,082 thousand. This increase in results shows the momentum of revenue generation from the loan activity, measured notably by the increase in the outstanding amount of its loan portfolio granted to member local authorities. The capital gains on disposals of securities from the management of the liquidity reserve can also be added to this income.

At the end of the 2017 financial year, the NBI generated by the activity amounted to €11,102 thousand compared to €9,127 thousand at December 31, 2016. This corresponds mainly to a margin of interest of €6,485 thousand, up significantly compared to that of €4,668 thousand observed during the previous financial year, net gains on disposals of investment securities of €4,494 thousand and a reversal of depreciation on investment securities of €140 thousand.

The interest margin of €6,485 thousand originated from three items:

- firstly, income associated with the loan portfolio for €6,301 thousand, once restated for their hedges which increased significantly compared to the income of €4,747 thousand at December 31, 2016;
- secondly, revenues related to the management of the liquidity reserve (-€2,763 thousand), due to interest rates deeply anchored in negative territory; and
- lastly, the interest expense from debt, which, for the reasons mentioned above, represents a source of income amounting to €3,132 thousand, once the income from hedging it is taken into account.

Capital gains on disposals for €4,051 thousand are due to the management of the liquidity reserve portfolio over the period. These disposals led to the concurrent cancellation of the interest-rate hedges for €443 thousand, leading to the net overall capital gain of €4,494 thousand for the period.

For the financial year ended December 31, 2017, general operating expenses amounted to €8,618 thousand compared with €9,487 thousand for the previous year. These expenses include €4,592 thousand in personnel costs, up compared to last year at €4,239 thousand. General operating expenses also include administrative expenses, which fell to €4,026 thousand, compared to €5,249 thousand at December 31, 2016, after transfer of expenses to fixed assets or to be allocated. Once restated for a provision for risks of €488 thousand which had been recognized in 2016 and reversed in the 2017 financial year, administrative charges were slightly down compared to the previous year. This decrease is mainly due to a reduction in IT expenses following the decrease in the fees paid on IT systems.

After depreciation expenses of €2,338 thousand compared to €2,281 thousand at December 31, 2016, gross operating profit is positive for the first time at €146 thousand at the end of the financial year compared to a -€2,642 thousand loss for the previous year.

In accordance with the reporting practices of financial institutions, earnings for the year are presented in the paragraph below in accordance with IFRS. The difference between French and IFRS accounting standards relates mainly to deferred tax assets not recognized under French GAAP, and to the amortization over five years of establishment costs that, by contrast, French standards allow.

Transition from French GAAP to IFRS

	12/31/2017
Net profit – French GAAP	**146**
IFRS restatements	
Deprec. and amort. of establishment costs (as a whole in 2014 under IFRS)	425
Cancellation of impairment losses on available-for-sale securities	-140
Revaluation of loans that have been terminated	00
Impact of the new effective interest rate on loans that have been terminated	00
Micro-hedging inefficiency	73
Profit from macro-hedging of loans	-375
Transition to TIE of the Treasury account	23
Deferred tax assets on tax losses	-575
Other	-2
Net profit under IFRS	**-427**

6.2 Financial statements prepared according to IFRS

The financial year ending December 31, 2017 shows a gross operating profit of €149 thousand and a net loss of -€427 thousand, which both are a significant improvements on the 2016 financial year, which resulted in a gross operating loss of -€2,121 thousand and net loss of -€3,365 thousand. Thus, 2017 marks a new significant increase in AFL's results after 2016, compared to the 2015 financial year in which AFL's activities started, and which ended with a gross operating loss of -€10,995 thousand and a net loss of -€7,777 thousand. This increase in results shows the increase in revenue generated by the loan activity, measured notably by the increase in the outstanding amount of its loan portfolio granted to member local authorities. The capital gains on disposals of securities from the management of the liquidity reserve can also be added to this income.

At the end of the 2017 financial year, the NBI generated by the activity amounted to €10,682 thousand compared to €9,220 thousand at December 31, 2016. This corresponds mainly to a margin of interest of €6,507 thousand, up significantly compared to that of €4,667 thousand observed during the previous financial year, net gains on disposals of investment securities of €4,494 thousand, and a loss on negative hedge relationships of -€303 thousand.

The interest margin of €6,507 thousand originated from three items:

- firstly, income associated with the loan portfolio for €6,301 thousand, once restated for their hedges which increased significantly compared to the income of €4,747 thousand at December 31, 2016;
- secondly, revenues related to the management of the liquidity reserve (-€2,741 thousand), due to interest rates deeply anchored in negative territory; and
- lastly, the interest expense from debt, which, for the reasons mentioned above, represents a source of income amounting to €3,132 thousand, once the income from hedging it is taken into account.

Capital gains on securities disposals for €4,051 thousand are due to the management of the liquidity reserve portfolio over the period. These disposals led to the concurrent cancellation of the interest-rate hedges for €443 thousand, leading to the net overall capital gain of €4,494 thousand for the period.

The net loss from hedge accounting is -€303 thousand. It represents the sum of the fair value differences of the hedged items and their hedges. Of these differences, -€375 thousand relate to valuation differential charges on macro-hedged instruments and €73 thousand relate to valuations of micro-hedged instruments. There are latent differences in valuations between the hedged items and their hedges, including one of the components from a market practice that resulted in an asymmetry of valuation between the hedging instruments collateralized on a daily basis and discounted on an Eonia curve, and the hedged items discounted on an Euribor curve. In IFRS, this caused a hedge ineffectiveness that is recognized in the income statement. It should be noted, however, that this is a latent result.

For the financial year ended December 31, 2017, general operating expenses amounted to €8,619 thousand compared with €9,486 thousand for the previous year. These expenses include €4,592 thousand in personnel costs, up compared to last year at €4,272 thousand. General operating expenses also include administrative expenses, which fell to €4,027 thousand, compared to €5,215 thousand at December 31, 2016, after transfer of expenses to fixed assets or to be allocated. Once restated for a provision for risks of €488 thousand which had been recognized in 2016 and reversed in the 2017 financial year, administrative charges were down by 13% compared to the previous year. This decrease is mainly due to a reduction in IT expenses following the decrease in the fees paid on IT systems, and to a reduced use of external service providers.

After depreciation expenses of €1,913 thousand compared to €1,855 thousand at December 31, 2016, operating profit is positive for the first time since the start of AFL's activities on an annual basis, at €149 thousand at the end of the financial year compared to -€2,121 thousand for the previous year.

Changes in the corporate income tax rate and the application of the liability method in the 2018 finance law resulted in a deferred tax expense of €575 thousand, reducing the tax losses previously activated amounting to €5,031 thousand at December 31, 2017 compared to €5,606 thousand at December 31, 2016. The tax losses recorded over the period did not give rise to any deferred tax assets.

The 2017 financial year resulted in a negative net profit of -€427 thousand, compared to -€3,365 thousand for the previous year.

6.3 Proposed allocation of profit

It is proposed that the total results for the financial year ended December 31, 2017 (annual financial statements prepared under French standards) which amounts to €146,352.40 be allocated to retained earnings.

6.4 Dividends distributed (Article 243 bis of the French General Tax Code)

No dividends were distributed in respect of the financial year ending December 31, 2017 and none were distributed over the previous three years.

6.5 Non tax-deductible expenses (Articles 39.4 and 39.5 of the French General Tax Code)

During the financial year ended December 31, 2017, AFL incurred no expenses as defined by Articles 39-4 and 39-5 of the French General Tax Code.

6.6 AFL Research and Development activity

Given its corporate purpose, AFL does not undertake operations in the field of research and development. However, in respect of development expenses, AFL decided to acquire a data warehouse-type infrastructure based on the Microsoft BI tools distributed in SaaS mode.

The strategy carried out aims to provide industrialization and productivity gains by eliminating recurring tasks, and to concentrate on analysis, which is a source of value for AFL.

In this respect, the Business Intelligence project must meet several objectives:

- create a data warehouse that enables the increased valuation, reliability, reconciliation and historical reporting of data;
- constitute a data dictionary enabling the measurement of data quality;
- make users more autonomous in accessing information in order to draw on their business expertise;
- address IT systems' security through an infrastructure that meets the standards of availability, integrity, confidentiality and proof, notably facilitating system audits;

- make AFL's steering tool more flexible for organization and strategy changes.

The first batches began production in September 2017 and will continue up to the end of 2018. AFL is devoting a significant share of its investment expenses to building this project.

7. Expected situations and future prospects

AFL's development is directly correlated with the number of local authorities joining Société Territoriale at the time of capital increases. Each membership carries the potential for additional production of credits, thus contributing to increasing AFL's footprint on the local authority financing market.

The continuation of memberships is, therefore, at the heart of Agence France Locale Group's business model, as it determines balance sheet growth. Thus, looking at the pace of new memberships recorded in 2017 and over the first months of 2018 and the momentum observed since the creation of the AFL Group, AFL's outstanding credit should continue to grow over the coming years.

After three years of activity, Agence France Locale's model has imposed itself in France, as was the case in Northern European countries previously, as meeting local authorities' requirements for a tool that combines low operating costs, demonstrated successful access to international investors to raise funds, proximity with borrowers due to their status as shareholders of Société Territoriale and adaptability to the needs of the represented members, for example by producing individual ratings and the development of online services.

8. Risk management: description of the main risks and uncertainties

8.1 Strategic risk

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

i. Risks related to the business model

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

ii. Membership risks

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

iii. Political or macroeconomic risks or risks related to the specific financial circumstances of the State where Agence France Locale carries out its activities

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

iv. Risks related to competition

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

v. Risks related to regulatory developments

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

8.2 Credit and counterparty risk

i. Nature of risks

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

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

Credit and concentration risk related to borrowers - Agence France Locale carries out its activities for the exclusive benefit of local and regional authorities, public establishments for inter-municipal co-operation with their own taxation, and local public entities that are shareholders of the parent company of Agence France Locale.

If default by a local or regional authority cannot be ruled out, these counterparties are considered to have a limited risk profile; as a result, the credit transactions carried out have this same profile.

Since Agence France Locale can grant loans only to members, this implies a strong concentration of its credit risk for certain types of players. Agence France Locale is thus exposed to the possible deterioration of a local or regional authority or the situation of that sector.

Counterparty and concentration risk related to hedging contracts and cash investments - As a result of its cash investments, Agence France Locale bears credit risk on issuers of the securities it holds in its cash portfolio. Agence France Locale is exposed to the inability of the securities issuers in which it has invested to meet their financial obligations.

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

ii. Portfolio quality

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

As at December 31, 2017, the risk-weighted allocation of AFL credit exposures revealed a very high quality portfolio, with an average weighting of 16.8%.

Exposures by risk weight (standard method) (€)	12/31/2017 AGENCE FRANCE LOCALE Social - French GAAP		12/31/2016 AGENCE FRANCE LOCALE – Social – French GAAP	
0%	672,448,378	25%	272 283 763	18%
2%	83,521,394	3%	35 523 794	2%
20%	1,772,532,439	65%	1 160 096 423	77%
50%	204,635,226	7%	33 658 719	2%
100%	469,192	0%	549 558	
150%	248,125	0%	262 562	
1250%	-	0%		
Other risk-weights	-	0%		
Total exposure to credit and counterparty risk	2,733,854,754	100%	1 502 374 820	100%

iii. Local government loan portfolio

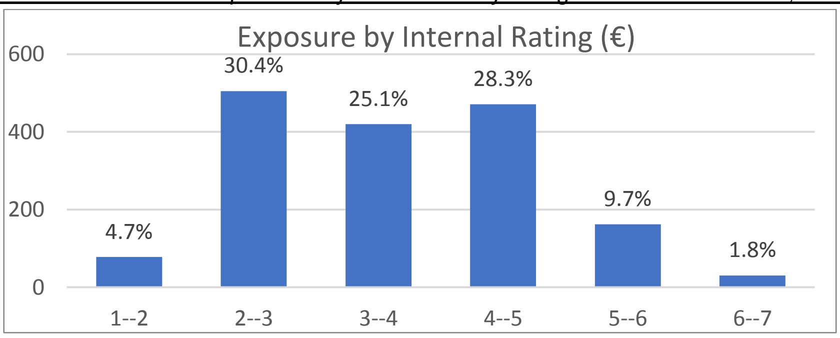
In order to assess and manage credit risk for local authorities, AFL has established an internal rating system for local authorities, with the following objectives:

- to evaluate the financial positions of local authorities, public inter-municipal co-operation institutions and local public entities for membership in the Agence France Locale Group through the establishment of a so-called "quantitative" or "financial" rating. On a scale from 1 to 7 (1 being the best score and 7 the worst), only local authorities rated between 1 and 5.99 may join the Agence France Locale Group. This rating system is automated and fed by the economic and financial data published once a year by the General Directorate of Public Finance (the French Ministry of Finance); and
- to evaluate the financial positions of the local authorities applying to AFL for credit using, in addition to the above-mentioned financial rating, a so-called "socio-economic" rating, potentially supplemented by a so-called "qualitative" rating. Lastly, the AFL Credit Committee decides on the final score awarded to the community concerned.

The breakdown by rating of its portfolio of loans to local authorities reveals a portfolio that is already granular and of good quality. As at December 31, 2017, this portfolio was more than 35% exposed to local authorities with ratings ranging from 1 to 2.99. The five largest exposures accounted for 22.9% of assets. The largest exposure accounted for 5.8% of assets and the fifth-largest 3.3%. As at December 31, 2017, the average rating of loans made by AFL to its members, weighted by volumes outstanding, amounted to 3.73. This rating is stable over one year.

Graph:

Breakdown of the loan portfolio by local authority rating[7] as at December 31, 2017



[7] Ratings in 2015

iv. Credit risk related to other exposures

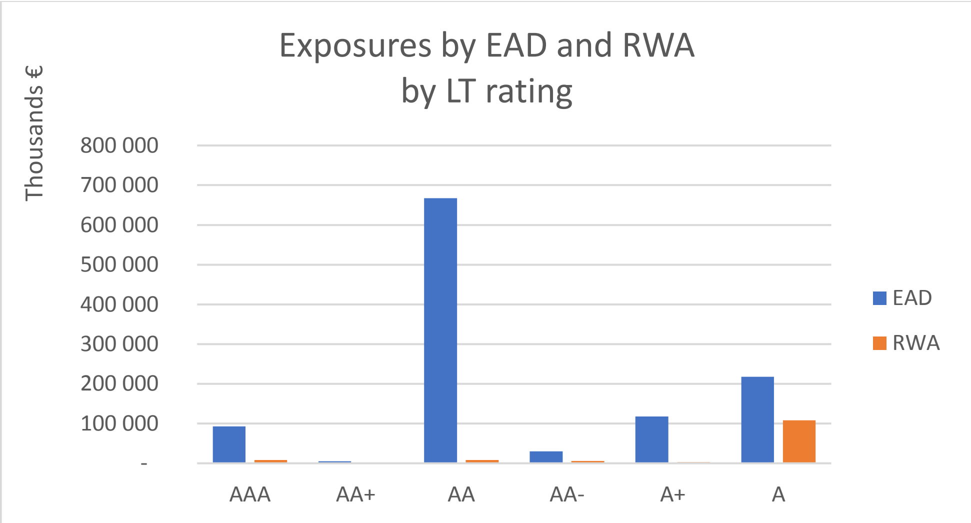
AFL has three other types of exposures:

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

The ratings of these exposures are of very high quality, with over 84% of exposures rated equal to or greater than Aa2 on the Moody's scale. The weighted average risk of this portfolio is 11.8%.

Graph:

Breakdown of the other assets in STA and RWA by AFL rating as at December 31, 2017



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

As at December 31, 2017, interest rate swaps were cleared at 82% in clearing houses and 18%[8] on a bilateral basis, with a daily collateralization for all instruments from the first euro. Currency hedging swaps remain processed on a bilateral basis.

v. Doubtful receivables, disputed claims, provisions

At December 31, 2017, outstanding doubtful or contentious receivables were nil. No collective provisions and no specific provisions were made as of December 31, 2017 for loans granted to local authorities or other assets.

[8] Calculation carried out on the basis of the regulatory STAs using the STD method. As at December 31, 2016, bilateral processed swaps represented 72% of the total.

8.3 Liquidity risk

i. Nature of risks

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

Agence France Locale is exposed to three dimensions of liquidity risk:

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

ii. Implemented strategy

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

Agence France Locale's liquidity policy aims to permanently hold a significant amount of highly liquid assets that can be mobilized at any time to meet its contractual as well as its regulatory commitments; it also provides for a diversified financing strategy and a limitation on transformation.

As part of its liquidity policy, Agence France Locale has put in place a system based on three objectives:

- the building of a liquidity reserve made up of liquid assets that can be mobilized for the regulatory LCR (Liquidity Coverage Ratio) at a minimum level of 150%;
- a financing strategy that encourages a diversity of debt instruments (including benchmark issues in euros, public issues in euros and potentially in foreign currencies, private investments, etc.) as well as the diversity of the investor base, both by type and geographical area;
- in order to reduce its liquidity mismatch risk, Agence France Locale strictly monitors maturity spreads. It tries to limit the average life-to-asset spread between its assets and liabilities to one year and maintain the regulatory NSFR (Net Stable Funding Ratio) above 150%.

As at December 31, 2017, the outstanding debt on the market in EMTN format amounted to €2,336 million with an average maturity of 5.15 years.

As at December 31, 2017, the LCR thirty-day liquidity ratio was 835%; AFL held a liquid asset amount to meet slightly over 12 months of its cash flow requirements[9].

As at December 31, 2017, the ALT variance was -0.7 years and the NSFR ratio was 189%.

8.4 Interest rate and currency risks

Interest rate risk includes the risk that Agence France Locale 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 an imbalance 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 Agence France Locale's income.

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

In order to maintain its financial base for the development of its lending activities, Agence France Locale 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.

Agence France Locale'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 translates into a notional outstanding amount of swaps of €5.5 billion at December 31, 2017.
As at December 31, 2017, the sensitivity of the NPV was -3.6% under the assumption of a parallel translation of more than 100 bps and -6.7% under the assumption of a translation of more than 200 bps of the yield curve.

Throughout 2017, the sensitivity of AFL's net present value to a change of plus or minus 200 bps remained below 15% of equity. The table below shows the sensitivity of the NAV as at December 31, 2015, June 30, 2016 and December 31, 2016[10].

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	12/31/2017	6/30/2017	12/31/2016
Sc. +100bp	-3.7%	-1.8%	-7.9%
Sc. -100bp	4.4%	2.4%	9.0%
Sc. -100bp (floor)	2.3%	1.5%	2.2%
Sc. +200bp	-6.7%	-3.2%	-11.8%
Sc. -200bp	9.7%	5.3%	15.7%
Sc. -200bp (floor)	2.5%	1.7%	2.2%

Currency risk includes the risk that Agence France Locale may incur losses on borrowed or loaned assets in currencies other than the euro. Agence France Locale's policy aims to hedge this risk systematically through the implementation of cross currency swaps. As a result, assets and liabilities denominated in currencies other than the euro are systematically swapped into euros at the balance sheet date and until their final maturity.

8.5 Financial risk due to the effects of climate change

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

Aware of the role and responsibility of each actor in reducing the impact of climate change, Agence France Locale is developing an environmentally-friendly waste treatment policy, specifically in respect of the collection and recycling of consumables, the collection of IT waste and the implementation of waste sorting. Agence France Locale also encourages its employees to adopt behavior to reduce its energy footprint.

8.6 Operational risks

i. Nature of risks

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

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

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

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

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

Non-compliance risk - Non-compliance risk includes the risk of judicial, administrative or disciplinary sanctions, significant financial loss or damage to reputation resulting from non-compliance with provisions governing banking and financial activities, of a legislative or regulatory nature, whether domestic or European, or whether they have to do with professional and ethical standards or instructions from effective managers given in accordance with the guidelines of the Supervisory Board of Agence France Locale. Agence France Locale is required to comply with these standards and is therefore exposed to a risk of penalties for non-compliance.

ii. Mechanism in place

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

These systems, which were built in compliance with best market practices, involve regular assessment of risks and the effectiveness of controls to minimize those risks and the implementation of an improvement/remediation action plan where necessary. The systems are based on the four lines of defense of internal controls (business lines – operational risk monitoring function – second-level permanent control – periodic control). In addition, as mentioned above, Agence France Locale is implementing a policy for the security of IT systems and monitoring of essential outsourced services.

The main tools put in place are risk mapping and incident escalation.

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

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

iii. Risk analysis

- In 2017, no significant operating loss was incurred. With regard to legal risks, AFL was not involved in any disputes during the 2017 financial year.

- The amount of capital requirements for operational risk amounted to €12.74 million as at December 31, 2017.

9. Prudential ratios and equity

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

Since October 2017, AFL defers regulatory capital to the ACPR on a consolidated basis only, in accordance with IFRS, for its parent company, Société Territoriale.
As at December 31, 2017, prudential capital amounted to €114.1 million, in accordance with IFRS, for Société Territoriale. Given the quality of credit of the assets carried by AFL, the solvency ratio reached 23.99% on a consolidated basis. In addition, the leverage ratio stood at 4.17% on that same date.

The table below provides a statement of the prudential and capital adequacy ratios[11] per quarter for the year 2017. In the assumption that the deduction of development loans from assets is retained by the European Commission draft text, the leverage ratio for Société Territoriale (IFRS) would amount to 10.40% as at December 31, 2017.

[11] It is recalled that AFL is monitored for the use of equity at the consolidated level and for liquidity at the lending institution level.

	12/31/2016	3/31/2017	6/30/2017	9/30/2017	12/31/2017
CET 1 (€ thousands)	90,661	106,484	110,823	109,885	114,148
Solvency ratio	33.81%	29.39%	29.04%	26.81%	23.99%
Leverage ratio	5.96%	5.23%	4.50%	4.57%	4.17%

10. Internal control and risk management procedures

In compliance with Article L. 1611-3-2 of the French General Local and Regional Authorities Code (CGCT), Agence France Locale's main activity consists in granting loans and credits to the Groupe Agence France Locale's regional and local authority members to enable them to finance part of their investment budgets.

As part of that activity, the Company 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 those objectives, the Company has set up a mechanism to manage and control risks of any kind that affect its activities.

Internal control falls within a strict regulatory framework that is governed by the

French Monetary and Financial Code (in particular Articles L. 511-55 and L. 511-56) and the Decree of November 3, 2014 (the Decree) concerning the internal control of the banking sector, payment services and investment services subject to the supervision of the French Prudential Supervision and Resolution Authority (ACPR).

It should be remembered that, even though the Company operates under conservative risk policies, risk-taking is inherent in the activity and reflects the desire for growth in an environment intrinsically prone to uncertainties. Accordingly, the Company is forced to take risks in the course of its activities. Internal control and risk management systems aim to ensure that risks are properly appreciated.

10.1 Governance

i. Supervisory Board and Management Board

The governance of the internal control and risk management systems is shared between the Management Board and the Supervisory Board.

The Management Board is in charge of the consistency and effectiveness of the overall internal control and risk management systems. It validates the proposed risk management policies, ensures the establishment of sufficient resources for the year and promotion of operations, and examines the measures taken to assess the effectiveness of the arrangements in place.

The Supervisory Board is responsible for the compliance of the overall internal control and risk management system with the regulations and laws in force, and relies in its work on an Audit and Risk Committee that reports to it.

Two committees that are under the responsibility of the Supervisory Board also participate in this arrangement:

- the Audit and Risk Committee ensures overall supervision of the system established and is in charge of:

  (i) assessment of the quality of internal control, including the coherence of systems for measuring, monitoring and controlling risks, monitoring the findings of periodic control tasks and supervisory authorities, monitoring operational risks and monitoring risks linked to business activities (new products, new business, etc.) and, where necessary, proposing additional actions, and

  (ii) verifying the clarity of the information provided and assessing the relevance of the accounting methods adopted for the preparation of the individual and, as the case may be, consolidated financial statements;

- the Appointments, Remuneration and Corporate Governance Committee meets as often as necessary and, in particular, seeks to ensure compliance with the rules of corporate governance and approve the compensation policy on an annual basis.

ii. The Risk, Compliance and Control Department

From an operational standpoint, the internal control system is the responsibility of the Director of Risk, Compliance and Control, who is a member of the Management Board and reports directly to the Chairman of the Management Board. As defined by the Decree, this person is in charge of permanent control, periodic control, compliance control and risk management. In the performance of his missions, he relies on various managers who come under his line management.

In accordance with the Decree:

- as the person responsible for periodic control, the Director of Risk, Compliance and Control reports on the findings of their missions to the Management Board and the Supervisory Board; they may also inform the Supervisory Board and, where appropriate, the Audit and Risk Committee, directly and on their own initiative, of the failure to implement the remedial measures taken following recommendations from the periodic control;
- as the person responsible for risk management, in the event of changes in risk, the Director of Risk, Compliance and Control can report directly to the Supervisory Board and the Audit and Risk Committee without reference to the Executive Board.

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

iii. The operational departments

All of the operational departments of Agence France Locale contribute to the internal control and risk management system, both the operational departments, which are responsible in particular for taking risks and ensuring that permanent first-level controls are properly carried out, and the organization and IT systems department, which is in charge of the operational management of the organization and IT systems, or the legal department, which ensures the security and legality of operations.

iv. 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 quarterly, is responsible for monitoring the exposure of AFL to risks of all kinds. It approves risk policies, measurement indicators and the supervision of such risks on an annual basis. It also oversees the risk management system and decides on the related action plans; and
- the Internal Control Committee, which meets semi-annually, is tasked with the management of the internal control and compliance systems of AFL across all departments.

Several operational committees chaired by the Chairman of the Management Board that include the members of the Management Board also participate in the overall internal control system:

- the Loan Committee, which meets at least monthly to decide on the granting of loans to a member and to approve the risk category, is also called upon to decide whether or not to begin a relationship with a market counterparty, the nature of the transactions that AFL may carry out with that counterparty, and on the counterparties for which it takes exposures in connection with the management of its liquidity reserve;
- the ALM Committee, which meets at least monthly and whose mission is to ensure the implementation and correct execution of the investment policy, the hedging policy and the liquidity policy, including the execution of the financing strategy;
- the New Products Committee, which meets as necessary to decide on the implementation of a new product or activity or on significant changes to existing products or activities; and
- the Organization and Procedures Committee, which meets as necessary and whose purpose is to approve the processes and procedures that describe the activities of Agence France Locale.

These committees are governed by internal regulations. Within the first two operational committees, the Director of Risk, Compliance and Control has a right of veto. Should he or she exercise it, the decision is either adjourned to a subsequent Committee meeting or is decided by the Management Board in a vote for which the Chairman of the Management Board, in the event of a tie, has a casting vote.

10.2 Internal control and risk monitoring systems

a. Definition and objectives of internal controls

The internal control and risk management systems are the processes implemented by the Supervisory Board, the Management Board and the employees of AFL that are designed to control the various risks to which its activities expose it and to guarantee:

- the quality and compliance of the financial transactions performed;
- 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 systems are organized in compliance with legal and regulatory requirements and are built around:

- financial policies and risk monitoring indicators defined in relation to the institution's objectives that specify and frame the risks incurred;
- an organization structured and supervised by a body of documents (operating and other procedures) providing the wherewithal to clearly define the roles and responsibilities of each one;
- systematic, permanent, risk-focused monitoring and regular review of the overall system; and
- the implementation of a control system commensurate with the challenges specific to each process and their estimated level of risk.
- Because its objective is to prevent and to control the risk of not meeting the objectives set by Agence France Locale in terms of development, the internal control and risk management systems play a key role in the management and steering of the various activities of Agence France Locale. However, it cannot be, and is not intended to provide, a guarantee that the objectives of the Agence France Locale will be achieved.

b. Functions, scope and associated resources

The internal control and risk management systems are based on the financial, operational and regulatory information required for overall risk control and decision-making. In order to achieve its various missions, they are organized around three main functions:

- risk management ensures the implementation of risk measurement systems and monitoring and control procedures;
- the control of operations is based on a continuous and permanent monitoring of risk management within Agence France Locale (permanent control), as well as internal audits to ensure the control of risks and effectiveness of compliance and continuous control processes (periodic control);
- compliance ensures that all activities carried out by Agence France Locale comply with the standards and regulations in force.

i. The Risk function

The Risk function ensures the implementation of AFL's risk identification, measurement and monitoring systems. In particular, it guides, oversees and monitors these systems and relies on other internal control functions and operational departments to identify, analyze and monitor the risks that it oversees in a consolidated manner.

It operates independently of the operational teams.

As defined by the Decree and taking into account the nature of AFL's activities, since AFL began its operations the Risk function has focused on the identification, analysis and monitoring of major risks to its business. This analysis is refined on a recurring basis. It takes into account both proven risks and new risks, such as new financial instruments or new procedures.

The Risk function relies on various resources and tools that enable it to oversee the risk management of AFL on a permanent basis:

- the financial and risk management policies drawn up by the business lines and the Risk, Compliance and Control Department, which set the appetite for risk and the rules and limits adapted to the activities; these policies are reviewed annually by the Global Risk Committee, submitted to the Audit and Risk Committee and approved by the Supervisory Board;
- risk indicators that give rise to regular reporting that enables the Management Board to have a reliable view of the risks incurred;
- an organizational chart of operational risk management that identifies the responsibilities of operational departments for the management of these risks and takes into account the requirements for separation of responsibilities where necessary; and
- a risk management system monitored by the Global Risk Committee. It is based on a summary of the risks taken by AFL and it allows the Management Board to have an aggregated, reliable, up-to-date and prospective view of the risks incurred. This system is based on risk mapping that identifies and categorizes the risks incurred by AFL over all of its activities (impact, occurrence, degree of control).

The risk management system is also based on the analyses and results of the controls of the permanent control function and the periodic control function on activities and on the overall monitoring of the action plans these activities entail.

In 2017, AFL revised and amended the financial policies applicable to its activities. Adaptations were made to the relative importance of the various risks as part of the quarterly GRCs. Responsibilities were confirmed. The main risk measurement indicators and reporting set up have changed to follow AFL's growth. The Global Risk Committee met four times.

ii. The Control function

In accordance with Article 11 of the Decree, the purpose of the Agence France Locale operations and internal procedures control system is to:

- verify that the transactions carried out by AFL and their organization and internal procedures comply with the applicable legal and regulatory provisions, professional and ethical standards and management instructions given in accordance with the risk, strategic and monitoring policies of the supervisory body;
- verify that decision-making procedures of any kind and management standards, particularly limits, are strictly adhered to;
- verify the quality of accounting and financial information;
- verify the conditions for assessment, recording, retention and availability of information;
- verify the execution within a reasonable period of time of corrective measures decided within AFL; and
- verify compliance with provisions relating to compensation policies and practices.

Control functions are divided into permanent and periodic controls to ensure independent and objective risk assessment, in accordance with regulatory requirements.

Permanent controls

The permanent control function ensures continuous monitoring of the risk management system within AFL. It defines and implements the controls necessary for the proper functioning of the various activities of AFL.

Control activities are carried out at all hierarchical and functional levels of the structure according to a previously formalized organization and procedures. Management ensures that all employees know the policies, procedures and responsibilities of their function, have the information and training necessary to carry out their tasks and know the importance of their responsibilities with regard to control.

AFL's permanent control system is organized in two levels to ensure full coverage of risks and comply with the requirements of the Decree:

The ***first-level permanent controls*** are performed by the operational departments. They are mainly carried out in the form of self-checks by the operational departments and of hierarchical controls by their managers. The first-level controls are described in the AFL procedures, which are subject to a customized formalization, updating and approval process.

In 2017, the body of documents that governs the activities of AFL (policies, procedures, operating procedures) was completed. On that basis, the system of first-level controls and the tools for monitoring their implementation was supplemented. The principle is that each control must be documented in a standardized manner within the framework of a control matrix, thus ensuring a homogeneous performance and audit trail.

The ***second-level permanent controls*** are grouped under the responsibility of the Risk, Compliance and Control Director. Their purpose is, in particular, to supervise the first-level control system carried out by the operational departments, perform specific checks, monitor incidents reported by the Business Line departments, in particular significant incidents as defined in the Decree and monitor outsourced essential services and IT system security. In particular, second-level permanent controls are intended to be based on:

- the definition of an annual permanent control plan that covers the most significant areas of risk and is based on particular on the results of the first- and second-level controls, lessons learned from the use of risk mapping and the risk management system;
- the reporting of operational and IT incidents and compliance malfunctions issued by the Departments and centralized in the "incident" database;
- the reproduction of these analyses in the form of regular recommendation reports to strengthen the control systems and therefore the risk controls;
- the establishment of an emergency plan and continuation of activity updated and tested on a regular basis in light of changes in the risks incurred;
- verification of the quality of IT and communication systems, both internal and external;
- the guarantee, reliability, integrity and availability of financial information through controls performed on the accounting systems.

In 2017, the main elements of the system were finalized.

The Internal Control Committee met twice in 2017.

Periodic controls

The purpose of periodic controls is to check risk control levels and assess the quality and reliability of the internal control system.
In accordance with the Decree of November 3, 2014 respecting the internal controls of companies in the banking sector subject to the supervision of the French Prudential Supervision and Resolution Authority (ACPR), periodic controls are the responsibility of the Director of Risk, Compliance and Control, who is a member of the Management Board.
In order to guarantee its independence with respect to first- and second-level controls through permanent controls, Agence France Locale has outsourced periodic controls to a service provider, PwC, since 2014.

In 2017, periodic controls required 50 man-days per year, including internal responsibilities and the completion of outsourced work.

2017 was the last year of the multi-cycle three-year plan started in 2015. A call for tender was launched in November to select the service provider to support AFL for 2018-2019-2020, in which PwC was selected.

Internal audit missions are carried out on the spot and onsite and their purpose is to ensure compliance with regulatory requirements, internal rules and risk controls, and are performed in particular on the evaluation of the permanent control system.
For each internal audit mission, an overall rating reflecting the level of risk control was allocated according to the following methodology:

- "Robust risk management systems" with requested improvements for marginal or sporadic weaknesses;
- "Risk management systems that need strengthening" with several components to be improved or strengthened to ensure control of significant risks to processes or activities;
- "Risk management systems to be set up" with necessary changes required to significantly increase the level of risk controls.

In order to mitigate the areas of risk identified, Periodic Control makes recommendations based on three levels of risk and, on a biannual basis, monitors their implementation by the persons responsible to whom the recommendations are addressed.

The Director of Risk, Compliance and Control reports to the Audit and Risks Committee on a semi-annual basis on the tasks performed within the framework of the annual audit plan and on a semi-annual basis on the implementation of the recommendations made.

iii. The Compliance function

Control of compliance is one of the main pillars in AFL's internal control system. It aims to ensure the management of non-compliance risks, i.e. to ensure that the establishment's current and future activities comply with all obligations imposed on AFL. These obligations are based on a body of documents consisting of:

- external reference texts (laws, regulations, standards, opinions of authorities); and
- internal reference texts (guidelines, policies, procedures, accounting schemes, etc.).

The compliance function, which falls under the Director of Risks, Compliance and Control, performs these activities autonomously with respect to all operational functions.

The prerogatives of the Compliance function concern all current activities of AFL, as well as future changes to products and services. In a detailed manner, the Compliance function aims to ensure:

- the process for authorizing new products or activities;
- the implementation of measures to combat money laundering and the financing of terrorism and to ensure respect for embargoes;
- the implementation of personal data protection measures;
- monitoring of professional ethics procedures;
- regulatory monitoring for the institution and playing a role of informant for various major regulatory changes/communication.

In 2017, the Compliance function continued to consolidate AFL's non-compliance risk management system. This resulted in the updating and maintenance of procedures developed upfront, in particular financial security and personal data protection measures. A compliance manual was prepared.

At the same time, the main measures developed were subject to compliance maintenance and operational implementation, in particular:

- the approval system for new products and activities;
- measures to combat money laundering and the financing of terrorism and to ensure respect for embargoes;
- regulatory monitoring measures based on participation in local organizations that afford monthly communication specific to the various business lines and functions.

Lastly, the 2017 financial year was marked by the compliance projects related to regulatory developments on subjects such as the ICAAP and the preventive recovery plan. Regulatory projects were launched (IFRS9).

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

Organization of the accounting system

The Accounting Department comes under the Finance Department. In 2017, it had three full-time functions spread over four people. The Accounting Director, an executive accountant in charge of general accounting, and two apprentices, one in charge of registering supplier invoices and the other in charge of strengthening the accounting control system.

Permanent accounting controls (levels 1 and 2)

The permanent accounting control system is organized around two levels of controls that aim to ensure the regularity, security and compliance of the accounting translation of the transactions carried out and the monitoring of risks for the associated processes.

The **first level of accounting control** is provided by the operational back-office and accounting teams. It consists of the self-checks carried out by employees in charge of the various accounting tasks, supplemented by relevant line management supervision. The various types of checks carried out are the following:

On a daily basis:

- operational controls for the correct accounting of operations, via flow control procedures, such as the offloading of events from management applications (credit chain, cash, market transaction) into the accounting software is checked daily;
- cash-settled amounts are recalculated and verified (IBAN verifications, coupon payments, purchases and sales of securities, swap-offs, etc.);
- banking flows from market activities are also checked daily with account holders; bank reconciliations are formalized daily.

On a monthly basis:

- inventory checks are carried out monthly: completeness of outstanding credit lines, reconciliation with the custodian for securities inventories and outstanding swaps;
- the reconciliations of accounts for general expenses are carried out at bi-weekly intervals.

The purpose of **second-level accounting controls** is to ensure the execution of the control procedures implemented by the accounting and back-office teams upstream, the regularity of transactions, the compliance of their registration with regard to existing benchmarks (accounting plan, accounting schemes) and compliance with procedures. These consist of accounting consistency checks (such as analytical accounting reviews), cross- checks (reconciliation of accounting results/analytical results). This level of control is carried out by the members of the accounting department and is quarterly in frequency. In detail, it involves:

- reconciliation of the accounting position to the positions held by the Back Office and the Middle Office;
- preparation of account statements;
- preparation of a closing file that analyzes and documents the 350 balances of the general balance (on-the-spot controls, variation and likelihood controls);
- development of reconciliations between accounting and management (reconciliation of outstanding loans, outstanding swaps, portfolio performance).

Other checks are carried out internally with a periodic frequency, in particular the following:

- verification of third-party payer databases (SIRET, name, address and IBAN);
- verification and control of accounting system authorizations;
- review of accounting schemes;
- a third-level control carried out by the Finance Department with the review of the quarterly consolidated and parent company financial statements.

11. Data on share capital and shares

11.1 Shareholding structure and changes thereto during the financial year

At December 31, 2017, AFL's share capital totaled €132.5 million, divided into 1,325,000 shares with a par value of €100 each, of the same category, fully subscribed and paid up. AFL's share capital consists entirely of registered shares. Each share held entitles the holder to a vote at the General Meetings. AFL neither issued nor authorized the issue of any preferred shares during the financial year ended December 31, 2017.

The table on the following page presents AFL's shareholding structure and the changes thereto during the past financial year.

Almost all of the share capital and voting rights in AFL are held by AFL-ST (99.99%).

As at January 1, 2017, the balance, i.e. 10 shares, was broken down between the ten founding members of the AFL Group, in order to comply with the requirements imposed by Article L. 225-1 of the French Commercial Code which required, at the date of AFL's constitution, that the number of partners in a public limited company could not be less than seven. The provisions of Article L. 225-1 of the French Commercial Code have changed: the minimum number of shareholders required to constitute a public limited company is now two. Therefore, and to take into account the joint recommendations of AFL's Supervisory Board and AFL-ST's Board of Directors on the change in governance of the AFL Group, each of the founding members of the AFL Group, with the exception of the Lyon Metropolitan Area, sold their single share held in AFL's share capital to AFL-ST under the conditions stipulated in the Shareholders' Agreement.

As at December 31, 2017, only AFL-ST and the Lyon Metropolitan Area in the region in which AFL's registered office is located, are shareholders of AFL, in order to meet the requirements of Article L. 225-1 of the French Commercial Code indicated above.

AFL-ST thus holds exclusive control over AFL in order to benefit from the provisions of Article L. 225-87 of the French Commercial Code. The agreements exclusively signed between AFL and AFL-ST are, therefore, excluded from the scope of application of regulated agreements.

In pursuit of the accomplishment of its corporate purpose, which consists in particular in being a shareholder of AFL, only AFL-ST has subscribed to capital increases in AFL during the 2017 financial year.

The Annual General Meeting of AFL's Shareholders will be requested to renew the delegation of authority to the Company's Management Board to carry out capital increases up to an overall limit of €150 million with the cancellation of shareholders' preferential subscription rights for the benefit of AFL-ST.

	01/01/2017			12/31/2017		
	Amount of subscribed capital (in euros)	Number of voting rights / shares held	%	Amount of subscribed capital (in euros)	Number of voting rights / shares held	%
Agence France Locale – Société Territoriale	110,999,000	1,109,990	99.99%	132,499,900	1,324,999	99.99%
Lyon Metropolitan Area	100	1	0.001%	100	1	0.01%
Pays de la Loire Region	100	1	0.001%	0	-	-
Department of Aisne	100	1	0.001%	0	-	-
Department of Essonne	100	1	0.001%	0	-	-
Department of Savoie	100	1	0.001%	0	-	-
City of Bordeaux	100	1	0.001%	0	-	-
City of Grenoble	100	1	0.001%	0	-	-
Lille European Metropolitan Area	100	1	0.001%	0	-	
Commune of Lons-le- Saunier	100	1	0.001%	0	-	-
Valenciennes Metropolitan Area Urban Community	100	1	0.001%	0	-	-
Total	**111,000,000**	**1,110,000**	**100%**	**132,500,000**	**1,325,000**	**100%**

11.2 Employee share ownership

No shares in the companies comprising Agence France Locale Group are owned by its employees, as the shareholder structure imposed by the legislator does not allow employees to own shares in the capital of Agence France Locale.

Consequently:

- no operations were carried out during the financial year ended December 31, 2017 in respect of share purchase or subscription options in the Company reserved for employees;

- no operations were carried out during the financial year ended December 31, 2017 in respect of share purchase or subscription options in Group companies reserved for employees as stipulated in Articles L. 225-177 to L. 225-186 and L. 225-197-1 to L. 225-197-3 of the French Commercial Code.

No operations to enable Company employees to enter into AFL's share capital are planned in the coming financial years. Company share buybacks

During the year ended December 31, 2017, AFL made no transactions in its own shares. Furthermore, the Company does not hold any of its own shares as at December 31, 2017.

March 29, 2018,

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

11.3 Transactions on AFL securities by its officers

AFL was not informed of any acquisition, sale, subscription or exchange of AFL shares by the corporate officers or persons having close personal ties with any of them during the financial year ended December 31, 2017.

11.4 Stock market situation of AFL

As at December 31, 2017, the 1,325,000 shares with a par value of €100 each were not tradable on a regulated market.

12. Environmental, social and societal information

In accordance with the former provisions of Article L. 225-102-1 of the French Commercial Code which remain applicable for financial years opened before August 1, 2017, the environmental, social and societal information is published on behalf of AFL in the consolidated management report of its parent company, AFL-ST, which controls it under the meaning of Article L. 233-3 of the French Commercial Code.

APPENDIX 1
TABLE OF RESULTS FOR THE PAST FOUR FINANCIAL YEARS

(ARTICLE R. 225-102 OF THE FRENCH COMMERCIAL CODE)

Parent company financial statements at December 31

TYPE OF INDICATIONS	2017	2016	2015	2014
I. - Financial position at year-end:				
a) Share capital (in thousands of euros).	132,500	111,000	74,300	35,800
b) Number of shares issued.	1,325,000	1,110,000	743,000	358,000
c) Number of bonds convertible into shares.				
II. - Overall profit from transactions (in thousands of euros):				
a) Revenues excluding tax.	11,102	9,127	371	311
b) Earnings before tax, amortization and provisions.	1,856	258	(10,345)	(7,486)
c) Corporate income tax.				
d) Earnings after tax, amortization and provisions.	146	(2,642)	(12,082)	(8,046)
e) Amounts of dividends distributed (1).				
III. - Profit from transactions reduced to a single share (2):				
a) Earnings after tax, but before amortization and provisions.	1.40	0.23	(13.92)	(20.91)
b) Earnings after tax, amortization and provisions.	0.11	(2.38)	(16.26)	(22.47)
c) Dividend paid for each share (1).				
IV. - Personnel:				
a) Number of employees.	25	25	22	18
b) Amount of payroll (in thousands of euros).	2,980	2,730	2,580	1,359
c) Amount paid for social benefits (social security, works, etc.) (in thousands of euros).	1,612	1,508	1,217	628

APPENDIX 2
SUPERVISORY BOARD'S REPORT ON CORPORATE GOVERNANCE

Dear Shareholders,

In accordance with the combined provisions of Articles L. 225-68, paragraph 6, L. 225-37-3 to L. 225-37-5, and L. 225-82-2 of the French Commercial Code, and Article L. 511-100 of the French Monetary and Financial Code, and in compliance with the AFEP-MEDEF Corporate Governance Code, which Agence France Locale voluntarily upholds, it is my honor, in my capacity as Chairman of the Supervisory Board, to present to you, on behalf of the Supervisory Board, this report on corporate governance for the 2017 financial year, the terms of which were approved by the Supervisory Board at its meeting on March 29, 2018.

Agence France Locale (the ***Company***) is a public limited company with a Management Board and a Supervisory Board. This legal form allows for a separation between the duties of managing the Company, as performed by the Management Board, and the duties of overseeing the Company's management, as performed by the Supervisory Board.

This report includes the following:

- information on corporate governance, primarily on 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;

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

- any observations issued by the Supervisory Board regarding the statements for the financial year ended December 31, 2017 and the management report prepared by the Management Board for that same financial year.

This report was prepared with the support of the Management Board and the Legal Department of AFL, and was given a favorable review by the Company's Appointments, Remuneration and Corporate Governance Committee (the ***ARCGC***) on November 27, 2017, which on March 22, 2018 also reviewed the compensation paid to corporate officers for the past financial year.

For the purposes of this report, note that the Company, together with its reference shareholder, Agence France Locale – Société Territoriale (***Société Territoriale***) forms a group called ***Groupe Agence France Locale***.

1. Declaration of compliance with the Code of Corporate Governance

In compliance with the provisions of Articles L. 225-37-4, paragraph 8, 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* and the *Mouvement des Entreprises de France* contained in their code of corporate governance, revised in November 2016, as a reference framework for corporate governance.

In this context, the Company's Supervisory Board has adopted internal regulations that incorporate the main provisions of the Code.

The AFEP- MEDEF Code and the internal regulations of the Supervisory Board can be consulted at the registered office of the Company.

Nonetheless, to account for the Company's specific requirements, the Company has made the following governance choices:

- **Target of balanced representation of men and women (former Article 6.4 of the AFEP-MEDEF Code, now covered by Article L. 225-69-1, paragraph 1, of the French Commercial Code)**

The requirement that women represent 40% of the Supervisory Board, previously covered in Article 6.4 of the AFEP-MEDEF Code, was included in Act 2016-1691 dated December 9, 2016, the so-called "Sapin 2 Law," and codified in Article L. 225-69-1, paragraph 1, of the French Commercial Code.

At the end of the 2017 financial year, the Supervisory Board is composed of two women and nine men, a ratio of 18%/82%.

Strictly speaking, the Company does not enter into the remit of this law, because its shares are not eligible for trading on a regulated market; nevertheless the Appointments, Remuneration and Corporate Governance Committee and the Supervisory Board of the Company have confirmed the target, based on the previous recommendations of the AFEP-MEDEF Code, of achieving balanced composition on the Supervisory Board and having 40% women members, because gender mixing and, more generally, diversity still have an important place in the values of the Company.

The principles applied by the ARCGC and the Supervisory Board of the Company with the aim of achieving the target composition balance on the Supervisory Board are detailed in point 2.1.4 below.

- **Absence of shares held by the members of the Supervisory Board (Article 19 of the AFEP-MEDEF Code).**

The Company has decided to exclude Article 19 of the AFEP-MEDEF Code. Consequently, Supervisory Board members hold no shares in Agence France Locale or Société Territoriale. This principle stems from the structure of the Agence France Locale Group, whose shareholders are meant to be composed solely of local and regional government shareholders of Société Territoriale, pursuant to Article 1611-3-2 of the French General Local and Regional Authorities Code. The Company's shareholding structure is itemized in point 7.1 below.

2. Composition and functioning of the management bodies

The Management Board exercises the management of the Company under permanent control by the Supervisory Board, 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 (***ARCGC***), the Strategy Committee.

2.1. Supervisory Board

2.1.1. 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 consists of, at least:

(a) the Chairman of the Board of Directors of Société Territoriale;
(b) the Vice-Chairman of the Board of Directors of Société Territoriale;
(c) the Chief Executive Officer of Société Territoriale;
(d) one expert with an in-depth knowledge of the problems related to the finances of regional and local authorities; and
(e) at least four (4) members with acknowledged professional skills in financial, accounting, management, control or risk matters who serve on independent public or private bodies.

The members referred to in paragraph (e) above are considered to be independent and must have the required financial, accounting, management, control or risk qualifications. The Board of Directors of Société Territoriale, acting on the recommendation of the Company's Appointments, Remuneration and Corporate Governance Committee, is responsible for nominating them.

The independence of the members of the Supervisory Board of Agence France Locale is a key element in guaranteeing the managerial autonomy of the Management Board with respect to Société Territoriale. In this context, the articles of association of Agence France Locale state that the number of independent members of the Supervisory Board must always be greater than the number of representatives of Société Territoriale and from Regional and Local Authorities. In practice, the minimum composition of the Supervisory Board required by Article 2.2 of the Company's Articles of Association automatically means that independent members make up half of the Supervisory Board, a higher threshold than the one stated in Article 8.3 of the AFEP-MEDEF Code (one third), even though it is not expressly referred to in the Company's Articles of Association.

Pursuant to Article 15.2.1 of the Company's Articles of Association, the composition of the Supervisory Board was renewed by the General Meeting of May 5, 2017 called to approve the financial statements of the Company's third year-end closing.

The Supervisory Board consists of the following persons as at December 31, 2017:

Identity and functions	*Duties*	**Date of first appointment** **Renewal date(s)** **Current term of office**	**Education**	**Experience**	**Skills/main areas of expertise**
Richard Brumm	Chairman of the Supervisory Board since June 20, 2016 Reappointed by the Supervisory Board on June 22, 2017 Vice-Chairman of the Board of Directors of Société Territoriale	Reappointed by the General Meeting of May 5, 2017 for a four-year term Term expires following the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020	June 1970: *Licence en droit* (law degree) September 1970: *Certificat d'Aptitude à la Profession d'Avocat* (admission to practice law) December 1970: Swearing-in and admission to the Bar of Lyon	Since January 1, 2015: *Avocat honoraire* (emeritus attorney) 1970-2014: Attorney with the Bar of Lyon April 2014 - Present: Deputy Mayor in charge of Finances and Public Procurement (since 2017, First Deputy) - City of Lyon March 2014 - Present: Elected community official - Vice-President in charge of Finance - Lyon Metropolitan Area March 2008 - March 2014: Elected city official - Deputy Mayor in charge of Finance and General Administration - City of Lyon	Business law, corporate law Public finance
Jacques Pélissard	Member of the Supervisory Board. Vice-Chairman of the Supervisory Board since June 22, 2017 Chairman of the Board of Directors of Société Territoriale.	Appointed by the Ordinary General Meeting of June 22, 2017 Term expires following the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020	1971: *Licence-ES-Lettres* (Bachelor of Arts) – Faculté de Lyon 1970: Degree from the Institut d'Etudes Politiques de Paris (Paris Institute of Political Studies) ("*Public Sector*" section) 1969: DES Droit (postgraduate law degree) – Faculté de droit de Lyon (Lyon Law School)	**Professional activity:** 1971-1974: Professor at the Ecole Supérieure de Commerce de Lyon (Lyon Business School) Until July 1, 1993: Attorney **Public and political office:** Since 2014, Honorary President of the French Mayors' Association Since 1989: Mayor of Lons-le-Saunier (Jura Prefecture) 1993-2017: Representative of Jura, member of the Finance Committee of the *Assemblée Nationale* (French National Assembly) 2000-2017: President of the Suburban Community of Lons "ECLA" 2004-2014: President of the French Mayors' Association	Public finance, public administration

Identity and functions	*Duties*	Date of first appointment Renewal date(s) Current term of office	Education	Experience	Skills/main areas of expertise
Mélanie Lamant	Member of the Supervisory Board. Member of the Strategy Committee.	Reappointed by the General Meeting of May 5, 2017 for a four-year term Term expires following the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020	2000-2001: French National Institute of Local Government Studies – CNFPT 1998-1999: Preparation for administrative competitions – eligible for the *Ecole Nationale d'Administration* (National administration school) 1997-1998: DESS (specialized advanced degree) in corporate social and employment development (economic development – human resources) 1994-1997: Institut d'Etudes Politiques de Paris (Paris Institute of Political Studies) – Public Service Section	Since April 2014: Director General of Services - EPT Plaine Commune (93) June 2011 - April 2014: Deputy Director General – EPT Plaine Commune (93) September 2005 - June 2011: Director of Finance - EPT Plaine Commune (93) March 2004 - August 2005: Director of Finance and Markets - creation of the Department - Suburban Communities of Hauts-de-Bièvre (92) January 2002 - March 2004: Director of Finance - City of Aulnay-sous-Bois (93)	Public finance, public administration

Identity and functions	*Duties*	Date of first appointment Renewal date(s) Current term of office	Education	Experience	Skills/main areas of expertise
Rollon Mouchel-Blaisot	Vice-Chairman of the Supervisory Board until May 5, 2017 Member of the Appointments, Remuneration and Corporate Governance Committee. Chairman of the Board of Directors of Société Territoriale until May 24, 2017	Reappointed by the General Meeting of May 5, 2017 for a four-year term Term expires following the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020	1980: Graduated from IEP in Paris 1984: DESS (specialized advanced degree) in economics and international air and maritime transport law Master's in Business Law Auditor of the graduate program in Territorial Studies (CSET III) of the Ministry of the Interior, the Institute of Advanced Studies in National Defense (IHEDN) and the Institute of Advanced Corporate Studies (IHEE)	2010-2017: Director General of Services of the French Mayors' Association 2008-2010: Prefect, Senior Director of French Southern and Antarctic Territories 2005-2008: Sub-Prefect of the Saint-Germain-en-Laye district 2003-2005: Secretary General for regional affairs at the Prefecture of the Limousin region 2001-2003: Sub-Prefect of the Libourne district 1997-2000: Consul General of France to Melbourne 1995-1997: Chief of Staff to the Minister of Foreign Affairs 1994-1995: Secretary General of the Prefecture of Jura Sub-Prefect, Director of Staff to the Prefect of Hautes-Alpes, the Prefect of Maine-et-Loire, then to the Prefect of Rhône-Alpes, assigned to the Southeast Defense Zone 1986-1988: Parliamentary relations adviser to the Office of the Secretary of State, Youth and Sports	Economics, Business Law Public Administration

Identity and functions	*Duties*	Date of first appointment Renewal date(s) Current term of office	Education	Experience	Skills/main areas of expertise
Olivier Landel	Member of the Supervisory Board. Member of the Audit, Internal Control and Risk Committee Member of the Strategy Committee. Chief Executive Officer of Société Territoriale.	Reappointed by the General Meeting of May 5, 2017 for a four-year term Term expires following the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020	2005: Auditor of the Institute for Advanced Studies in Territorial Development and Planning in Europe (IHEDATE) 1985: *Licence* (BS equivalent) in cell biology and physiology 1980-1983: Preparatory class for graduate schools in agriculture	Since 2013: Chief Executive Officer of Agence France Locale – Société Territoriale Since 2002: Delegate General of the French Association of Urban Communities, renamed France Urbaine in 2016 2009-2013: Guest speaker, Master's Program in Territorial Development and Urban Strategies (STU), Sciences-Po Formation 2009-2013: President of the Association of Auditors of IHEDATE 2001-2002: Senior Manager, Intercommunality, Management, Finance, Business Intelligence, Ernst & Young 1996-2001: Organizational, finance and local authorities management consulting, Puyo Consultants/Objectif M+ 1994-1996: Accounting, finance, local authorities and IT consulting, Olivier Landel Conseil/Objectif M14 1991-1994: Deployment of financial management software for local authorities, GFI solution (formerly SINORG) 1986-1991: Foreign Services of the Treasury, Accounting for local authorities, Trésor Public (French public revenue office)	Financial management of local authorities, public finance, management of local government

Identity and functions	*Duties*	Date of first appointment Renewal date(s) Current term of office	Education	Experience	Skills/main areas of expertise
Daniel Lebègue **Independent member**	Member of the Supervisory Board. Member of the Appointments, Remuneration and Corporate Governance Committee.	Reappointed by the General Meeting of May 5, 2017 for a four-year term Term expires following the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020	1969: Ecole Nationale d'Administration (National graduate school of administration), Jean Jaurès class 1964: IEP de Lyon (Lyon Institute of Political Studies)	Since 2008: President of the Observatoire sur la Responsabilité Sociétale des Entreprises (ORSE) 2003-2014: - President of the French institute of administrators (IFA), a professional association of company administrators doing business in France - Director of Alcatel, Crédit Agricole SA, Technip, and Scor - President of the French institute for sustainable development and international relations (IDDRI) - President of the French section of Transparency International - Co-President of Eurofi - President of Epargne sans frontières ("savings without borders") 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, Trésor Public 1983-1984: Deputy Director, Treasury Department 1981-1983: Technical Adviser to the Office of Prime Minister Pierre Mauroy, Economic and Financial Affairs Officer 1976-1981: Head of the Office of the balance of payments and exchanges, then Head of the Office of the Treasury, and Deputy Director in charge of the Savings and Financial Market Division, Treasury Department 1974-1976: Financial Attaché, French Embassy in Japan 1969-1974: Civil administrator of the Treasury Department, Ministry of the Economy and Finance	Public finance, public administration, corporate governance

Identity and functions	*Duties*	Date of first appointment Renewal date(s) Current term of office	Education	Experience	Skills/main areas of expertise
Lars Andersson **Independent member**	Member of the Supervisory Board. Member of the Strategy Committee.	Reappointed by the General Meeting of May 5, 2017 for a four-year term Term expires following the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020	2000: Graduated from the Program for Executive Development, International Institute for Management Development, Lausanne 1976: Degree in Public Administration, University of Örebro	Since 2009: Founder and Chairman of AB Marten Andersson Productions 2007-2009: Chairman & CEO of Bankhälsan i Stockholm AB, Hälsostrategen I Stockholm AB, and Galleriva AB 2001-2007: Communications officer, Strategic adviser to the Chairman, and financing expert for local and regional authorities, Svensk Exportkredit (Swedish export credit company) 1986-2001: Chairman & CEO of the Kommuninvest Group 1986-1986: Administrative Director of the Örebro Regional Theater 1984-1986: Chief Accountant and Financial Officer for the City of Karlstad 1976-1984: Chief Financial Officer for the City of Laxa	Public finance, financing strategy for local authorities, management
Victoire Aubry-Berrurier **Independent member**	Member of the Supervisory Board. Member of the Audit, Internal Control and Risk Committee	Reappointed by the General Meeting of May 5, 2017 for a four-year term Term expires following the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020	2005: MBA, Ecole des Hautes Etudes Commerciales (HEC) 1987: Specialized advanced degree (DESS) in Finance, Université Paris Dauphine (Master's in Finance + DESS 203)	Member of the Executive Committee of Icade in charge of Finance, IT and Legal Affairs. Director, GIE ICADE Management Director, ANF Immobilier, Member of the Audit Committee 2012-2016: Director of Finance, Risk, and Administration, Compagnie des Alpes 2006-2012: Director of Steering and Management Control, CNP Assurances 2002-2006: Head of Strategic Monitoring of Competing Financial Activities, Caisse des dépôts et consignations 1990-2001: Head of Trading functions on the credit market, supervisor of risks and earnings on complex products, management supervisor of US investment banking activities	M&A, Finance, Management Control, Risk, Internal Control, Insurance, Management, Financial Markets

Identity and functions	*Duties*	Date of first appointment Renewal date(s) Current term of office	Education	Experience	Skills/main areas of expertise
François Drouin **Independent member**	Member of the Supervisory Board. Member of the Audit, Internal Control and Risk Committee	Reappointed by the General Meeting of May 5, 2017 for a four-year term Term expires following the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020	1971: Ecole Polytechnique (engineering school) 1974: Ecole des Ponts et Chaussées (civil engineering school) 1975: DESS in Economics, Université de Paris X	Since 2013: Chairman of ETIFINANCE 2013-2017: President, Autoroutes et Tunnel du Mont Blanc (ATMB) 2007-2013: Chairman & 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), Caisses d'épargne de Midi-Pyrénées 1986-1989: Regional Director, CDC et Crédit local de France pour la Bourgogne 1985-1986: Regional Director, CDC pour la Haute-Normandie 1980-1985: Head of the territorial district of Valenciennes for the departmental office of infrastructure for the North, and the regional navigation division of the Nord-Pas-de-Calais region	Public finance, knowledge of financial markets, company management
Nicolas Fourt **Independent member**	Member of the Supervisory Board. Member of the Audit, Internal Control and Risk Committee	Reappointed by the General Meeting of May 5, 2017 for a four-year term Term expires following the end of the Annual General Meeting called to approve the financial statements for the year ending December 31, 2020	1982: National school of statistics and economic administration, ParisTech DEA (advanced degree) in Economics, Université Paris I Sorbonne	Manger of NF Conseil SARL Director and Vice-Chairman, Compagnie ACOFI SAS Deputy Chief Executive Officer, Member of the Management Board, 2A SAS Director, Deputy Chief Executive Officer of ACOFI Gestion Director, Alfafinance Member of the Supervisory Board, Spread Research Director, Denis Friedman Production SA 2006-2008: Global Head of all non-CDO market activities, Member of the Executive Committee, Natixis 1996-2006: Head of Fixed-Income Markets, then member of the comprehensive joint management board on market operations, CDC-Marchés, then CDC-Ixis, then Ixis 1988-1996: Head of	Knowledge of financial markets, finance, and economics

				Franc/ECU bond markets, then joint head of money and bond markets, CDC 1986-1988: Deputy Head, then Head of Currency Treasury, Caisse des dépôts et consignations (CDC) 1984-1986: Bond manager, TGF Paris (Groupe Caisse des dépôts) 1982-1984: OECD Paris	

During the 2017 financial year, the following changes were made to the composition of the Company's Supervisory Board:

- Simon Munsch, member of the Supervisory Board, member of the ARC and ARCGC, tendered his resignation as of midnight on January 31, 2017;
- Mélanie Lamant was co-opted as a member of the Supervisory Board, replacing Simon Munsch on March 23, 2017, in her capacity as an expert having in-depth knowledge of the finance issues specific to local authorities;
- all of the members of the Supervisory Board were reappointed by the Annual General Meeting of May 5, 2017;
- Jacques Pélissard was appointed a member of the Supervisory Board by the Ordinary General Meeting of June 22, 2017, and named Vice-Chairman of the Board and a Member of the ARCGC by the Supervisory Board on June 22, 2017;
- Dominique Schmitt, a member of the Supervisory Board and the Strategy Committee, tendered his resignation as of midnight on December 14, 2017.

Following the resignation of Dominique Schmitt, the ARCGC found that there are now five members of the Supervisory Board representing local authorities, which is the same number of independent members on the Supervisory Board.

The Articles of Association of Agence France Locale stipulate that the Supervisory Board must have at least four independent members, and that in all circumstances there must be more of these independent members than the other categories that together make up the local authority representatives.

Consequently, the objective of the ARCGC is to add to the number of independent members sitting on the Supervisory Board by recruiting one independent director as soon as possible. This recommendation has been relayed to the Supervisory Board.

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

Pursuant to the laws in force as included in Article 15.1.6 of the Company's Articles of Association, appointment of Supervisory Board members falls under the remit of the Ordinary General Meeting of Shareholders.

Pursuant to Article L. 225-78 of the French Commercial Code, the Company's Articles of Association further stipulate that if one or more members vacates their seat due to death or resignation, the Supervisory Board has the option to co-opt a new member in order to temporarily replace those members, and 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 on the Supervisory Board falls below the statutory minimum (eight [8] members), for the purpose of adding new members within three months of the date of the vacancy.

All applications for memberships on the Supervisory Board are reviewed, prior to their submission to the General Meeting of Shareholders, by the ARCGC of the Company, on the one hand, and by the ARCGC of Société Territoriale, on the other hand, pursuant to Article 15.2.1 of the Company's Articles of Association, so as to ensure compliance of the actual composition of the Supervisory Board with the statutory principles included in paragraph 2.1.1.

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

Pursuant to Article L. 511-100 of the French Monetary and Financial Code, it is the responsibility of the ARCGC to periodically, and at least once per year, evaluate the knowledge, skills, and experience of the Supervisory Board members, and makes a report to the Board.

At its session on November 27, 2017, the Company's ARCGC found that in terms of the various backgrounds and careers detailed in the table above, all of the Supervisory Board members have key expertise with regard to the Company's activity, enabling the Company and the Agence France Locale Group to develop under the aegis of a quality Board.

Thus the composition of the Supervisory Board and its committees meets the requirements relating to the Company's activity, by combining experts from the local public sector with independent professionals recognized for their professional skills in finance and management who serve on independent public or private bodies.

All members of the Supervisory Board have the qualifications and expertise required by regulations.

This conclusion had already been reached at the end of the skills audit implemented as part of the renewal of the composition of the Supervisory Board.

For the initial constitution of the Supervisory Board, an internal training session to specifically present the activity of the Company and the Agence France Locale Group, the regulatory and strategic issues it faces, and the principles of governance applying to the Agence France Locale Group and Company was administered to the Supervisory Board members in June 2015. In this context, the Supervisory Board members were also reminded of the rights and obligations pertaining to their positions. Individual interviews with each of the Supervisory Board members who had been appointed in such capacity since the constitution of the Company were conducted before their appointment, for the purpose of raising their awareness of the special features and issues of the Agence France Locale Group, as well as the duties incumbent on the Supervisory Board collectively and its members individually.

This training is updated as changes are made both in governance and in the rights and obligations of the Board's members.

2.1.4. Balanced composition of the Board and the committees, and objectives pursued

As indicated in paragraph one of this report, the Company's ARCGC has reaffirmed the target representation of 40% of Supervisory Board members, while recognizing the fact that the Company enjoys certain flexibility in reaching this target, specifically in the implementation timetable, since it is not directly subject to the Sapin 2 Law.

Further to its renewal at the Annual General Meeting on May 5, 2017, the Supervisory Board is composed of two (2) women and nine (9) men, a ratio of 18% / 82%.

The ARCGC has ratified the following principles, with a view to achieving balanced representation of men and women on the Supervisory Board:

(i) provide the option of bringing the number of Supervisory Board members to 12, so as to bring more women on the Board, on the assumption that a woman expresses interest in sitting on the Board;

(ii) replace Supervisory Board members who are resigning mid-term with women; this method also has the advantage of staggering term renewals, in line with the recommendations of the Corporate Governance Code.

It should be noted that this last principle has already been applied, with Simon Munsch, who resigned as of midnight on January 31, 2017, replaced by Mélanie Lamant, whose appointment, in addition to providing the Board with her in-depth knowledge and experience about the financial issues specific to local authorities, which were stressed by the ARCGC, contributed to the increase of women in the composition of the Supervisory Board.

2.1.5. Conditions for preparing and organizing the Board's work

- Overview 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 shall perform the checks and controls it deems appropriate and may be given such documents as it deems necessary for the accomplishment of its mission. The work of the Supervisory Board is governed by the Articles of Association of the Company and by special internal regulations, a new amended version of which was adopted by the Supervisory Board on September 21, 2017.

In addition, in compliance with Article 15.8 of the Company's Articles of Association, the following decisions cannot be taken by the Management Board without the prior authorization of the Supervisory Board:

- transfers of immovable assets, total or partial transfers of shareholdings and establishments of security interests;
- decisions relating to the Company's major strategic, economic, financial or technological guidelines and the definition of its annual financing policy;
- the strategic plan and the decisions relating in particular to the launching of new activities, acquisitions of companies, entry into any alliance or partnership, transfers of assets (including universal transfers of assets) of a significant amount and, more generally, any significant investment or disinvestment;
- decisions relating to the granting of options to subscribe for or purchase shares or equivalent securities to corporate officers and/or executives as well as the allocation of free shares;
- decisions relating to financing that may substantially alter the financial structure of the Company and were not considered when the annual financing policy was defined;
- the draft resolutions to be submitted to the Shareholders' Meeting pursuant to Article L. 228-92 of the French Commercial Code relating to the issue of securities, whether or not they grant access to share capital and/or voting rights, and the establishment of terms and conditions for the issue of said securities; and
- proposed dividend distributions and similar transactions.

- Organization of the meetings:

The procedures for organizing meetings of the Supervisory Board and its specialized committees are determined by the Articles of Association and the Internal Regulations of the Supervisory Board.

The Supervisory Board meets at least once per quarter, for the purpose of deliberating on the agenda set for the purpose of covering all of the topics that, under the law, regulations, and statutes, must be submitted for review by the Supervisory Board and ratified by the Chairman of the Supervisory Board.

Depending on the issues included on the agenda, the Chairman of the Supervisory Board may decide, on a proposal from a member of the Supervisory Board, to invite any person he or she considers useful, whether or not the said person is an employee of the Company, to present information or contribute to the discussions leading up to the deliberations. The Statutory Auditors are invited to all meetings of the Supervisory Board during which the annual or interim financial statements are examined.

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

Barring any emergency, the members of the Supervisory Board shall receive the agenda of the Supervisory Board meeting together with the items necessary for their reflection that enable them to make an informed decision on the matters on the agenda. Digitized media shall be sent by e-mail.

Supervisory Board members have the option of having another Supervisory Board member represent them at Supervisory Board meetings, except for Supervisory Board meetings called for the purpose of approving the annual and half-year financial statements.

Each Supervisory Board member can represent only one other member at a meeting of the Supervisory Board.

Each year, Supervisory Board members may be represented at most:

- at two meetings of the Supervisory Board; **or**
- at two committee meetings; **or**
- at one Supervisory Board meeting and one committee meeting.

Beyond that, the representation of Supervisory Board members, which is legally valid, is not factored into the allocation of directors' fees.

In addition, each Supervisory Board member may be provided with any documents they deem useful or necessary for the performance of their duties. The obligation to obtain information befalling the members of the Supervisory Board means that they also have the right to obtain the information requested.

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

The Code of Ethics of the Supervisory Board members, approved by the Supervisory Board on September 21, 2017 and appended to the Supervisory Board's Internal Regulations, details all of the rights and obligations incumbent on the Supervisory Board's members, both collectively and individually.

In the same spirit, and to comply with EU Regulation no. 596/2014 of April 16, 2014 on market abuses (the "MAR"), which came into force on July 2, 2016, a briefing note was presented during the Supervisory Board meeting of March 23, 2017 on the regulation's ramifications for the members' terms of office. It was noted that the only Supervisory Board member potentially affected by a possible conflict of interest had already organized appropriate embargo measures to contend with such situations. To this end, this member has sent a written commitment to the Chairman of the ARCGC describing the organizational measures taken at his or her company.

For the annual review of the offices and other positions held by the Supervisory Board members outside the Agence France Locale Group, conducted in November 2017, a potential conflict of interest was observed in one Supervisory Board member's admission to the Bar as attorney. Since practicing as an attorney is, in addition, incompatible with the duties of director of a commercial enterprise, the Supervisory Board member in question tendered his or her resignation.

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

In addition to the points and decisions that fall within its legal prerogatives, the Supervisory Board discussed all the major actions taken in 2016, both internal (organization, compensation, objectives, etc.) and external (bond issues, financial policy, etc.). In particular, the Supervisory Board adopted the following points:

- **debt programs:**
  - approval of the borrowing program and opinion on the setting of a ceiling of €1.2 billion for 2018 issuances within the limit of both the EMTN program ceiling (€3 billion) and the ST guarantee (€5 billion),
  - approval of €400 million as the total amount of issuances that may be carried out under the ECP program;

Both of these decisions were taken at the Supervisory Board meeting of December 14, 2017, for application in 2018.

- **budgetary policy and financial and commercial outlooks:**
  - review and approval of the 2017 budget,
  - review and approval of the business plan for 2017-2018,
  - review of outcomes at December 31, 2017,
  - review and approval of the 2018 budget,
  - review and approval of the business plan for 2018-2019;

- **financial policies:**
  - liquidity policy,
  - interest rate and currency risk hedging policy,
  - investment policy and credit risk management related to market activities,
  - loan granting policy,
  - rating policy;

- **compensation policies:**
  - review of the compensation policy of Agence France Locale for the 2017 financial year,
  - review of the compensation packages allocated for the 2016 financial year to Agence France Locale employees, specifically those qualified as "*risk-takers*",
  - establishment of quantitative and/or qualitative annual targets to be taken into account when determining 2017 variable compensation,
  - review of the compensation of the members of the Management Board,
  - breakdown of the total directors' fees allocated by the General Meeting among the members of the Supervisory Board for the financial year ended December 31, 2016 and the principle for allocating directors' fees for the 2017 financial year;

- **regulated agreements:**
  - annual review of the regulated agreements previously entered into which continued to be executed during the 2016 financial year, prior to their submission for review by the General Meeting of Shareholders,
  - approval of the regulated agreements entered into during the first quarter of the 2017 financial year, prior to implementing the simplification of the supervisory procedures concerning regulated agreements that are not applicable to agreements made exclusively between the Company and Société Territoriale;

- **internal control and risk monitoring:**
  - review of internal control activities and income (at least twice during the financial year),
  - review of risk management arrangements and their adequacy,
  - control of exposure to risk, approval of aggregate risk limits (at least once during the year), review of the liquidity position (twice during the year),
  - approval of the Emergency and Business Continuity Plan (EBCP),
  - approval of the Preventive Recovery Plan (PRP);

- **review and monitoring of periodic control activities;**

- **review of the Internal Regulations of the Supervisory Board and approval of the terms of the Code of Ethics of the Supervisory Board;**

- **composition of the Supervisory Board:**

Following the resignation of Simon Munsch from his duties on March 23, 2017, the Supervisory Board co-opted Mélanie Lamant to serve as a member of the Supervisory Board, pursuant to Article L. 225-78 of the French Commercial Code and Article 15.9.1 of the Company's Articles of Association.

On June 22, 2017, further to the Supervisory Board's renewal operations, the Supervisory Board appointed its Chairman and Vice-Chairman, and ratified the new composition of its permanent committees.

The members of the Supervisory Board were informed of the work and recommendations of the specialized committees and the Statutory Auditors.

The minutes of the meetings of the Supervisory Board were approved at the following meeting. Such approval confirmed the faithful retranscription of the contents of the minutes.

2.1.6. Members' attendance at Supervisory Board and specialized committee meetings (Article 6.2 of the AFEP-MEDEF Code): participation in meetings of the members of the Supervisory Board and its specialized committees in 2017

All meetings of the Supervisory Board satisfied the quorum and majority conditions required by the Articles of Association at the first meeting.

The table below shows the attendance of the Board and specialized committee members at meetings, based on the attendance sheets initialed upon arrival.

	Supervisory Board		Audit and Risk Committee		ARCGC		Strategic Committee		
	Number of meetings in 2017	Actual attendance	Number of meetings in 2017	Actual attendance	Number of meetings in 2017	Actual attendance	Number of meetings in 2017	Actual attendance	***Individual attendance rate****
R. Brumm	5	5	-	-	-	-	-	-	***100%***
J. Pélissard	3	3	-	-	1	1	-	-	***100%***
R. Mouchel-Blaisot	5	4	-	-	3	3	-	-	***87.5%***
O. Landel	5	4 (o/w 1 proxy)	6	6 (o/w 1 proxy)	-	-	4	4	***93.3%***
L. Andersson	5	5	-	-	-	-	4	4	***100%***
V. Aubry-Berrurier	5	5	6	6 (o/w 2 proxies)	-	-	-	-	***100%***
F. Drouin	5	5	6	6	-	-	-	-	***100%***
N. Fourt	5	5	6	6	-	-	-	-	***100%***
M. Lamant	4	4 (o/w 1 proxy)	-	-	-	-	3	3	***100%***
D. Lebègue	5	5	-	-	3	3	-	-	***100%***
S. Munsch	-	-	1	0	1	0	-	-	***0%***
D. Schmitt	5	5	-	-	-	-	4	4	***100%***

Average member attendance rate at Board meetings	96.15%	Average member attendance rate at ARC meetings	96%	Average member attendance rate at ARCGC meetings	87.5%	Average member attendance rate at Strategy Committee meetings	100%

2.2. Specialized committees of the Supervisory Board

The Supervisory Board has delegated authority to three specialized committees whose mission is to provide thorough analysis and reflection prior to the discussions of the Supervisory Board and to assist in the preparation of decisions of the Supervisory Board.

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

2.2.1. The Audit and Risk Committee

a) Composition of the Audit and Risk Committee

The Audit and Risk Committee is chaired by François Drouin.

Its other members are Victoire Aubry, Nicolas Fourt, and Olivier Landel. Simon Munsch, resigning, was a member of the Audit and Risk Committee until midnight on January 31, 2017.

b) Conditions for preparing and organizing the committee's work

- <u>Overview of the missions of the committee and organization of the meetings</u>

The Audit and Risk Committee's primary mission is:

(i) to oversee the preparation and dissemination process for accounting and financial information, assess the relevance and permanence of the accounting principles and methods adopted for the preparation of the annual and interim financial statements;

(ii) to verify the effectiveness of the internal control and risk management procedures;

(iii) to ensure by any means the quality of the financial, accounting or risk management information provided to the Supervisory Board; and

(iv) to give the committee its assessment of the work performed by the Statutory Auditors and its opinion on the renewal of their terms of office.

The internal regulations of the Supervisory Board precisely define its operations and its tasks.

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. Such reports shall be inserted either in the minutes of the relevant meetings of the Supervisory Board, or appear in an annex to the minutes.

The entry into force of the audit reform on June 17, 2016 entails an expansion of the scope of the audit missions of the Audit and Risks Committee.

In this regard, the committee has put in place a Charter that sets out the rules for the approval, delegation and monitoring of the services that may be entrusted to the Statutory Auditors and their networks, specifically with regard to services not related to the certification of the financial statements.

In order to carry out its mission, the Audit and Risk Committee has at its disposal all the resources made available to it under the Internal Regulations of the Supervisory Board.

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

- <u>Summary of the activities of the Audit and Risk Committee during the past financial year</u>

During the 2017 financial year, the Audit and Risk Committee met six times. Its work focused on:

- review of the annual and interim financial statements, prepared in accordance with French GAAP and IFRS;

- review of the work of the Statutory Auditors and their independence;
- review of the 2017 budget and the business plan for 2017 and 2018 - dedicated session held on January 19, 2017;
- review of outcomes at December 31, 2017, review of the 2017 budget and the 2017 and 2018 business plan;
- review of financial policies;
- review of risk oversight, specifically the liquidity position;
- review of the Company's internal control activity;
- review of periodic control tasks;
- review of the Emergency and Business Continuity Plan (EBCP);
- review of the Preventive Recovery Plan (PRP);
- review of the Company's compensation policy from the standpoint of its compatibility with the Company's position and outlook (risk, capital, liquidity, expected profits).

2.2.2. Appointments, Remuneration and Corporate Governance Committee (*ARCGC*)

a) Composition

The ARCGC is chaired by Daniel Lebègue. Its other members are Rollon Mouchel-Blaisot and Jacques Pélissard.

b) Conditions for preparing and organizing the committee's work

- Overview of the missions of the committee and organization of the meetings

The ARCGC's primary mission is:

(i) to review all candidates for membership on the Supervisory Board;
(ii) to make recommendations on the appointment or succession of executive officers;
(iii) to ensure respect of the rules of governance, by conducting an annual review of the functioning of the Supervisory Board and its committees;
(iv) to verify the individual experience and skills of Supervisory Board members ensuring the effective collective functioning of the Board;
(v) to review the Company's compensation policy each year, including compensation and performance targets allocated to corporate officers.

The Internal Regulations of the Supervisory Board precisely define the functioning and missions of the ARCGC.

In order to carry out its mission, the ARCGC has at its disposal all the resources made available to it under the Internal Regulations of the Supervisory Board.

- Summary of the committee's activities during the past financial year

In 2017, the Appointments, Remuneration and Corporate Governance Committee met three times. Its work focused on, in particular:

- approval of the Agence France Locale compensation policy;
- proposed establishment of qualitative and/or quantitative annual targets to be taken into account when determining variable compensation;
- review of the compensation of the members of the Management Board;
- review of the individual and collective performance objectives of the members of the Management Board and its Chairman;
- review of the compensation packages allocated for the 2016 financial year to Agence France Locale employees, specifically those qualified as "*risk-takers*";
- review of the proposed allocation of directors' fees to each member of the Supervisory Board;
- evaluation of the collective work of the Supervisory Board and its committees, as well as the verification of the experience and skills of the members of the Supervisory Board, on an individual basis;
- review of all candidates for membership in the Supervisory Board.

2.2.3. The Strategy Committee

a) Composition

The Strategy Committee is chaired by Lars Andersson. Its other members are Mélanie Lamant, Olivier Landel, and Dominique Schmitt.

b) Conditions for preparing and organizing the committee's work

- <u>Overview of the missions of the committee and organization of the meetings</u>

The Strategy Committee meets as many times as its members deem necessary. Beginning with this financial year, the Chairman of this committee decided that it would systematically meet in advance of the quarterly Supervisory Board meetings.

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

- the Company's major strategic outlines (including the medium-term business plan);
- the Company's development policy;
- the major projects or financing and refinancing programmes scheduled to be carried out by the Company.

The Strategy Committee also considers and examines draft strategic agreements and partnerships and, more generally, any significant project whatsoever the nature thereof. The assessment of the significance of a project presented by the Company's management is the responsibility of the Chairman of the Strategic Committee who, in making his decision, relies in particular on the amount of commitments linked 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.

In order to carry out its mission, the Strategy Committee has at its disposal all the resources made available to it under the Internal Regulations of the Supervisory Board.

- Summary of the committee's activities during the past financial year

During the 2017 financial year, the Strategy Committee met four times.

Its work focused on, in particular:

- developments in the Agence France Locale regulatory environment;
- changes to the situation of French local authorities with regard to borrowing;
- implementation of the Company's activity (memberships, loans granted, deployment of debt programs on the financial markets);
- the commercial and strategic development and the implementation of the commercial and communication action plan;
- the position of Agence France Locale's peers.

2.3. Management Board

a) Composition

The composition of the members of the Management Board remained unchanged during the year ended December 31, 2017.

The Management Board of Agence France Locale is composed of the following persons:

- Yves Millardet, Chairman of the Management Board;
- Philippe Rogier, Member of the Management Board, Loan Director,
- Thiébaut Julin, Member of the Management Board, Chief Financial Officer;
- Ariane Chazel, Member of the Management Board, Director of Risk, Compliance and Internal Control

Philippe Rogier and Thiébaut Julin are also Chief Executive Officers of the Company.

The Chairman and members of the Management Board do not perform any management, executive, administrative or supervisory functions in other companies.

b) Powers of the Management Board

The members of the Management Board collectively manage the Company.

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

The Management Board meets as often as required by the Company's interests, and at least once a month.

3. Compensation of management body members

The allocation criteria and components of the compensation of the members of the management bodies of Agence France Locale are in all cases subject to review and opinion by the Company's ARCGC and to approval by the Supervisory Board.

As Agence France Locale falls within the scope of the "Say on pay" mechanism from the Sapin 2 Law as codified in Article L. 225-82-2 of the French Commercial Code, items relating to the compensation of the Management Board and the Supervisory Board are additionally subject to the review of shareholders:

- first, shareholders at the General Meeting of financial year N are called to approve, *a priori*, the criteria for allocating fixed and variable compensation to the members of the Company's Management Board and Supervisory Board that will be applied in determining the amount of said compensation to be paid for financial year N.

  Should the General Meeting not approve the principles and criteria for determining the compensation under the *ex ante* vote, said principles and criteria, previously approved, will continue to apply;

- furthermore, during the General Meeting of financial year N+1, shareholders also cast an absolute vote on all compensation paid or to be paid for financial year N, ensuring that their amounts match the determination principles ratified at the General Meeting of financial year N.

  Should the General Meeting not approve the compensation paid or owed to corporate officers, the compensation that has meanwhile been fixed and paid would remain so, while variable and exceptional compensation could not be paid, pursuant to Article L. 225-100, paragraph 11, of the French Commercial Code.

3.1. Management Board

3.1.1. Compensation payment principles and terms

In compliance with Article 16.4 of the Articles of Association of Agence France Locale, the Supervisory Board checks and approves the method and amount of compensation of each member of the Management Board and reviews it annually, based on the opinion of the Company's Appointments, Remuneration and Corporate Governance Committee.

With the exception of the Chairman of the Management Board, with whom there is a contract of appointment to corporate office, Management Board members perform their functions on the basis of employment contracts. The regulated nature of these agreements requires a strict annual review by the Supervisory Board and the General Meeting, with the understanding that the relaxation of the procedures respecting regulated agreements now in force does not apply to them[12].

All fixed, variable and exceptional compensation of Management Board members is reviewed by the Company's ARCGC and presented to the Supervisory Board, before being submitted to the General Meeting for review.

[12] See paragraph 6 of this report

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

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

- Yves Millardet

Under his contract of appointment effective January 6, 2014, pursuant to which he is a member and Chairman of the Management Board, Yves Millardet's compensation is determined by reference to market practices for the functions of Chairman of the Board. The amount of the compensation may be reviewed 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 acquisition 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 will have to define each year, if necessary, after consulting with the Appointments, Remuneration and Corporate Governance Committee.

In the event of exceptional circumstances or significant performance, specifically in excess of defined targets, during a given year, the variable portion of 15% may represent up to 25% of the fixed annual gross compensation.

Since the payment of Yves Millardet's compensation falls within the scope of the compensation policy, as it does with all employees of the Company and the salaried members of the Management Board, an express reference to the compensation policy in Article 4.2 of his contract of appointment was inserted in a supplemental clause presented for the approval of the ARCGC and the Supervisory Board of the Company.

The pension scheme applicable to Yves Millardet is modelled on the one provided for all the company's employees *(i.e.* contribution to the Agirc/Arrco schemes calculated on the basis of gross annual compensation). As such, he has no supplemental retirement scheme.

In the event of the termination of his duties as corporate officer, Yves Millardet will receive a financial contribution under the non-compete clause that was inserted into his contract of appointment in June 2015.

The idea to include the non-compete clause was adopted after it was found that Yves Millardet did not benefit from any form of protection of any kind that was linked to his status as a non-employee (stock options, special pension schemes, etc.).

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

The non-competition clause adopted is as follows:

"In exchange for this non-compete obligation, Yves Millardet will receive, from the date of his effective termination and during the period of application of this clause, a financial contribution paid monthly on a monthly basis corresponding to the gross monthly compensation paid to him during the twelve (12) months preceding the date on which he effectively ceased to hold office."

Based on the favorable opinion of the Company's ARCGC, and further to the authorization given by the Company's Supervisory Board on June 20, 2016, a change was made to the contract of appointment of Yves Millardet to introduce an express reference to the compensation policy, as with all employment contracts with the Company's employees and Management Board members.

– Philippe Rogier

Philippe Rogier serves as an unpaid member of the Management Board of Agence France Locale. Following the approval of the Appointments, Remuneration and Corporate Governance Committee, on December 17, 2013, the Supervisory Board approved compensation for the technical duties of the Loan Director of Agence France Locale, pursuant to an employment contract with the Company coming into force as of January 1, 2014 and approved on January 30, 2014 by the Supervisory Board.

The compensation of Philippe Rogier is determined by reference to market practices for the functions of Loan Director. This compensation consists of a fixed portion and a variable portion representing a maximum of 15% of the fixed portion. The acquisition 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 will have to define each year, if necessary, after consulting 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, Philippe Rogier's employment contracts, as well as the employment contracts of all the Company's employees, were amended to include an express reference to the compensation policy.

– Thiébaut Julin

Thiébaut Julin serves as an unpaid member of the Management Board of Agence France Locale. Following the approval of the Appointments, Remuneration and Corporate Governance Committee, on March 25, 2014, the Supervisory Board approved compensation for the technical functions of the Chief Financial Officer of Agence France Locale, pursuant to an employment contract with the Company.

The compensation of Thiébaut Julin is determined by reference to market practices for the functions of Chief Financial Officer. This compensation consists of a fixed portion and a variable portion representing a maximum of 15% of the fixed portion. The acquisition 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 will have to define each year, if necessary, after consulting 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, Thiébaut Julin's employment contracts, as well as the employment contracts of all the Company's employees, were amended to include an express reference to the compensation policy.

– Ariane Chazel

Ariane Chazel serves as an unpaid member of the Management Board of Agence France Locale. Following the approval of the Appointments, Remuneration and Corporate Governance Committee, on June 5, 2014, the Supervisory Board approved compensation for the technical functions of Director of Risk, Compliance and Control of Agence France Locale, pursuant to an employment contract with the Company.

The compensation of Ariane Chazel is determined by reference to market practices for the functions of Director of Risk, Compliance and Internal Control. This compensation consists of a fixed portion and a variable portion representing a maximum of 15% of the fixed portion. The acquisition 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 will have to define each year, if necessary, after consulting 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, Ariane Chazel's employment contracts, as well as the employment contracts of all the Company's employees, were amended to include an express reference to the compensation policy.

3.1.2. Amount of compensation allocated

Pursuant to Article L. 225-37-3 of the French Commercial Code, following are the itemized compensation and benefits of any kind paid, or intended to be paid subject to approval of their payment by the General Meeting, for the financial year ending on December 31, 2017, to the members of the Management Board.

Furthermore:

- the Company has not granted any retirement commitments or other life annuity 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 for the financial year ended December 31, 2017;
- the Company pays for specific insurance for the Chairman of the Management Board, in the absence of unemployment insurance, corresponding to a benefit in kind, the amount of which is entered in the table itemizing compensation amounts below.

	Yves Millardet Chairman of the Management Board of the Company Deputy Chief Executive Officer of Société Territoriale, with the clarification that Yves Millardet is not paid any specific compensation for his duties with Société Territoriale	**Ariane Chazel** Member of the Management Board of the Company Director of Risk, Internal Control and Compliance	**Thiébaut Julin** Member of the Management Board of the Company Chief Financial Officer	**Philippe Rogier** Member of the Management Board of the Company Loan Director
Annual gross fixed compensation for the corporate office (for the Chairman of the Management Board)/ employment contract (for the members of the Management Board, except its Chairman) - in euros	255,000	154,130	217,391	156,222
Annual gross variable compensation – in euros, paid in 2017 for previous financial years	17,040	10,000	10,000	10,283
Annual gross exceptional compensation - in euros	0	0	0	0
Directors' fees - in euros	0	0	0	0
Benefits in kind - in euros	9,848	0	0	0
TOTAL paid 2017	**281,888**	**164,130**	**227,391**	**166,222**
Proposed annual gross variable compensation – in euros, likely to be allocated for 2017 during subsequent financial years	16,000	14,000	14,000	14,000

3.2. Members of the Supervisory Board and specialized committees

3.2.1. Compensation payment principles and terms

The members of the Supervisory Board may receive directors' fees for the exercise of their corporate functions, the annual amount of which is set by the General Meeting of Shareholders. It is the responsibility of the Supervisory Board to allocate directors' fees among the members on the advice of the Company's ARCGC.

The Agence France Locale Combined General Meeting of May 5, 2017 fixed the maximum annual total of directors' fees to be distributed among the members of the Supervisory Board at €165,000 (one hundred and sixty-five thousand euros) for 2017.

Since the ARCGC noted in 2015 that the allocation of directors' fees as originally defined by the Groupe Agence France Locale legislative bodies did not take into account the specific nature of the position of Chairman of the Supervisory Board, this was reassessed and approved by the ARCGC and the Société Territoriale Board of Directors, and subsequently by the General Meeting of the Company.

Therefore the Chairman of the Supervisory Board is paid differentiated compensation.

In light of their duties, the Chairmen of the specialized committees also receive a differentiated compensation. In addition, a substantially higher proportion of directors' fees is allocated to members of the Supervisory Board, who are also members of the Audit and Risk Committee.

Notwithstanding the foregoing, in light of the laws governing incompatibility applicable to persons elected to a national office as defined in the French Electoral Code, no directors' fees may be allocated to the members of the Supervisory Board who also hold national elective offices. In this respect, Richard Brumm and Jacques Pélissard do not receive any directors' fees.

With regard to their functions, Rollon Mouchel-Blaisot, Mélanie Lamant, and Simon Munsch, who resigned as of midnight on January 31, 2017, decided to apply this provision voluntarily.

Rollon Mouchel- Blaisot voluntarily applied the aforementioned principle with regard to his position with the *Association des Maires de France* (French Mayors' Association). With said duties terminated, the Appointments, Remuneration and Corporate Governance Committee, at its meeting on November 27, 2017, stated that it was in favor of Rollon Mouchel-Blaisot now being paid directors' fees starting from the date of said meeting, per the conditions set down in the Internal Regulations of the Supervisory Board.

Since Olivier Landel, in his capacity as Chief Executive Officer of Société Territoriale, receives gross annual compensation of €50,000 pursuant to his contract of appointment, he does not receive directors' fees for his duties on the Supervisory Board of the Company. No variable compensation or benefits in kind were paid to Olivier Landel for his duties at Agence France Locale Group during the 2017 financial year.

The determination of the allocation of the total annual amount of directors' fees shall be set in accordance with the following procedures:

(i) for the Chairman of the Supervisory Board:

- a fixed portion of an amount of €10,000 p.a., except in the event of excessive absenteeism, to which is added,
- a variable portion capped at €20,000 p.a. (attributed based on attendance);

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

- a fixed portion of an amount of €5,000 p.a., except in the event of excessive absenteeism, to which is added,

- a variable portion capped at €20,000 p.a. (attributed based on attendance);

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

- a fixed portion of an amount of €5,000, except in the event of excessive absenteeism, to which is added,
- a variable portion capped at €10,000 p.a., except in the event of excessive absenteeism, to which is added,
- an additional maximum of €5,000 p.a. for the members of the specialized committees, based on their actual participation.

Furthermore, the Company has not granted any retirement commitments or other life annuity benefits to the members of the Supervisory Board, and has not entered into any agreement providing compensation for Supervisory Board members whose terms of office are ending, for any reason whatsoever.

3.3. Amount of compensation allocated

On March 29, 2018, pursuant to Article L. 225-83 of the French Commercial Code, the Supervisory Board approved the following distribution of directors' fees, within the limit of the overall package of €165,000 decided by the General Meeting of Shareholders.

	Amount (€)		
Members of the Supervisory Board	Fixed	Variable	**Total**
R. Brumm - Chairman of the Supervisory Board	-	-	-
J. Pélissard - Vice-Chairman of the Supervisory Board - Member of ARCGC	-	-	-
L. Andersson - Chairman of the Strategy Committee	5,000	20,000 for attendance	25,000
V. Aubry - Member of the Audit and Risk Committee	5,000	10,000 for attendance 5,000 for membership in a specialized committee	20,000
F. Drouin - Chairman of the Audit and Risk Committee	5,000	20,000 for attendance	25,000
N. Fourt - Member of the Audit and Risk Committee	5,000	10,000 for attendance 5,000 for membership in a specialized committee	20,000
M. Lamant - Member of the Strategy Committee	-	-	-
O. Landel - Member of the Audit and Risk Committee and the Strategy Committee	-	-	-
D. Lebègue - Chairman of the ARCGC	5,000	20,000 for attendance	25,000
R. Mouchel Blaisot - Member of the ARCGC[13]	1,000	2,500 for attendance 1,666 for membership in a specialized committee	5,166
S. Munsch - resigned on 1/31/2017 - Member of the Audit and Risk Committee and the ARCGC	-	-	-
D. Schmitt - Member of the Strategy Committee	5,000	10,000 for attendance 5,000 for membership in a specialized committee	20,000
Total	31,000	109,166	140,166

[13] The amount of the directors' fees allocated to Rollon Mouchel-Blaisot is *pro-rated* from the end of his functions with the French Mayors' Association, i.e. as of the ARCGC meeting of November 27, 2017.

3.4. Resolutions intended for submission to the General Meeting with regard to compensation of corporate officers

Pursuant to Article L. 225-82-2, paragraph 2, of the French Commercial Code, the text of the resolutions intended for submission to the General Meeting as to the compensation of the members of the Management Board and the Supervisory Board is reproduced below:
[…]

Seventh resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the Chairman of the Management Board of the Company for the 2018 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to Yves Millardet, in his capacity as Chairman of the Management Board of the Company for the 2018 financial year, as they appear in the report by the Supervisory Board on corporate governance, and have been favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Eighth resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the members of the Management Board of the Company for the 2018 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to Ariane Chazel, Thiébaut Julin, and Philippe Rogier in their capacity as members of the Management Board of the Company for the 2018 financial year, as they appear in the report by the Supervisory Board on corporate governance, and have been favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Ninth resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the Chairman of the Supervisory Board of the Company for the 2018 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to the Chairman of the Supervisory Board of the Company for the 2018 financial year, as defined in the Internal Regulations of the Supervisory Board. These principles are included in the Supervisory Board's report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Furthermore, the Chairman of the Supervisory Board in office on the date of the General Meeting, being the holder of an elected office, does not receive any compensation for his duties.

Tenth resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the members of the Supervisory Board of the Company for the 2018 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to the members of the Supervisory Board of the Company for the 2018 financial year, as defined in the Internal Regulations of the Supervisory Board. These principles are included in the Supervisory Board's report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Furthermore, the members of the Supervisory Board who hold elected or similar office do not receive any compensation for their duties.

Eleventh resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2017 to the Chairman of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100, II of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2017 to Yves Millardet in his capacity as Chairman of the Management Board, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Twelfth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2017 to Ariane Chazel in her capacity as a member of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100, II of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2017 to Ariane Chazel in her capacity as a member of the Management Board and as Director of Risks, Compliance and Internal Control for the Company, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Thirteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2017 to Thiébaut Julin in his capacity as a member of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100, II of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2017 to Thiébaut Julin, a member of the Management Board and Chief Financial Officer of the Company, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Fourteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2017 to Philippe Rogier in his capacity as a member of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100, II of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2017 to Philippe Rogier, a member of the Management Board and Loan Director of the Company, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Fifteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2017 to the Chairman of the Supervisory Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100 of the French Commercial Code, takes note of the fact that the Chairman of the Supervisory Board in office during the financial year ended December 31, 2017 does not receive any compensation for his duties, as a holder of elected office.

Sixteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2017 to the members of the Supervisory Board of the Company

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, approves the components of compensation due or allocated for the financial year ended December 31, 2017 to the members of the Supervisory Board of the Company, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

[…]

4. General Meeting of Shareholders

4.1. Special terms for shareholder participation in the General Meeting or statutory provisions setting forth these provisions

The terms of shareholder participation in the General Meeting are covered in Title V of the Articles of Association of the Company and refer to the applicable legal and regulatory provisions.

Every shareholder, duly represented, is entitled to participate in the General Meetings on the basis of his or her identity and the registration of his or her shares in the Company accounts on the date of the meeting.

Pursuant to the laws in force that offer these options, shareholders may participate in General Meetings either by attending in person, by giving a power of attorney to the Chairman of the General Meeting, or by voting by mail.

4.2. Rules on amendments to the Articles of Association

In compliance with the provisions of Article L. 225-96 of the French Commercial Code, the Extraordinary General Meeting of Shareholders is solely competent to amend any and all provisions in the Company's Articles of Association.

In practice, and for the implementation of the delegation of authority given to the Management Board to decide on capital increases with or without the preferential subscription right, the Chairman of the Management Board, by subdelegation, is directed to ratify the corresponding amendment of Article 6 of the Articles of Association, so as to update the Company's share capital, pursuant to Articles L. 225-129 et seq. of the French Commercial Code.

5. Regulated agreements

So-called regulated agreements are the agreements covered in Articles L. 225-86 et seq. of the French Commercial Code, entered into directly or by an intermediary between the Company and one of the members of the Management Board or Supervisory Board, the conclusion of which must be authorized by the Company's Supervisory Board, and which must be reviewed by the Supervisory Board each year, prior to their presentation at the General Meeting of Shareholders.

Further to the transfers of shares in 2017 between the Company's founding shareholders, with the exception of the Lyon Metropolitan Area, the Company's share capital is 99.99% owned by Société Territoriale, with the remainder of one share held by the Lyon Metropolitan Area in the territory of which the Company has its home office, to comply with the legal requirement of a minimum of two shareholders for the creation of a public limited company.

Since Société Territoriale has exclusive control of the Company, agreements between the Company and its parent company are excluded from the scope of the control system of regulated agreements, pursuant to Article L. 225-87 of the French Commercial Code.

No regulated agreement was entered into during the 2017 financial year. Following are the regulated agreements previously entered into which continued to be executed during the 2017 financial year:

Title of the agreement	Purpose of the agreement	Duration of the agreement	Impact on the financial statements for the year ended 12/31/17
Shareholders' Agreement entered into on June 24, 2014	The Shareholders' Agreement was amended during the 2016 financial year, and its new version came into force on April 30, 2016, with a dual focus: (i) setting up cash loans and (ii) adapting the loan granting policy with an initial year of operational activity.	Unknown	None
Employment contracts for the salaried members of the Agence France Locale Management Board	- Employment contract for Philippe Rogier approved on January 30, 2014 by the Supervisory Board. - Employment contract for Thiébaut Julin approved on March 25, 2014 by the Supervisory Board. - Employment contract for 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	Unknown	Philippe Rogier, Loan Director Gross annual amount for the 2017 financial year: Fixed portion: €156,222 Variable portion: €10,283 Thiébaut Julin, Chief Financial Officer Gross annual amount for the 2018 financial year: Fixed portion: €217,391 Variable portion: €10,000

	the compensation policy. The new drafts of these agreements were approved by the Supervisory Board on June 20, 2016, after a favorable opinion by the Appointments, Remuneration and Corporate Governance Committee on January 28, 2016.		Ariane Chazel, Director of Risk, Compliance and Internal Control: Gross annual amount for the 2018 financial year: Fixed portion: €154,130 Variable portion: €10,000

6. Share capital, shareholding, and control of the Company

Pursuant to Article L. 225-37-5, are presented the following items related to the shareholding structure of Agence France Locale and the Group formed with Société Territoriale, with the specification that none of the items covered hereinafter is likely to have an impact in the event of a public offer.

6.1. Structure of the Company's share capital

During the financial year, transfers to Société Territoriale of shares held by the founding shareholders of Agence France Locale, with the exception of the Lyon Metropolitan Area, were finalized.

As a reminder, on November 22, 2016, the Board of Directors of Société Territoriale and the General Meeting of Agence France Locale authorized the completion of these transfers under the conditions set out in Article 15 of the Shareholders' Agreement, so that the Agence France Locale Group could benefit from the simplification of procedures pertaining to regulated agreements, which are now limited to agreements including a third party other than one of the two companies controlling the Group, provided the parent company has exclusive control of its subsidiary.

The transfer of shares held by the founding shareholders, with the exception of the Lyon Metropolitan Area, in which territory Agence France Locale has its home office, enables Société Territoriale to exercise exclusive control of the Company, in compliance with the laws in force requiring a minimum of two shareholders for the creation of a public limited company.

At December 31, 2017, the Company's share capital consisted of the following:

SHAREHOLDERS	AMOUNT SUBSCRIBED (IN EUROS)	NUMBER OF SHARES	% HOLDING
Agence France Locale – Société Territoriale	132,499,900	1,324,999	99.99992%
Lyon Metropolitan Area	100	1	0.00008%
TOTAL	**132,500,000**	**1,325,000**	**100%**

In view of the closed nature of its shareholding, the Company had no knowledge of any direct or indirect acquisition of shares in its capital pursuant to Articles L. 233-7 and L. 223-12 of the French Commercial Code, since only Société Territoriale, by virtue of the legal framework of the Agence France Locale Group, was intended to subscribe to the capital of Agence France Locale, and the share of the Lyon Metropolitan Area was diluted by the capital increases within the Agence France Locale Group.

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

- **Statutory restrictions**

The Company's statutory provisions do not set out any restriction on the exercise of shareholders' voting rights, since the voting right attached to the shares composing the capital is proportional to the percentage of the capital that they represent, and each share entitles the holder to a vote at the General Meetings.

The Company's Articles of Association stipulate that shares that have not been fully paid-up are not admitted for trading.

With regard to the specific nature of the shareholding structure of Agence France Locale, the capital of which is held directly or indirectly by local authorities exclusively, and to the need to keep shareholding stable and sustainable so that the Company's activities may be deployed under optimal conditions, the Shareholders' Agreement strictly controls the options for transferring Company shares.

So, in principle, every shareholder of Agence France Locale has agreed, by endorsing the Shareholders' Agreement, to retain their shares for as long as they remain shareholders of Société Territoriale.

By exception to the principle and strictly defined scenarios, i.e. (i) the loss of AFL's membership, and (ii) at the simple request of Société Territoriale, Agence France Locale shareholders must transfer the securities they hold in Agence France Locale's capital to a person named by the Board of Directors of Société Territoriale.

On the basis of this second scenario, the nine shares held by nine of the Company's local authority shareholders were transferred to Société Territoriale.

In any event, the Shareholders' Agreement stipulates that every shareholder in the Company grants Société Territoriale a pre-emptive right over all transfers of shares in the Company.

Furthermore, the Company is not aware of any agreement in which certain clauses set out preferential terms for the transfer or acquisition of shares in the Company pursuant to Article L. 233-11 of the French Commercial Code, as 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 or the exercise of voting rights has been entered into between the shareholders of Agence France Locale, since transactions on Agence France Locale shares are, as stated in the previous paragraph, strictly controlled by the Shareholders' Agreement.

Similarly, the Company has not entered into any agreement that is likely to come to an end or of which the performance conditions are likely to be amended in the event of a change in control of the Company.

6.3. Securities conveying special control rights

The Company does not issue securities that convey special control rights to their holders.

6.4. Employee shareholders

No operations were carried out during the financial year ended December 31, 2017 in respect of share purchase or subscription options in the Company reserved for employees.

Indeed, the capital structure required by law prohibits Agence France Locale employees from holding shares in the Company's capital.

7. Summary table of the use of delegations granted for the performance of capital increases by the General Meeting of Shareholders, under Articles L. 225-129-1 and L. 225-129-2, and pursuant to Article L. 225-37-4, paragraph 3, of the French Commercial Code

Date of the General Meeting that granted the delegation	*Purpose of the delegation granted to the Management Board*	*Duration*	*Overall ceiling*	*Use during the 2017 financial year*
Combined General Meeting of May 3, 2016 (11th resolution).	Delegation of authority granted to the Management Board to increase the share capital with preferential subscription rights through the issue of common shares.	**Duration:** 26 months **Expiry:** See below - delegation renewed by the Combined General Meeting of May 5, 2017	€150 million (nominal)	None
Combined General Meeting of May 3, 2016 (12th resolution).	Delegation of authority granted to the Management Board to increase the share capital without preferential subscription rights for the benefit of Société Territoriale through the issue of common shares.	**Duration:** 18 months **Expiry:** See below - delegation renewed by the Combined General Meeting of May 5, 2017		1. **Capital increase with cancellation of preferential subscription rights for the benefit of Société Territoriale:** - Management Board decisions of February 13, 2017 (decision to increase the share capital) - Management Board decisions of March 6, 2017 (recognition of definitive completion of the share capital increase) - **Amount: €16,500,000** -

<table>
<tr><th>Date of the General Meeting that granted the delegation</th><th>Purpose of the delegation granted to the Management Board</th><th>Duration</th><th>Overall ceiling</th><th>Use during the 2017 financial year</th></tr>
<tr><td>Combined General Meeting of May 5, 2017 (12th resolution).</td><td>Delegation of authority granted to the Management Board to increase the share capital with preferential subscription rights through the issue of common shares.</td><td>Duration:
26 months
Expiry:
July 5, 2019 at midnight</td><td rowspan="2">€150 million (nominal)</td><td>None</td></tr>
<tr><td>Combined General Meeting of May 5, 2017 (13th resolution).</td><td>Delegation of authority granted to the Management Board to increase the share capital without preferential subscription rights for the benefit of Société Territoriale through the issue of common shares.</td><td>Duration:
18 months
Expiry:
November 5, 2018 at midnight</td><td>1. Capital increase with cancellation of preferential subscription rights for the benefit of Société Territoriale:
- management Board decisions of June 19, 2017 (decision to increase the share capital);
- decisions of the Chairman of the Management Board on June 28, 2017 (subdelegation - recognition of definitive completion of the share capital increase);
- amount: €1,700,000

2. Capital increase with cancellation of preferential subscription rights for the benefit of Société Territoriale:
- decisions of the Management Board on September 25, 2017 (decisions to increase the share capital);
- decisions of the Chairman of the Management Board on October 16, 2017 (subdelegation - recognition of definitive completion of the share capital increase);
- amount: €3,300,000</td></tr>
</table>

8. Observations of the Supervisory Board on the management report issued by the Management Board for the 2017 financial year and on the parent company financial statements established for the financial year ended on December 31, 2017

You are reminded that, pursuant to Article L. 225-68, paragraph 6, of the French Commercial Code, the Supervisory Board must submit to the Annual General Meeting its observations on the annual financial statements for the financial year ended on December 31, 2017, as approved by the Management Board, and on the management report submitted to this Meeting.

We hereby inform you that the annual financial statements for the year ended December 31, 2017, which were prepared in accordance with French GAAP and voluntarily in accordance with IFRS, as well as the management report prepared by the Management Board of the Company, were submitted to the Supervisory Board within the time-frame provided by the laws and regulations in force after they were reviewed favorably by the Company's Audit and Risk Committee.

The financial statements for the year ended December 31, 2017 show the following principal items:

	In French GAAP (in thousands €)	**In IFRS (in thousands euros)**
Total balance sheet	2,522,285	2,529,864
Net banking income	11,102	10,682
Net income	146	(427)

The annual financial statements prepared for the financial year ended December 31, 2017 in accordance with French GAAP and voluntarily in accordance with IFRS, and the related management report prepared by the Management Board, do not require any specific comment from the Supervisory Board, which examined them on March 29, 2018.

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Lyon,
March 29, 2018,

The Supervisory Board of Agence France Locale,
Represented by its Chairman,
Richard Brumm

APPENDIX 3

DRAFT RESOLUTIONS SUBMITTED TO THE COMBINED GENERAL MEETING OF SHAREHOLDERS OF AGENCE FRANCE LOCALE OF MAY 4, 2018

The Management Board of Agence France Locale proposes that the Combined General Meeting of Shareholders approve the following resolutions:

ORDINARY GENERAL MEETING

First resolution

Approval of the parent company financial statements for the year ended December 31, 2017, prepared in accordance with French GAAP, and the complete discharge for the performance of its mandate to the Management Board for said financial year

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, having reviewed the report of the Management Board to the General Meeting, the observations of the Supervisory Board, and the Statutory Auditors' report on the parent company financial statements for the year ended December 31, 2017, prepared in accordance with French GAAP, gives the Management Board full and unreserved discharge of the fulfillment of its mandate for said financial year.

The General Meeting, deliberating in accordance with Article 223 quater of the French General Tax Code, approves the expenses and charges referred to in Article 39-4 of that Code, which amount to zero (0) euros and the corresponding theoretical nil corporate income tax expense.

Second resolution

Allocation of profit for the year

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, having reviewed the report of the Management Board to the General Meeting, the observations of the Supervisory Board and the Statutory Auditors' report on the parent company financial statements for the year ended December 31, 2017, prepared in accordance with French GAAP, decides to allocate the net profit of €146,473 for the year to retained earnings.

Third resolution

Approval of the parent company financial statements for the financial year ended December 31, 2017 prepared according to IFRS

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, having reviewed the report of the Management Board to the General Meeting, the observations of the Supervisory Board and the Statutory Auditors' report on the parent company financial statements for the year ended December 31, 2017, prepared in accordance with IFRS, approves the parent company financial statements prepared in accordance with IFRS.

Fourth resolution

Presentation of the Supervisory Board's report on corporate governance

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, has reviewed the report prepared by the Company's Supervisory Board pursuant to Article L. 225-68, paragraph 6, of the French Commercial Code, appended to the management report of the Management Board.

Fifth resolution

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

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, having reviewed the special report of the Statutory Auditors described 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, has reviewed the conclusions of that report and approves the agreements described therein.

Sixth resolution

Determination of annual amount of directors' fees

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, sets the annual amount of the directors' fees to be distributed among the members of the Supervisory Board at €[165,000] for the 2018 financial year and subsequent years.

Seventh resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the Chairman of the Management Board of the Company for the 2018 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to Yves Millardet, in his capacity as Chairman of the Management Board of the Company for the 2018 financial year, as they appear in the report by the Supervisory Board on corporate governance, and have been favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Eighth resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the members of the Management Board of the Company for the 2018 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to Ariane Chazel, Thiébaut Julin, and Philippe Rogier in their capacity as members of the Management Board of the Company for the 2018 financial year, as they appear in the report by the Supervisory Board on corporate governance, and have been favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Ninth resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the Chairman of the Supervisory Board of the Company for the 2018 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to the Chairman of the Supervisory Board of the Company for the 2018 financial year, as defined in the Internal Regulations of the Supervisory Board. These principles are included in the Supervisory Board's report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Furthermore, the Chairman of the Supervisory Board in office on the date of the General Meeting, being the holder of an elected office, does not receive any compensation for his duties.

Tenth resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the members of the Supervisory Board of the Company for the 2018 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to the members of the Supervisory Board of the Company for the 2018 financial year, as defined in the Internal Regulations of the Supervisory Board. These principles are included in the Supervisory Board's report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Furthermore, the members of the Supervisory Board who hold elected or similar office do not receive any compensation for their duties.

Eleventh resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2017 to the Chairman of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100, II of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2017 to Yves Millardet in his capacity as Chairman of the Management Board, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Twelfth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2017 to Ariane Chazel in her capacity as a member of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100, II of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2017 to Ariane Chazel in her capacity as a member of the Management Board and as Director of Risks, Compliance and Internal Control for the Company, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Thirteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2017 to Thiébaut Julin in his capacity as a member of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100, II of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2017 to Thiébaut Julin, a member of the Management Board and Chief Financial Officer of the Company, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Fourteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2017 to Philippe Rogier in his capacity as a member of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100, II of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2017 to Philippe Rogier, a member of the Management Board and Loan Director of the Company, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Fifteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2017 to the Chairman of the Supervisory Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100 of the French Commercial Code, takes note of the fact that the Chairman of the Supervisory Board in office during the financial year ended December 31, 2017 does not receive any compensation for his duties, as a holder of elected office.

Sixteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2017 to the members of the Supervisory Board of the Company

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, approves the components of compensation due or allocated for the financial year ended December 31, 2017 to the members of the Supervisory Board of the Company, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

EXTRAORDINARY GENERAL MEETING

Seventeenth resolution

Delegation of authority to be granted to the Management Board of the Company for the purpose of issuing shares with preferential subscription rights

The General Meeting, deliberating in accordance with the quorum and majority requirements for extraordinary general meetings, having reviewed the report of the Management Board and in accordance with Articles L. 225-129 et seq. (in particular Article L. 225-129-2) 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 determines, by issuing shares with preferential subscription right for shareholders, where the subscription for such shares is paid in cash;

➢ **issues** of preference shares and of securities giving access by any means, immediately or in the future, to preference shares shall be expressly excluded from this authorization;

➢ **decides** that the maximum nominal amount of the immediate or future capital increases of the Company that may be carried out pursuant to this delegation may not exceed one hundred and fifty million euros (€150,000,000), with the understanding that the nominal amount of the increases of the Company's capital under the eighteenth and nineteenth resolutions will be deducted from this ceiling. To this ceiling, the additional amount of the nominal value of the shares to be issued will be added to preserve, in accordance with the applicable legal and regulatory provisions and any applicable contractual provisions providing for other adjustments, the rights of holders of securities or holders of other rights giving access to the capital;

➢ **decides** that shareholders may exercise their preferential subscription rights on an irrevocable basis for the shares whose issue will be decided by the Management Board pursuant to this delegation, under the conditions stated by the Executive Board and within the limits set by the applicable legal and regulatory provisions. In addition, the Management Board will have the option to introduce, for the benefit of the shareholders, a right to subscribe on a revocable basis, which will be exercised in proportion to their rights and within the limits of their requests. If the subscriptions on an irrevocable and, where applicable, a revocable basis have not absorbed the whole of an issue of shares as defined above, the Management Board may use, at its discretion and in the order that it deems appropriate, one or more of the options offered by Article L. 225-134 of the French Commercial Code, namely:

- limiting the amount of the capital increase to the amount of subscriptions, provided that said amount reaches at least three-quarters of the issue originally decided,
- freely distribute all or part of the unsubscribed shares among the persons of its choice;

➢ **decides** that the amount returned or to be returned to the Company for each of the shares issued under this delegation of authority will be equal to the nominal value of those shares on the date of issue of those shares;

➢ **grants** full authority to the Management Board to implement this delegation and in particular to:

- determine the dates and terms of the issues and the form and characteristics of the shares to be created,
- determine the number of shares to be issued and the terms and conditions thereof, with the understanding that the issue price of the shares to be issued will be equal to the nominal value of those shares on the date of issue of those shares,
- determine the method of payment for the shares issued,

- determine the date on which entitlement to dividends arises, with or without retroactive effect, for the shares to be issued,
- suspend, if necessary, the exercise of the rights attached to securities previously issued by the Company for a period of up to three months within the limits provided by the applicable legal and regulatory provisions,
- at its sole discretion, allocate the costs of any issue to the amount of the related premiums and deduct from such amount the sums necessary to raise the legal reserve to one tenth of the new capital after each increase, and
- more generally, make all necessary arrangements, enter into all agreements, request all authorizations, carry out all formalities and take all necessary measures to achieve the successful completion of the proposed issues or, if necessary, delegate them to the Chairman of the Management Board, record the capital increases resulting from any issue effected by the use of this delegation, amend the Company's articles of association accordingly and ensure the financial service of the securities in question and the exercise of the rights attached thereto;

➢ **decides** that this delegation of authority shall be valid for a period of twenty-six (26) months from the date of the General Meeting.

Eighteenth resolution

Delegation of authority to be granted to the Management Board to issue shares, without preferential subscription right for the benefit of persons designated

The General Meeting, deliberating in accordance with the quorum and majority requirements for extraordinary general meetings, having reviewed the report of the Management Board and the report of the Statutory Auditors, in accordance with Articles L. 225-129 *et seq*. (in particular 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 determines, by issuing shares reserved for shareholders without preferential subscription right for the shareholders for the benefit of persons designated. The Management Board shall, in the event that the delegation is used, decide on the list of beneficiaries and the number of shares allocated to each of them on the basis of objective criteria.

Subscription for these shares will be paid in cash.

Issues of preference shares and of securities giving access by any means, immediately or in the future, to preference shares shall be expressly excluded from this authorization;

➢ **decides** that the maximum nominal amount of the immediate or future capital increases of the Company that may be carried out pursuant to this delegation may not exceed one hundred and fifty million euros (€150,000,000), with the understanding that the nominal amount of the increases of the Company's capital under the seventeenth and nineteenth resolutions will be deducted from this ceiling. To this ceiling, the additional amount of the nominal value of the shares to be issued will be added to preserve, in accordance with the applicable legal and regulatory provisions and any applicable contractual provisions providing for other adjustments, the rights of holders of securities or holders of other rights giving access to the capital;

➢ **decides** that this delegation entails the cancellation of the preferential subscription rights of the shareholders to the shares that may be issued;

➢ **decides** that the amount returned or to be returned to the Company for each of the shares issued under this delegation of authority will be equal to the nominal value of those shares on the date of issue of those shares;

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

➢ **grants** full authority 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,
- determine the dates and terms of the issues and the form and characteristics of the shares to be created,
- determine the number of shares to be issued and the terms and conditions thereof, with the understanding that the issue price of the shares to be issued will be equal to the nominal value of those shares on the date of issue of those shares,
- determine the method of payment for the shares issued,
- determine the date on which entitlement to dividends arises, with or without retroactive effect, for the shares to be issued,
- suspend, if necessary, the exercise of the rights attached to securities previously issued by the Company for a period of up to three months within the limits provided by the applicable legal and regulatory provisions,
- at its sole discretion, allocate the costs of any issue to the amount of the related premiums and deduct from such amount the sums necessary to raise the legal reserve to one tenth of the new capital after each increase, and
- more generally, make all necessary arrangements, enter into all agreements, request all authorizations, carry out all formalities and take all necessary measures to achieve the successful completion of the proposed issues or, if necessary, delegate them to the Chairman of the Management Board, record the capital increases resulting from any issue effected by the use of this delegation, amend the Company's articles of association accordingly and ensure the financial service of the securities in question and the exercise of the rights attached thereto;

➢ **decides** that the Management Board may amount of the capital increase to the amount of subscriptions, provided that said amount reaches at least three-quarters of the issue originally decided;

➢ **decides** that this delegation of authority shall be valid for a period of eighteen (18) months from the date of the General Meeting.

Nineteenth resolution

Delegation of authority to be granted to the Management Board to carry out an increase in the share capital reserved for employees who are members of a company savings plan without preferential subscription rights for said employees

The General Meeting, deliberating in accordance with the quorum and majority requirements for extraordinary general meetings having reviewed the report of the Management Board and the report of the Statutory Auditors, in accordance with Article L. 225-129-6 of the French Commercial Code and Articles 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 performed in accordance with Articles L. 3332-18 to L. 3332-24 of the French Labor Code relating to the capital increases reserved for employees who are members of a company savings plan.

Issues of preference shares and of securities giving access by any means, immediately or in the future, to preference shares shall be expressly excluded from this authorization;

- **decides** that the maximum nominal amount of the immediate or future capital increases of the Company that may be carried out pursuant to this delegation may not exceed 3% of the share capital after the capital increase in question, with the understanding that the nominal amount of the capital increases of the Company under the seventeenth and eighteenth resolutions will be deducted from this ceiling. To this ceiling, the additional amount of the nominal value of the shares to be issued will be added to preserve, in accordance with the applicable legal and regulatory provisions and any applicable contractual provisions providing for other adjustments, the rights of holders of securities or holders of other rights giving access to the capital;

- **decides** that the subscription will be reserved for employees who are members of a company savings plan or one or more mutual funds to be set up under a company savings plan to be created in accordance with Article L. 225-138-I of the French Commercial Code. The new shares will give their owners the same rights as the old shares;

- **decides** that this delegation entails the cancellation of the preferential subscription rights of the shareholders to the shares that may be issued;

- **decides** that the subscription price of the new ordinary shares, determined in accordance with the provisions of Articles L. 3332-18 to L. 3332-24 of the French Labour Code, will be set (i) in accordance with the objective methods used to evaluate shares by taking into account, as weighted on a case-by-case basis, the net book value, profitability and business prospects of the business, or (ii) dividing the amount of the net asset revalued according to the most recent balance sheet by the number of existing securities. The decision setting the subscription date will be taken by the Board;

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

- **grants** full authority to the Management Board to implement this delegation and in particular to:

  - determine the list of beneficiaries and the number of shares to be allocated to each of them, within the limit set by the General Meeting,
  - set the date and terms of the issues to be carried out pursuant to this authorization, in accordance with legal and statutory requirements and, in particular, set the subscription price in accordance with the rules set out above, the opening and closing dates of subscriptions, dividend dates and periods for the payment of shares, all within the legal limits,
  - record the completion of the capital increases up to the amount of the shares that will actually be subscribed,
  - perform, directly or by proxy, all transactions and formalities,
  - amend the articles of association in accordance with the increases in the share capital,
  - more generally, make all necessary arrangements, enter into all agreements, request all authorizations, carry out all formalities and take all necessary measures to achieve the successful completion of the proposed issues or, if necessary, delegate them to the Chairman of the Management Board, record the capital increases resulting from any issue effected by the use of this delegation, amend the Company's articles of association accordingly and ensure the financial service of the securities in question and the exercise of the rights attached thereto;

- **decides** that this delegation of authority shall be valid for a period of twenty-six (26) months from the date of the General Meeting.

Twentieth resolution

Powers for completion of formalities

The General Meeting gives full powers to the bearer of the original, an extract or a copy of these minutes to accomplish all formalities and advertisements required by the laws and regulations in force relating to the decisions taken in connection with this meeting.

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APPENDIX 4
SCHEDULE OF FINANCIAL ANNOUNCEMENTS FOR THE FINANCIAL YEAR OPEN FROM JANUARY 1 TO DECEMBER 31, 2018

The Agence France Locale Group is composed of:
- Agence France Locale, a public limited company with a Management Board and a Supervisory Board (***the Issuer***); and
- Agence France Locale – Société Territoriale, the financial parent company, a public limited company with a Board of Directors (***Société Territoriale***).

Date[14]	Information published
March 7, 2018	▪ Beginning of the blackout period – in force until the date of AMF approval of the basic prospectus about AFL's EMTN program
No later than April 10, 2018	▪ Annual result and annual financial report by the Issuer for the financial year ended December 31, 2017 ▪ Annual company and consolidated results, and consolidated annual financial report of Société Territoriale for the financial year ended December 31, 2017
May 4, 2018	▪ Annual General Meeting of the Issuer's Shareholders, called to approve the parent company financial statements for the financial year ended December 31, 2017, prepared in accordance with French GAAP and IFRS
May 17, 2018	▪ "Journée de l'Agence" and Annual General Meeting of Shareholders of Société Territoriale, called to approve the parent company financial statements for the financial year ended December 31, 2017, prepared in accordance with French GAAP, and the Group's consolidated financial statements for the financial year ended December 31, 2017, prepared according to IFRS
September 5, 2018	▪ Beginning of the blackout period – in force until the date of AMF approval of the supplement to the prospectus about AFL's EMTN program
September 28, 2018	▪ Half-year result and half-year financial report of Agence France Locale for the first half of the 2018 financial year, ended June 30, 2018 ▪ Consolidated half-year result of the Agence France Locale Group for the first half of the 2018 financial year, ended June 30, 2018

[14] The dates set out in this schedule are those by which the information indicated will be published.

RESPONSIBILITY FOR THIS MANAGEMENT REPORT PREPARED FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2017

I, the undersigned Thiébaut Julin, acting in my capacity as Chief Executive Officer, member of the Management Board, and Chief Financial Officer of Agence France Locale, certify that, to my knowledge, the accounts have been prepared in accordance with applicable accounting standards and are an accurate reflection of the Company's assets, financial position, and income, and that this management report presents a true picture of the Company's business, income, and financial position and describes the main risks and uncertainties the Company faces.

Lyon, March 29, 2018,

Thiébaut Julin
Chief Executive Officer, member of the Management Board, and Chief Financial Officer of Agence France Locale

AGENCE FRANCE LOCALE IFRS GAAP

BALANCE SHEET

Assets as of December 31, 2017

(€ '000s)	Notes	31/12/2017	31/12/2016
Cash, central banks	4	420,351	57,929
Financial assets at fair value through profit or loss	1	13,711	6,505
Hedging derivative instruments	2	15,629	16,777
Available-for-sale financial assets	3	358,964	354,081
Loans and receivables due from credit institutions	4	211,233	23,412
Loans and advances to customers	5	1,430,829	892,227
Revaluation adjustment on interest rate hedged portfolios			1,091
Held-to-maturity financial assets			
Current tax assets			
Deferred tax assets	6	5,310	5,887
Accruals and other assets	7	68,678	21,308
Intangible assets	8	4,689	6,004
Property, plant and equipment	8	469	550
Goodwill			
TOTAL ASSETS		**2,529,864**	**1,385,769**

Liabilities as of December 31, 2017

(€ '000s)	Notes	31/12/2017	31/12/2016
Central banks		368	
Financial liabilities at fair value through profit or loss	1	14,267	6,504
Hedging derivative instruments	2	61,841	20,448
Due to credit institutions			
Due to customers			
Debt securities	9	2,335,802	1,259,073
Revaluation adjustment on interest rate hedged portfolios		963	
Current tax liabilities			
Deferred tax liabilities	6	205	61
Accruals and other liabilities	10	1,543	5,649
Provisions	11	19	506
Equity		**114,856**	**93,529**
Equity, Group share		**114,856**	**93,529**
Share capital and reserves		132,500	111,000
Consolidated reserves		(17,628)	(14,263)
Reevaluation reserve			
Gains and losses recognised directly in equity		411	157
Profit (loss) for the period		(427)	(3,365)
Non-controlling interests			
TOTAL LIABILITIES		**2,529,864**	**1,385,769**

Income statement

(€ '000s)	Notes	31/12/2017	31/12/2016
Interest and similar income	12	38,296	19,587
Interest and similar expenses	12	(31,789)	(14,920)
Commissions (income)	13	73	1
Commissions (expense)	13	(90)	(57)
Net gains (losses) on financial instruments at fair value through profit or loss	14	141	(1,177)
Net gains (losses) on available-for-sale financial assets	15	4,051	5,786
Income on other activities			
Expenses on other activities			
NET BANKING INCOME		**10,682**	**9,220**
Operating expenses	16	(8,619)	(9,486)
Net depreciation, amortisation and impairments of tangible and intangible assets	8	(1,913)	(1,855)
GROSS OPERATING INCOME		**149**	**(2,121)**
Cost of risk			
OPERATING INCOME		**149**	**(2,121)**
Net gains and losses on other assets			
INCOME BEFORE TAX		**149**	**(2,121)**
Income tax	6	(576)	(1,243)
NET INCOME		**(427)**	**(3,365)**
Non-controlling interests			
NET INCOME GROUP SHARE		**(427)**	**(3,365)**
Basic earnings per share (in EUR)		(0.32)	(3.03)
Diluted earnings per share (in EUR)		(0.32)	(3.03)

Net income and other comprehensive income

(€ '000s)	31/12/2017	31/12/2016
Net income	**(427)**	**(3,365)**
Items will be reclassified subsequently to profit or loss	**411**	**157**
Unrealized or deferred gains and losses of financial assets available for sale	411	157
Unrealized or deferred gains and losses of cash flow hedges		
Taxes on items reclassified subsequently to profit or loss		
Elements not recyclable in profit or loss	**-**	**-**
Revaluation in respect of defined benefit plans		
Items will not be reclassified subsequently to profit or loss	**411**	**157**
NET INCOME AND GAINS AND LOSSES THROUGH EQUITY	**(16)**	**(3,208)**

Consolidated statement of changes in equity

(€ '000s)	Capital	Associated reserves to capital	Consolidated reserves	Gains or losses, net of tax, recognised directly in equity		Net income, Group share	Share-holders' equity - Group share	Share-holders'equity, non-controlling interests	Total share-holders equity
				Net change in fair value of available-for-sale inancial assets, after tax	Net change in fair value of cash flow hedging derivatives, after tax				
Shareholders' equity at at 1 january 2016	**74,300**	**-**	**(6,485)**	**2,009**	**-**	**(7,777)**	**62,046**	**-**	**62,046**
Increase in share capital	36,700						36,700		36,700
Elimination of treasury shares									
Allocation of profit			(7,777)			7,777			
Dividends 2015 paid									
Sub-total of changes linked to transactions with shareholders	**36,700**	**-**	**(7,777)**	**-**	**-**	**7,777**	**36,700**	**-**	**36,700**
Change in fair value through equity				110			110		110
Change in value of through profit or loss				(1,962)			(1,962)		(1,962)
Changes in actuarial gains on retirement benefits									
Changes in gains and losses recognized directly in equity	**-**	**-**	**-**	**(1,852)**	**-**	**-**	**(1,852)**	**-**	**(1,852)**
2016 Net income						(3,365)	(3,365)		(3,365)
Sub-total	**-**	**-**	**-**	**(1,852)**	**-**	**(3,365)**	**(5,217)**	**-**	**(5,217)**
Effect of acquisitions and disposals on non-controlling interests									
Shareholders' equity at 31 december 2016	**111,000**	**-**	**(14,263)**	**157**	**-**	**(3,365)**	**93,529**	**-**	**93,529**
Impact of changes in accounting policies									
Shareholders' equity at 1 january 2017	**111,000**	**-**	**(14,263)**	**157**	**-**	**(3,365)**	**93,529**	**-**	**93,529**
Increase in share capital	21,500 (1)						21,500		21,500
Elimination of treasury shares									
Allocation of profit			(3,365)			3,365	-		
Dividends 2016 paid									
Sub-total of changes linked to transactions with shareholders	**21,500**	**-**	**(3,365)**	**-**	**-**	**3,365**	**21,500**	**-**	**21,500**
Changes in fair value through equity				459			459		459
Change in value of through profit or loss				(205)			(205)		(205)
Changes in actuarial gains on retirement benefits									
Changes in gains and losses recognized directly in equity	**-**	**-**	**-**	**254**	**-**	**-**	**254**	**-**	**254**
2017 Net income						(427)	(427)		(427)
Sub-total	**-**	**-**	**-**	**254**	**-**	**(427)**	**(173)**	**-**	**(173)**
Effect of acquisitions and disposals on non-controlling interests									
Shareholders' equity at 31 December 2017	**132,500**	**-**	**(17,628)**	**411**	**-**	**(427)**	**114,856**	**-**	**114,856**

(1) The share capital of Agence which amounts on December 31st, 2017 to € 132,500,000 consists of 1,325,000 shares. Agence carried out three capital increases during 2017 for the benefit of the Territorial Company, its parent company. The first was subscribed on 6 March 2017 to € 16,500k, the second on 28th June 2017 for € 1,700k and the third on 16th October 2017 for € 3,300k

Cash flow statement

(€ '000s)	31/12/2017	31/12/2016
Net income before taxes	**149**	**(2,121)**
+/- Net depreciation and amortisation of tangible and intangible non-current assets	1,913	1,855
+/- Net provisions and impairment charges	(488)	488
+/- Expense/income from investing activities	(5,339)	(9,976)
+/- Expense/income from financing activities	396	142
+/- Other non-cash items	3,318	4,045
= Non-monetary items included in net income before tax and other adjustments	**(199)**	**(3,447)**
+/- Cash from interbank operations		
+/- Cash from customer operations	(545,512)	(503,246)
+/- Cash from financing assets and liabilities	(22,621)	2,967
+/- Cash from not financing assets and liabilities	(44)	719
- Income tax paid		
= Decrease/(increase) in cash from operating activities	(568,177)	(499,560)
= CASH FLOW FROM OPERATING ACTIVITIES (A)	**(568,227)**	**(505,128)**
+/- Flows linked to financial assets and investments	(52,195)	104,601
+/- Flows linked to investment properties		
+/- Flows linked to tangible and intangible non-current assets	(518)	(275)
= CASH FLOW FROM INVESTING ACTIVITIES (B)	**(52,713)**	**104,326**
+/- Cash from or for shareholders	21,500	36,700
+/- Other cash from financing activities	1,099,684	399,461
= CASH FLOW FROM FINANCING ACTIVITIES (C)	**1,121,184**	**436,161**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)		
Increase/(decrease) in cash equivalents (A + B+ C + D)	**500,244**	**35,359**
Cash flow from operating activities (A)	(568,227)	(505,128)
Cash flow from investing activities (B)	(52,713)	104,326
Cash flow from financing activities (C)	1,121,184	436,161
Effect of changes in exchange rates on cash and cash equivalents (D)		
Cash and cash equivalents at the beginning of the period	**81,341**	**45,982**
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	81,341	45,982
Cash and cash equivalents at the end of the period	**581,585**	**81,341**
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	581,585	81,341
CHANGE IN NET CASH	**500,244**	**35,359**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

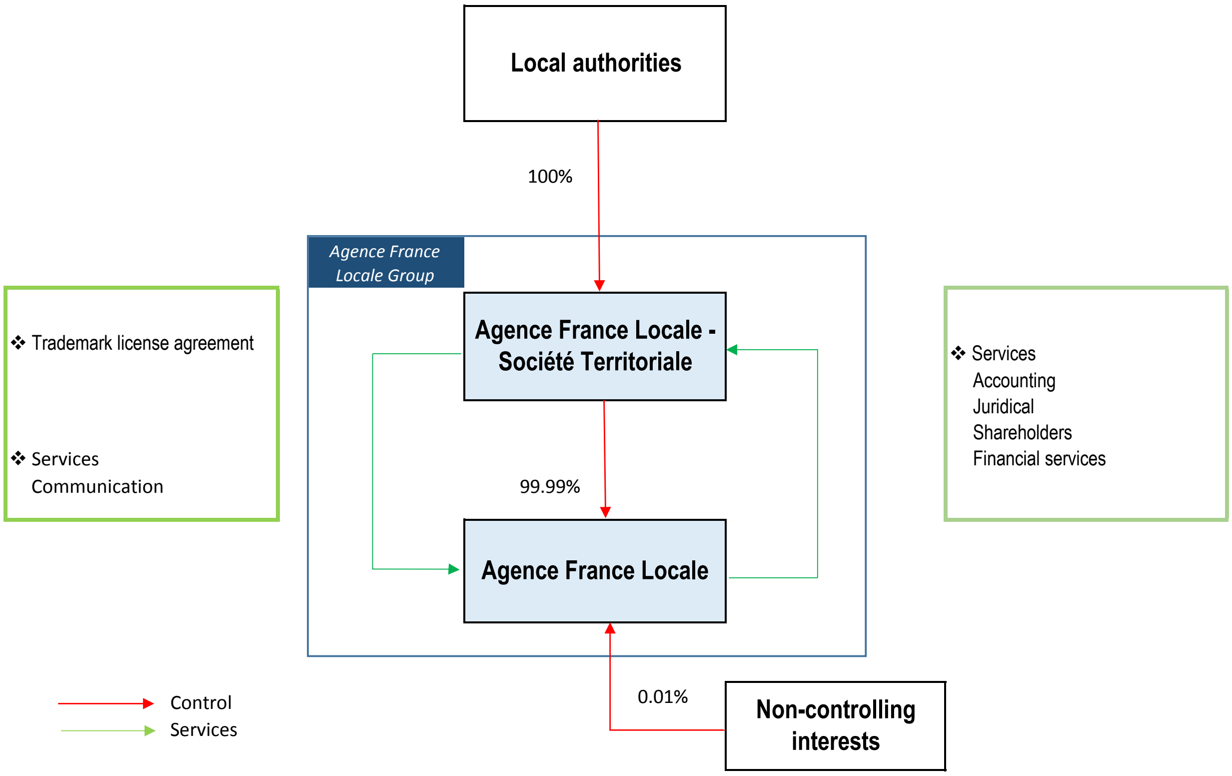
I - General framework

AFL (« Agence ») presentation

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

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

The diagram below shows the structure of the AFL group:



I - Publication context

The 2017 financial statements were approved by the Board of Directors as of March 18, 2018.

II - Highlights from 2017 financial year

Agence France Locale's credit activity to member local authorities was sustained in 2017 with credit production amounting to 555.8 million euros compared to 544.1 million euros at the end of the previous year. During the year, the AFL also made secondary market credit acquisition for 135.6 million euros. In 2017, AFL reached a €1 billion outstanding loan threshold with a balance sheet of 1,430.8 million euros of long-term loans to member local authorities, plus 238.8 million euros of undisbursed loans signed with a cash disbursement date after 2017.

On January 23, 2017, Agence France Locale issued a tranche of €250 million of its March 2023 benchmark bond issue. Subsequently, on May 10, 2017, AFL issued its third Euro benchmark issue of €500 million, with a maturity of 7 years and a 0.5% coupon. Finally, November 28, 2017, AFL has abounded the same tranche for €250 million. These three issues have been subscribed by investors whose geographic origin and category was similar to those of previous issues, hence strengthening AFL's position on the euro debt market. At the beginning of the financial year 2017, Agence France Locale successfully issued its first Commercial paper on the money market as part of its ECP program. The outstanding amount of debt issued by AFL in this short-term market range amounted to €126 million over the year. AFL also completed a $100 million private placement with a two-year maturity over the year.

During 2017, Agence France Locale's capital raised by €21.5 million to €132.5 million following three capital increases exclusively subscribed by its parent company, Société Territoriale. Following these transactions, the total number of shareholders of Agence France Locale Group has been increased to 223.

At the end of the 2017 financial year, the net banking income generated by the business amounted to €10,682k as compared to €9,220k at 31 December 2016. It mainly corresponds to an interest margin of €6,507k, a sharp increase compared to €4,667k observed over the previous year, a net capital gains on investment securities disposal of €4,494k and a negative revaluation result of hedging of €-303k.

The interest margin of €6,507k stems from three items: firstly, an income of €6,301k from the loan portfolio, once restated to hedge accounting which sharply increase compared to €4,747k for the previous year;
secondly, a negative income of -€2,741k from the management of the cash reserve, in a context of deep negative interest rates; and lastly, a positive income of €3,132k associated to interest charges given the reasons stated above, net of hedge accounting. Among these revenues, €711k represent negative interests received on ECP issues.

The €4,051k capital gains on securities disposals came from the portfolio management of the liquidity reserve over the period. These securities disposals resulted in the termination of interest rate hedges for €443k, generating net capital gains of €4,494k for the period.

Net income from hedge accounting came to -€303k. It represents the balance of the fair value differences of hedged items and their hedging. Among these differences, -€375k relate to valuation differential expenses on instruments classified under macro-hedging and €73k in income relate to the valuation of instruments classified under micro-hedging. It remains unrealized valuation differences between hedged items and hedging instruments of which ones comes from an accounting practice that leads to an asymmetry in the valuation, on the one hand, of hedging instruments collateralised daily, discounted on the basis of an Eonia curve, and, on the other, of hedged items, discounted on the basis of a Euribor curve, which, pursuant to IFRS standards, leads to the recognition of a hedging ineffectiveness that is recorded in the income statement. However, it should be noted that this corresponds to latent income.

At the end of the 2017 financial year, general operating expenses came to €8,619k as compared to €9,486k for the previous year. They include €4,592k of personnel expenses, up from €4,272k for the previous year. General operating expenses also include administrative expenses, which were down to €4,027k, compared with €5,215k as at December 31, 2016, after transfer of expenses in fixed assets.

After restating a provision for risks and charges of €488k which had been allocated in 2016 and reversed in the 2017 financial year, the administrative expenses appear to be slightly lower than in the previous year. This decrease is mainly due to a reduction in IT expenses following the end of the information systems build.

After depreciation, amortization and provisions, amounting to €1,913k compared with €1,855k as at December 31, 2016, operating income, for the first time came positive to €149k compared to €-2,121k for the previous year.

The changes in the tax rate and the application of the variable carry-forward method resulted in a deferred tax expense of €-575k relating to tax deficits previously activated. The tax losses recorded over the period did not rise the deferred tax assets.

The 2017 financial year ended with a negative net result of €-427k compared to €-3,365k in the previous financial year.

Events after the end of the reporting period

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

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

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

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

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

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

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

IV - Accounting principles

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 2016 financial year are presented in compliance with the IFRS (International Financial Reporting Standards) published by and as approved by the European Union and in force on that date. The IFRS framework includes IFRS standards and also include International Accounting Standards (IAS) and related interpretations issued by the International Financial Reporting Interpretations Committee) et SIC (Standing Interpretations Committee).

The format used for the summary financial statements is a banking format. It is consistent with Recommendation No. 2013-04 of 7 November 2013 of the French Accounting Standards Authority (Autorité des normes comptables).

New accounting standards and interpretations:

AFL has not applied early the following standards and interpretations that could concern the Group and of which application was not mandatory at 1 January 2017:

IFRS 9 - Financial Instruments

IFRS 9 - Financial Instruments was issued on July 24, 2014 and was endorsed on November 22, 2016 by the European Union. This standard is applicable from 1 January 2018. It defines new principles for classification and measurement of financial instruments, credit risk impairment and hedge accounting.

With a view to applying this standard, Agence France Locale launched a project to apply IFRS 9, which started with an evaluation of the main challenges in respect of IFRS 9 as well as an evaluation conducted by the business lines of the principal impacts.

Classification and measurement

Financial assets will be classified in three categories (amortised cost, fair value through profit and loss, and fair value through Other Comprehensive Income) according to the characteristics of their contractual flows and the way in which the entity manages its financial instruments (business model).

By default, financial assets will be classified in fair value through profit and loss.

It is possible to recognise debt instruments (loans, receivables or debt securities) at amortised cost on condition that contractual cash flows only represent repayments of the principal and interest on the principal and that the business model involves collecting contractual cash flows.

It is be possible to recognise debt instruments in fair value through equity with subsequent reclassification in income on condition that contractual cash flows only represent repayments of the principal and that the business model involves both collecting contractual cash flows and reselling the instruments.

The recognition of financial liabilities remains largely unchanged and should have no impact on Agence France Locale's financial statements.

The AFL has assessed that its financial assets currently measured at amortized cost, which are essentially loans and receivables from customers and credit institutions, will continue to be classified and measured at amortized cost. The detailed analyzes conducted for all the loans showed that the associated cash flows consist solely of payments related to the principal and its interest (SPPI test - in accordance with the impairments of IFRS 9).

All debt securities belonging to the liquidity reserve are managed under the "collect and sale" business model. Given its conservative financial policy, AFL does not expect its portfolio to include securities that do not meet the SPPI test criteria.

The recognition of financial liabilities remains unchanged and will have no impact on Agence France Locale's financial statements.

Impairment

IFRS 9 amends the model to impair credit risk by moving from provisioning for confirmed credit losses to provisioning for expected credit losses (ECL). This new approach aims to anticipate the recognitions of expected credit losses, as soon as possible, without waiting for an objective confirmation of a loss. Due to the lack of default history of Agence France Locale and the low default rate recorded like depreciated for asset exposure on investment sectors, a range of information is used to estimate ECL, including published data by rating agencies as well as loss projections based on reasonable scenarios.

Work on the development of the model for determining expected credit losses took place during the year. On the basis of a preliminary assessment, the retrospective application of the provisions required in the new impairment model will lead to the recognition, at the transition date, of a non-material amount in equity.

Hedge accounting

The opportunities given by IFRS 9 in terms of accounting of cover do not call into question the treatment made until now. The AFL will preserve its method of hedge accounting (See appendix note Financial derivatives and hedge accounting).

IFRS 15 - Recognition of Revenue

IFRS 15 - Recognition of Revenue replaces the current standards and interpretations relating to the recognition of profits. It is retrospectively applicable as of 1 January 2018.

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

IFRS 16 - Leases

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

Accounting principles applied to the financial statements

Financial assets and liabilities

At the time of initial recognition, financial assets and financial Held-to-maturity financial assets liabilities are measured at fair value including trading costs (with the category Held-to-maturity financial assets (applicable to the exception of financial instruments recognised at fair value through profit or loss.

Subsequently, financial assets and financial liabilities are measured according to their classification, either at fair value or at amortised cost based on the effective interest rate

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to obtain the net carrying amount of the financial asset financial liability.

Assets and financial liabilities are classified as below:

Held-to-maturity financial assets

The category Held-to-maturity financial assets includes securities with fixed or determinable payments that the company has the intention and ability to hold until maturity.

With a few limited exceptions, IAS 39 prohibits the sale or transfer of these securities before they mature. Infringing this rule may result in the Group being prohibited from classifying securities in this category for two financial years.

Interest-rate risk hedging transactions on this category of securities are not eligible for hedge accounting as defined by IAS 39.

At year-end, the securities are valued at amortised cost according to the effective interest rate method, which includes amortisation of the premiums and discounts that correspond to the difference between their acquisition and repayment values.

Income received in respect of these securities is shown in “Interest and similar income” in the profit and loss statement.

Where there is objective evidence of impairment, a provision is recorded to represent the difference between book value and estimated recovery value, discounted at the original effective interest rate. This impairment charge is offset against the cost of risk. In the event of a subsequent improvement, the excess provision, which is redundant, is written back.

Available-for-sale financial assets

Applying criteria established by IAS 39, AFL classifies as "Financial assets available for sale":

- Non-consolidated compagnies
- Placement securities

These assets are recognised on the balance sheet at their market value at the time of their acquisition and at subsequent year-ends until they are sold. Movements in fair value are recorded in a specific line in equity capital: “Unrealised or deferred gains and losses”. These unrealized gains and losses recognised in equity capital are not recognised in the profit and loss statement unless they are sold or impaired. Income accrued or received from fixed-income securities is recognised in profit and loss according to the effective net interest method in “Interest and similar income”. Dividends received on variable-income securities are recognised in “Net gains or losses on financial assets available for sale” in the profit and loss statement.

When the securities are sold, unrealised gains and losses that were previously recorded in equity capital are recycled through the profit and loss statement in “Net gains or losses on financial assets available for sale”.

Loans and receivables

Loans and receivables are non-derivative financial assets, which are not listed on an active market and for which returns are fixed or can be determined. They include credit institution and customer loans and receivables. Following their initial recognition, they are recognized at amortised cost using the effective interest rate method and may be subject to impairment, if required.

The effective interest rate is the exact rate used for discounting future cash flows at the initial fair value of the loan. It includes transaction costs and ancillary revenues (arrangement fees, commitment fees when drawdown is deemed more likely than not, or participation fees) directly related to the issuance of loans, considered to be an integral part of returns on lending.

Income calculated based on the effective interest rate is recognized in the balance sheet under accrued interests in the income statement.

Impairment of financial assets

AFL records charges for impairment losses when there is objective evidence that a financial asset or group of financial assets is impaired, as a result of one or more events occurring since initial recognition and when that loss event has an impact on the estimated future cash flows that can be reliably estimated. Impairment represents management’s best estimate of losses in the value of assets at each balance-sheet date.

Impairment of financial assets measured at amortized cost

AFL begins by identifying whether there is objective evidence of an event occurring after a loan or a financial asset acquired was granted that is likely to lead to a loss of value.

Individually assessed financial assets: if there is objective evidence that loans or other receivables, or held-to maturity assets are impaired, the impairment charge is calculated as the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows discounted at the financial instrument’s original effective interest rate. When an asset is individually impaired, it will be excluded from the portfolio on which a collective impairment is calculated.

Collective impairment: this covers the risk of loss in value not covered by specific impairment where there is objective evidence that probable losses are present in certain segments of the lending portfolio on the balance-sheet date. These losses are estimated on the basis of past performance and historical loss experience in each segment and the current environment in which borrowers operate.

Available for sale impairment

In the event of a prolonged or material reduction in the fair value of equity instruments, an impairment charge is recorded on financial assets available for sale. The same applies to debt securities in the event of a significant deterioration in the credit risk.

Losses on the impairment of variable income securities recognized in profit and loss cannot be reversed while the instrument concerned is shown on the balance sheet. They are recognised in “Net gains or losses on financial Assets available for sale”. Losses on the impairment of fixed-income securities are reversible and are recognised in cost of risk when they involve credit risk financial policies of the company, regardless of its percentage of ownership.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are by nature assets bought or generated by the company mainly aim at selling them on the short term outlook or being included in a financial instruments portfolio managed in a mutually way with the aim of making profits based on short term fluctuations of market prices.
AFL 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 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.
As a result these derivatives cannot be classified as either an hedging instrument or being presented for their net amount as allowed by IAS 32.

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

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

Financial information regarding financial instruments

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

Recognition date of securities

AFL records on the settlement date securities the Held-to-maturity financial assets. Other securities, regardless of type or classification, are recognised on the trading date.

Fixed assets

Fixed assets shown on the balance sheet include tangible and intangible operating assets, i.e. assets used for administrative purposes. AFL has no investment property.
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.

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”.

Debt payable to credit institutions

Debt payable to credit institutions is broken down according to their initial maturity or nature of the debt: overnight debt (overnight deposits, ordinary accounts) or term debt (savings accounts).

Debt represented by a security

Financial instruments are classified as debt instruments if the issuer is required to remit cash or other financial assets or to exchange instruments under potentially unfavorable conditions. Debt represented by a security consists of negotiable debt securities issued by Agence.

Reimbursement and issue premiums are amortized according to an actuarial method over the expected life of the securities concerned. They are recorded on the balance sheet in items corresponding to the type of debt concerned. The amortization of these premiums is recorded in the income statement as interest income and expense on debt securities. In the case of bonds issued above par, the amortization of issue premiums is deducted from related interest income on debt securities. Interest paid on debt is accounted for as interest expense on debt securities for accrued amounts, due and not yet due, calculated prorata temporis on the basis of contractual rates.

Fees paid on bond issues are amortized on an actuarial basis over the life of the related financial liabilities.

Financial derivatives and hedge accounting

According to IAS 39, a derivative is a financial instrument or other contract that has the following three characteristics:

- Its value fluctuates according to an interest rate, the price of a financial instrument, the price of a commodity, an exchange rate, a price or share price index, a credit rating or credit index, or another variable known as the underlying asset;
- It requires a low or nil initial net investment, or a net investment that is lower than the investment required by a non-derivative financial instrument in order to achieve the same sensitivity to the underlying asset;
- It is unwound at a future date.

Derivatives held for transaction purposes

Derivatives belong to the category of financial instruments held for trading, except for derivatives that are used for hedging purposes. Their fair value is recognised in the balance sheet in “Financial instruments at fair value through profit and loss”. Movements in fair value and interest accrued or received are recognised in “Net gains and losses on financial instruments at fair value through profit and loss”.

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;
- The effectiveness of the hedge must be demonstrated, at inception and retrospectively, by testing at each reporting date.

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 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.

If at any time the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortized to profit or loss over the residual maturity of the hedged item by adjusting the yield on the hedged item.

Cash flow hedge

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

Macro-hedging

AFL applies the provisions of IAS 39, as adopted by the European Union, to macro-hedging transactions that are performed as part of the asset & liability management of fixed-rate positions. 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.

Financial guarantees

According to IAS 39, a contract meets the definition of a financial guarantee if it includes an indemnity clause, according to which the issuer shall compensate the beneficiary for losses that the latter has suffered due to the default of a debtor who was specifically designated to make a payment on a debt instrument.

Provisions

Provisions are recorded in balance sheet liabilities when the AFL has an obligation towards a third party and that obligation is likely or certain to cause an outflow of funds for the benefit of the third party with no expectation of a counter-payment that is at least equivalent.

Provisions and provision reversals are recorded in profit and loss on the lines that correspond to the nature of the future expenditure involved.

Interest income and expense

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

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

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

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

Cost of risk

The cost of credit risk includes impairment charges and reversals on fixed-income securities, and customer loans and receivables, as well as charges and reversals of 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 33 1/3% rate which is the effective tax rate for the 31 December 2017 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 tax bases of assets and liabilities and their carrying amounts in the financial statements.

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.

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

	31/12/2017		31/12/2016	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Financial assets held for trading	13,711	14,267	6,505	6,504
Financial assets at fair value option through profit or loss				
Total financial assets at fair value through profit or loss	**13,711**	**14,267**	**6,505**	**6,504**

Financial assets held for trading

	31/12/2017		31/12/2016	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Equity instruments				
Debt securities				
Loans and advances				
Derivatives	13,711	14,267	6,505	6,504
Total Financial assets held for trading	**13,711**	**14,267**	**6,505**	**6,504**

	31/12/2017				31/12/2016			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Négative	To receive	To deliver	Positive	Négative
FIRM TRANSACTIONS	**873,964**	**873,964**	**13,711**	**14,267**	**137,471**	**137,471**	**6,505**	**6,504**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**873,964**	**873,964**	**13,711**	**14,267**	**137,471**	**137,471**	**6,505**	**6,504**
Interest rate contracts	873,964	873,964	13,711	14,267	137,471	137,471	6,505	6,504
FRA								
Cross Currency Swaps								
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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

Note 2 - HEDGING DERIVATIVES

Analysis by type of hedge

(€ '000s)	31/12/2017		31/12/2016	
	Assets	Liabilities	Assets	Liabilities
Derivatives designated as fair value hedges	13,690	59,768	15,792	17,889
Derivatives designated as cash flow hedges				
Derivatives designated as portfolio hedges	1,939	2,073	985	2,559
Total Hedging derivatives	**15,629**	**61,841**	**16,777**	**20,448**

Detail of derivatives designated as fair value hedges

	31/12/2017				31/12/2016			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**2,352,036**	**1,221,321**	**13,690**	**59,768**	**1,250,000**	**762,085**	**15,792**	**17,889**
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	**2,352,036**	**1,221,321**	**13,690**	**59,768**	**1,250,000**	**762,085**	**15,792**	**17,889**
Interest rate contracts	2,250,000	1,221,321	13,690	49,831	1,250,000	762,085	15,792	17,889
FRA								
Cross Currency Swaps	102,036			9,938				
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	-	-	-	-	-	-	-	-

Detail of derivatives designated as interest rate hedged portfolios

	31/12/2017				31/12/2016			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**42,950**	**259,334**	**1,939**	**2,073**	**39,100**	**165,200**	**985**	**2,559**
Organised markets	-	-	-	-	-	-	-	-
Interest rate contracts								
Other contracts								
Over-the-counter markets	**42,950**	**259,334**	**1,939**	**2,073**	**39,100**	**165,200**	**985**	**2,559**
Interest rate contracts	42,950	259,334	1,939	2,073	39,100	165,200	985	2,559
FRA								
Cross Currency Swaps								
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	-	-	-	-	-	-	-	-

PORTFOLIO

Note 3 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

Fixed-income securities - Analysis by nature

(€ '000s)	31/12/2017	31/12/2016
Government paper and similar securities	286,877	354,081
Bonds	72,087	
Other fixed income securities		
Net amount in balance sheet	**358,964**	**354,081**
Including depreciation	-	-
Including net unrealised gains and losses	(787)	(281)

Fixed-income securities - Analysis by contreparty

(€ '000s)	31/12/2017	31/12/2016
Local public sector	211,424	258,105
Financial institutions	132,415	95,976
Central banks	15,125	
Net amount in balance sheet	**358,964**	**354,081**

Fixed income securities held on Financial institutions include € 75,453k of securities guaranteed by governments.

Changes in Available-for-sale financial assets

(€ '000s)	Total amount as of 31/12/2016	Additions	Disposals	Gains/(losses) in fair value recognised in equity	Change in accrued interest	Prem/Disc Amort.	Total amount as of 31/12/2017
Government paper and similar securities	354,081	1,944,246	(2,009,186)	(179)	63	(2,147)	286,877
Bonds	-	134,536	(62,561)	(44)	576	(420)	72,087
Other fixed income securities	-	-	-	-	-	-	-
TOTAL	**354,081**	**2,078,782**	**(2,071,748)**	**(223)**	**639**	**(2,567)**	**358,964**

Note 4 - RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	31/12/2017	31/12/2016
Mandatory reserve deposits with central banks	420,351	57,929
Other deposits		
Cash and central banks	**420,351**	**57,929**

Receivables on credit institutions

(€ '000s)	31/12/2017	31/12/2016
Loans and receivables		
- demand	161,233	23,412
- time	50,000	
Securities bought under repurchase agreements		
TOTAL	**211,233**	**23,412**
Impairment		
NET CARRYING AMOUNT	**211,233**	**23,412**

Note 5 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	31/12/2017	31/12/2016
Short-term credit facilities	2,172	850
Other loans	1,428,657	891,377
Customers transactions before impairment charges	**1,430,829**	**892,227**
Impairment		
Net carrying amount	**1,430,829**	**892,227**
Of which individual impairment		
Of which collective impairment		

Note 6 - DEFERRED TAX

The movement on the deferred tax account is as follows:

(€ '000s)	31/12/2017	31/12/2016
Net asset as at 1st of january	**5,826**	**6,076**
Of which deferred tax assets	5,887	7,264
Of which deferred tax liabilities	61	1,189
Recognised in income statement	**(577)**	**(1,243)**
Income statement (charge) / credit	(577)	(1,243)
Recognised in equity	**(144)**	**994**
Available-for-sale financial assets	(144)	994
Cash flow hedges		
Other		
Net asset as at	**5,105**	**5,826**
Of which deferred tax assets	5,310	5,887
Of which deferred tax liabilities	205	61

AFL applied the liability method to the recognition of its deferred tax assets as the draft Finance Act for 2018 includes a gradual reduction of the corporate tax rate to 25% in 2022, the company recognised a €575k tax expense.

Deferred tax net assets are attributable to the following items:

(€ '000s)	31/12/2017	31/12/2016
Available-for-sale financial assets		
Cash flow hedges		
Losses carried forward	5,031	5,606
Other temporary differences	280	281
TOTAL DEFERRED TAX ASSETS	**5,310**	**5,887**

Deferred tax net liabilities are attributable to the following items:

(€ '000s)	31/12/2017	31/12/2016
Available-for-sale financial assets	205	61
Cash flow hedges		
Other temporary differences		
TOTAL DEFERRED TAX LIABILITIES	**205**	**61**

Note 7 - OTHER ASSETS AND ACCRUALS

(€ '000s)	31/12/2017	31/12/2016
Other assets		
Cash collateral paid	68,376	20,682
Other assets	104	366
Impairment		
Net carrying amount	**68,480**	**21,047**
Accruals		
Prepaid charges	147	199
Other deferred income		
Transaction to recieve and settlement accounts		
Other accruals	51	62
Total	**198**	**260**
TOTAL OTHER ASSETS AND ACCRUALS	**68,678**	**21,308**

Note 8 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible fixed assets	31/12/2016	Additions	Transfers	Disposals	Amort.	Other movements	31/12/2017
Intangible fixed assets							
IT development costs	8,547	205				195	8,947
Other intangible assets	394	29				32	455
Intangible assets in progress	63	221	45			(227)	102
Intangible fixed assets gross amount	**9,004**	**455**	**45**	**-**	**-**	**-**	**9,504**
Depreciation and allowances - Intangible fixed assets	(3,000)				(1,815)		(4,815)
Intangible fixed assets net carrying amount	**6,004**	**455**	**45**	**-**	**(1,815)**	**-**	**4,689**

Tangible fixed assets	31/12/2016	Additions	Transfers	Disposals	Amort.	Other movements	31/12/2017
Property, plant & equipment	748	18					766
Tangible fixed assets gross amount	**748**	**18**	**-**	**-**	**-**	**-**	**766**
Depreciation and allowances - Tangible fixed assets	(199)				(98)		(297)
Tangible fixed assets net carrying amount	**550**	**18**	**-**	**-**	**(98)**	**-**	**469**

Note 9 - DEBT SECURITIES

(€ '000s)	31/12/2017	31/12/2016
Negotiable debt securities	8,330	
Bonds	2,327,472	1,259,073
Other debt securities		
TOTAL	**2,335,802**	**1,259,073**

Note 10 - ACCRUALS AND OTHER LIABILITIES

(€ '000s)	31/12/2017	31/12/2016
Other liabilities		
Cash collateral received		3,990
Miscellaneous creditors	761	1,132
Total	**761**	**5,122**
Accruals		
Transaction to pay and settlement accounts		
Other accrued expenses	743	527
Unearned income		
Other accruals	38	
Total	**781**	**527**
TOTAL ACCRUALS AND OTHER LIABILITIES	**1,543**	**5,649**

Note 11 - PROVISIONS

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

OFF-BALANCE SHEET

(€ '000s)	31/12/2017	31/12/2016
Commitments given	**238,783**	**133,782**
Financing commitments	238,783	133,782
For credit institutions		
For customers	*238,783*	*133,782*
Guarantee commitments		
For credit institutions		
For customers		
Commitments on securities		
Securities to be delivered to the issuance		
Other securities to be delivered		
Commitments received	**2,591**	**2,711**
Financing commitments		
From credit institutions		
Guarantee commitments	2,591	2,711
From credit institutions		
From customers	*2,591*	*2,711*
Commitments on securities		
Securities receivable		

VI - Notes to the Income Statement

Note 12 - INTEREST INCOME AND EXPENSES

(€ '000s)	31/12/2017	31/12/2016
Interest and similar income	**38,296**	**19,587**
Due from banks	5	97
Due from customers	12,547	7,625
Bonds and other fixed income securities	714	(281)
from Held-for-sale securities	*714*	*(281)*
from Held-to-maturity securities		
Income from interest rate instruments	25,031	12,146
Other interest income		
Interest and similar expenses	**(31,789)**	**(14,920)**
Due to banks	(1,944)	(142)
Due to customers		
Debt securities	(10,694)	(5,006)
Expense from interest rate instruments	(19,151)	(9,772)
Other interest expenses		
Interest margin	**6,507**	**4,667**

Note 13 - NET FEE AND COMMISSION INCOME

(€ '000s)	31/12/2017	31/12/2016
Commission income	**73**	**1**
Interbank transactions		
Customer transactions		
Securities transactions		
Forward financial instruments transactions		
Currencies transactions		
Financing commitments and guarantee	73	1
Other commissions recieved		
Commission expenses	**(90)**	**(57)**
Interbank transactions	(2)	
Securities transactions		(12)
Forward financial instruments transactions	(87)	(45)
Currencies transactions		
Financing commitments and guarantee		
Other commissions paid		
Net fee and commission income	**(17)**	**(56)**

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

(€ '000s)	31/12/2017	31/12/2016
Gains/(losses) on Trading book	(1)	1
Net result of hedge accounting	140	(1,177)
Net result of foreign exchange transactions	1	(1)
TOTAL	**141**	**(1,177)**

Analysis of net result of hedge accounting

(€ '000s)	31/12/2017	31/12/2016
Fair value hedges		
Fair value changes in the hedged item attributable to the hedged risk	17,281	(12,434)
Fair value changes in the hedging derivatives	(17,208)	12,440
Hedging relationship disposal gain	443	(1,133)
Cash flow hedges		
Fair value changes in the hedging derivatives – ineffective portion		
Discontinuation of cash flow hedge accounting		
Portfolio hedge		
Fair value changes in the hedged item	(2,054)	1,074
Fair value changes in the hedging derivatives	1,678	(1,124)
Net result of hedge accounting	**140**	**(1,177)**

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

(€ '000s)	31/12/2017	31/12/2016
Gains from disposal of fixed income securities	5,933	6,522
Losses from disposal of fixed income securities	(1,881)	(737)
Gains from disposal of variable income securities		
Other income/(expenses) from held-for-sale securities		
Impairment (charges) and reversals on held-for-sale securities		
Gains or (losses) on available-for-sale portfolio	**4,051**	**5,786**

Note 16 - GENERAL OPERATING EXPENSES

(€ '000s)	31/12/2017	31/12/2016
Employee expenses		
Wages and salaries	2,980	2,763
Post-employment benefit expenses	317	304
Other expenses	1,295	1,205
Total Employee expenses	**4,592**	**4,272**
Operating expenses		
Taxes and duties	87	753
External services	4,032	4,709
Total Administrative expenses	**4,118**	**5,462**
Charge-backs and reclassification of administrative expenses	(91)	(248)
Total General operating expenses	**8,619**	**9,486**

A €488k provision for liabilities & charges has been reversed during the year. This provision reversal has been added back from taxes and duties of the period. This provision had been recorded and accounted during the previous year in the same accounting item.

Note 17 - EXTERNAL AUDITOR FEES

	Caillau Dedouit et Associés		KPMG Audit	
	2017 (€ '000s)	2016 (€ '000s)	2017 (€ '000s)	2016 (€ '000s)
Audit				
Fees related to statutory audit, certification, examination of:				
AFL-Société Opérationelle	67	56	75	70
Sub-total	**67**	**56**	**75**	**70**
Fees related to audit services and related assignments:				
AFL-Société Opérationelle	37	38	34	35
Sub-total	**37**	**38**	**34**	**35**
Other benefits from the network of consolidated subsidiaries:				
Law, tax, social	-	-	12	-
Other	-	-	-	-
Sub-total	**-**	**-**	**12**	**-**
TOTAL	**103**	**94**	**121**	**105**

Note 18 - RELATED PARTIES

There are, on 31 December 2017, an agreement of administrative services and a licensing for the use of a mark, which have been concluded between the Agence and the Agence France Locale - Territorial Corporation at normal market conditions.

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 2017 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 2017 were the following ones :

(€ '000s)	31/12/2017
Fixed remuneration	783
Variable remuneration	47
Payments in kind	10
Total	**840**

In addition, members of the AFL Supervisory Board received € 142k 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:

	31/12/2017			
	Total	Measured using		
(€ '000s)		Level 1	Level 2	Level 3
Financial assets				
Financial assets at fair value through profit or loss	**13,711**		13,711	
Hedging derivative instruments	**15,629**	-	15,629	-
Government paper and similar securities	286,877	286,877	-	-
Bonds	72,087	72,087	-	-
Other fixed income securities	-	-	-	-
Total Available-for-sale financial assets	**358,964**	**358,964**	**-**	**-**
Total Financial assets	**388,303**	**358,964**	**29,339**	**-**
Financial liabilities				
Financial liabilities at fair value through profit or loss	**14,267**		14,267	
Hedging derivative instruments	**61,841**	-	61,841	-
Total Financial liabilities	**76,108**	**-**	**76,108**	**-**

Fair values of instruments carried at amortised cost:

	31/12/2017				
	Net Carrying value	Fair value	Measured using		
(€ '000s)			Level 1	Level 2	Level 3
Financial assets					
Cash, central banks	**420,351**	420,351	-	-	420,351
Loans and receivables due from credit institutions	**211,233**	211,233	-	-	211,233
Loans and advances to customers	**1,429,866**	1,429,866	-	-	1,429,866
Total Held-to-maturity financial assets	**-**	**-**			
Total Financial assets	**2,061,451**	**2,061,451**	**-**	**-**	**2,061,451**
Financial liabilities					
Debt securities	**2,335,802**	2,367,975	2,275,939	83,705	8,330
Total Financial liabilities	**2,335,802**	**2,367,975**	**2,275,939**	**83,705**	**8,330**

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 2017 for financial assets with exposure to credit risk, without taking account of collateral held or other credit risk mitigation.

(€ '000s)	Performing assets	Past due but not impaired	Impairment allowance	Total 31/12/2017
Cash, central banks	420,351			**420,351**
Financial assets at fair value through profit or loss	13,711			**13,711**
Hedging derivative instruments	15,629			**15,629**
Available-for-sale financial assets	358,964			**358,964**
Loans and receivables due from credit institutions	211,233			**211,233**
Loans and advances to customers	1,430,829			**1,430,829**
Revaluation adjustment on interest rate hedged portfolios				
Current tax assets				
Other assets	68,480			**68,480**
Sub-total Assets	**2,519,197**	**-**	**-**	**2,519,197**
Financing commitments given	238,783			**238,783**
TOTAL Credit risk exposure	**2,757,980**	**-**	**-**	**2,757,980**

Analysis by counterparty

(€ '000s)	Total 31/12/2017
Central banks	370,351
Local public sector	1,981,114
Credit institutions guaranteed by the EEA States	60,328
Credit institutions	278,760
Other financial corporations guaranteed by the EEA States	
Other financial corporations	52,210
Non-financial corporations guaranteed by the EEA States	15,125
Non-financial corporations	93
Total Exposure by counterparty	**2,757,980**

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

Exposure analysis by country

(€ '000s)	Total 31/12/2017
France	2,521,524
Canada	73,045
Netherlands	43,642
Supranational	31,857
Norway	30,357
Denmark	20,094
China	14,965
New Zealand	10,033
Germany	7,456
Sweden	5,007
Total Exposure by country	**2,757,980**

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	Accruals	Revaluation	Total 31/12/2017
Cash, central banks	420,351				**420,351**			**420,351**
Financial assets at fair value through profit or loss			5,005	8,558	**13,563**	**148**		**13,711**
Hedging derivative instruments		1	3,479	12,097	**15,577**	**52**		**15,629**
Available-for-sale financial assets								
Government paper and similar securities		3,002	103,924	179,610	286,536	1,084	(743)	286,877
Bonds	4,082		67,473		71,555	576	(44)	72,087
Total Available-for-sale financial assets	**4,082**	**3,002**	**171,397**	**179,610**	**358,091**	**1,661**	**(787)**	**358,964**
Loans and receivables due from credit institutions	161,233		50,000		**211,233**			**211,233**
Held-to-maturity financial assets								
Loans and advances to customers	66,350	69,209	377,335	920,199	**1,433,093**	**2,283**	**(4,548)**	**1,430,829**
Revaluation adjustment on interest rate hedged portfolios								
Current tax assets								
Other assets	68,480				**68,480**			**68,480**
TOTAL ASSETS								**2,519,197**
Central banks						**368**		**368**
Financial assets at fair value through profit or loss			5,004	8,559	**13,563**	**704**		**14,267**
Hedging derivative instruments	144	4	13,295	50,631	**64,074**	**(2,232)**		**61,841**
Debt securities	8,330		830,839	1,496,266	**2,335,436**	**5,933**	**(5,567)**	**2,335,802**
Revaluation adjustment on interest rate hedged portfolios							**963**	**963**
Other liabilities	761				**761**			**761**
TOTAL LIABILITIES								**2,414,003**

Agence France Locale has a surplus of long-term liabilities, which reflects its limited transformation goals. The difference in modified duration between assets and liabilities is negative; liabilities are still longer than assets. This situation is related to the business start and should evolve in a balanced situation, which should eventually see liabilities with a slightly shorter average life than assets. On 31st December 2017, assets are composed of short-term securities that will be transformed into medium-to-long-term loans.

D - Interest rate risk: sensitivity to interest rate changes

Exposure to interest rate risk relates to that of the Operational subsidiary, Agence France Locale. The rate risk management policy and its implications on financial year 2017 are described into the financial report as at 31st December 2017.

Maturity	1 Day	30 Days	6 Month	12 Month	5 Year	10 Year	15 Year	20 Year
Gap (M€)	632	587	600	667	437	- 393	- 39	0

Agence France Locale has a surplus of fixed rates exposures, primarily resulting from:
- In the short term, liquidity reserve invested in the short time
- In the long term, equity capital that is modelled ""in fine"" at 20 years.

Agence France Locale's NPV sensitivity is calculated excluding equity capital and intangible assets to avoid double-counting, as they are already subtracted from the

	31/12/2017	30/06/2017	31/12/2016	30/06/2016	31/12/2015	Limit
Sc. +100bp	-3.7%	-1.8%	-7.9%	-7.1%	-1.1%	±15%
Sc. -100bp	4.4%	2.4%	9.0%	8.3%	1.1%	±15%
Sc. -100bp (floor)	2.3%	1.5%	2.2%	1.7%	1.1%	±15%
Sc. +200bp	-6.7%	-3.2%	-11.8%	-17.9%	-2.2%	±15%
Sc. -200bp	9.7%	5.3%	15.7%	13.3%	2.2%	/
Sc. -200bp (floor)	2.5%	1.7%	2.2%	1.7%	2.1%	±15%

Agence France Locale complies with all regulatory limits, including limits that were introduced in early 2015 on NPV sensitivity to shocks of +/- 200 bp.

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75008 Paris

Agence France Locale S.A.

Statutory Auditor's report on the "financial statements"

Year ended or Period from 1 January 2017 to 31 December 2017

Agence France Locale S.A.

Tour Oxygène - 10-12 boulevard Vivier Merle - 69003 Lyon

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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: Tour Oxygène - 10-12 boulevard Vivier Merle - 69003 Lyon
Share capital: €.132,500,000

Statutory Auditor's report on the "financial statements"

Year ended or Period from 1 January 2017 to 31 December 2017

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 2017, 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". 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 2017, 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 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 6 avril 2018

KPMG Audit FS I	Cailliau Dedouit et Associés
Ulrich Sarfati	Laurent Brun
Partner	*Partner*

AGENCE FRANCE LOCALE

BALANCE SHEET

Assets as of 31st of December 2017

(€ '000s)	Notes	31/12/2017	31/12/2016
Cash and central banks	2	420 351	57 929
Government paper and similar securities	1	287 591	354 161
Receivables on credit institutions	2	211 233	23 412
Loans and advances to customers	4	1 435 377	888 598
Bonds and other fixed income securities	1	72 100	
Equities and other variable income securities			
Investments in non-consolidated companies and other long-term investments			
Investments in consolidated companies			
Intangible assets	5	5 093	6 833
Property, plant and equipment	5	469	550
Other assets	6	68 480	21 047
Accruals	6	21 591	10 108
TOTAL ASSETS		**2 522 285**	**1 362 637**

Liabilities as of 31st of December 2017

(€ '000s)	Notes	31/12/2017	31/12/2016
Central banks		391	
Due to banks	3		
Customer borrowings and deposits			
Debt securities	7	2 347 653	1 252 985
Other liabilities	8	1 312	5 456
Accruals	8	63 034	15 460
Provisions	9	17	505
Subordinated debt			
General banking risk fund (GBRF)			
Equity (excluding GBRF)	10	**109 878**	**88 231**
Share capital		132 500	111 000
Additional paid-in capital			
Reserves and retained earnings			
Revaluation differences			
Regulated provisions and investment subsidies			
Retained earnings (+/-)		(22 769)	(20 127)
Net income for the period (+/-)		146	(2 642)
TOTAL LIABILITIES		**2 522 285**	**1 362 637**

INCOME STATEMENT

(€ '000s)	Notes	31/12/2017	31/12/2016
+ Interest and similar income	12	38 334	19 624
- Interest and similar expenses	12	(31 849)	(14 956)
+ Income from variable income securities			
+ Fee and commission income	13	73	1
- Fee and commission expenses	13	(90)	(57)
+/- Net gains (losses) on held for trading portfolio	14	443	(1 140)
+/- Net gains (losses) on placement portfolio	14	4 192	5 655
+ Other banking income			
- Other banking expense			
NET BANKING INCOME		**11 102**	**9 127**
- General operating expenses	15	(8 618)	(9 487)
+ Other operating income			
- Depreciation and amortization	5	(2 338)	(2 281)
GROSS OPERATING INCOME		**146**	**(2 642)**
- Cost of risk			
OPERATING INCOME		**146**	**(2 642)**
+/- Net gains (losses) on fixed assets			
PRE-TAX INCOME ON ORDINARY ACTIVITIES		**146**	**(2 642)**
+/- Net extraordinary items			
- Income tax charge			
+/- Net allocation to FGBR and regulated provisions			
NET INCOME		**146**	**(2 642)**
Basic earnings per share		0,11	(2,38)

OFF-BALANCE SHEET

(€ '000s)

COMMITMENTS GIVEN AND RECEIVED	Notes	31/12/2017	31/12/2016
Commitments given		**238 783**	**133 782**
Financing commitments		238 783	133 782
Guarantee commitments			
Commitments on securities			
Commitments received		**2 591**	**2 711**
Financing commitments			
Commitments received from credit institutions			
Guarantee commitments		2 591	2 711
Commitments on securities			
Derivatives	11	**5 623 570**	**2 491 327**

NOTES TO THE INDIVIDUAL HAL YEAR ACCOUNTS

I - Publication context

The 2017 financial statements were approved by the Executive Board as of March 14, 2018.

II - Highlights from 2017 financial year

Agence France Locale's credit activity to member local authorities was sustained in 2017 with credit production amounting to €555.8 million compared to €544.1 million at the end of the previous year. During the year, the AFL also made secondary market credit acquisition for €135.6 million. In 2017, AFL reached a €1 billion outstanding loan threshold with a balance sheet of €1,435.4 million of long-term loans to member local authorities, plus €238.8 million of undisbursed loans signed with a cash disbursement date after 2017.

On January 23, 2017, Agence France Locale issued a tranche of €250 million of its March 2023 benchmark bond issue. Subsequently, on May 10, 2017, AFL issued its third Euro benchmark issue of €500 million, with a June 2024 maturity for a 7 years period and a 0.5% coupon. Finally, November 28, 2017, AFL has abounded the same tranche for €250 million. These three issues have been subscribed by investors whose geographic origin and category was similar to those of previous issues, hence strengthening AFL's position on the euro debt market. At the beginning of the financial year 2017, Agence France Locale successfully issued its first Commercial paper on the money market as part of its ECP program. The outstanding amount of debt issued by AFL in this short-term market range amounted to €126 million over the year. AFL also completed a $100 million private placement with a two-year maturity over the year.

During 2017, Agence France Locale's capital raised by €21.5 million to €132.5 million following three capital increases exclusively subscribed by its parent company, Société Territoriale. Following these transactions, the total number of shareholders of Agence France Locale Group has been increased to 223.

At the end of the 2017 financial year, the net banking income generated by the business amounted to €11,102k as compared to €9,127k at 31 December 2016. It mainly corresponds to an interest margin of €6,485k, a sharp increase compared to €4,668k observed over the previous year, a net capital gains on investment securities disposal of €4,494k and and a reversal of impairment on available-for-sale securities for €140k.

The interest margin of €6,485k stems from three items: firstly, an income of €6,301k from the loan portfolio, once restated to hedge accounting which sharply increase compared to €4,747k for the previous year;
secondly, a negative income of €-2,763k from the management of the cash reserve, in a context of deep negative interest rates;
and lastly, a positive income of €3,132k associated to interest charges given the reasons stated above, net of hedge accounting. Among these revenues, €711k represent negative interests received on ECP issues.

The €4,051k capital gains on securities disposals came from the portfolio management of the liquidity reserve over the period. These securities disposals resulted in the termination of interest rate hedges for €443k, generating net capital gains of €4,494k for the period.

At the end of the 2017 financial year, general operating expenses came to €8,618k as compared to €9,487k for the previous year. They include €4,592k of personnel expenses, up from €4,239k for the previous year. General operating expenses also include administrative expenses, which were down to €4,026k, compared with €5,249k as at December 31, 2016, after transfer of expenses in fixed assets.

After restating a provision for risks and charges of €488k which had been allocated in 2016 and reversed in the 2017 financial year, the administrative expenses appear to be slightly lower than in the previous year. This decrease is mainly due to a reduction in IT expenses following the end of the information systems build.

After depreciation, amortization and provisions, amounting to €2,338k compared with €2,281k as at December 31, 2016, operating income, for the first time came positive to €146k compared to €-2,642k for the previous year.

The 2017 financial year ended with a negative net result of €-427k compared to €-3,365k in the previous financial year.

Events after the end of the reporting period

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

III - Accounting principles and valuation methods

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

Presentation format

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

Preparation basis

The general accounting conventions have been applied, in accordance with the basic assumptions :
• Ongoing concern principle,
• Segregation of accounting periods,
• Consistency of methods.
And with the general rules for preparing and presenting annual financial statements.

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 at least nine months in arrears,

. 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.

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.

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, 2017

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

IV - Notes to the Balance Sheet

Note 1 - PORTFOLIO

(€ '000s)

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

31/12/2016	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	353 340			353 340
Unlisted securities				-
Accrued interest	1 022			1 022
Impairment	(201)			(201)
Net carrying amount	**354 161**	**-**	**-**	**354 161**
Residual net Premium/Discount	7 340			7 340

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 31/12/2017	Total 31/12/2016
Government paper and similar securities								
Net amount	-	3 002	103 895	179 610	286 506	1 084	287 591	354 161
NET CARRYING AMOUNT	**-**	**3 002**	**103 895**	**179 610**	**286 506**	**1 084**	**287 591**	**354 161**
Bonds and other fixed income securities								
Net amount	4 082	-	67 441	-	71 523	576	72 100	-
NET CARRYING AMOUNT	**4 082**	**-**	**67 441**	**-**	**71 523**	**576**	**72 100**	**-**

Analysis by type of portfolio

Portfolio *(€ '000s)*	Gross amount 31/12/2016	Additions	Disposals	Transfers	Prem/Disc Amort.	Change in accrued interest	Impairment	Total 31/12/2017	Unrealized gains/(losses)
Transaction									
Held-for-sale	354 161	2 078 782	(2 071 465)		(2 566)	639	140	359 690	(787)
Investment									
NET CARRYING AMOUNT	**354 161**	**2 078 782**	**(2 071 465)**	**-**	**(2 566)**	**639**	**140**	**359 690**	**(787)**
Of which Premium/Discount	7 340	29 683	(28 201)		(2 566)			6 255	

Note 2 -RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	31/12/2017	31/12/2016
Mandatory reserve deposits with central banks	420 351	57 929
Other deposits		
Cash and central banks	**420 351**	**57 929**

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 31/12/2017	Total 31/12/2016
Credit institutions							-	-
Loans and receivables							-	-
- on demand and short notice	161 233				161 233		161 233	23 412
- term			50 000		50 000		50 000	-
Securities bought under repurchase agreements							-	-
TOTAL	**161 233**	**-**	**50 000**	**-**	**211 233**	**-**	**211 233**	**23 412**
Impairment								
NET CARRYING AMOUNT	**161 233**	**-**	**50 000**	**-**	**211 233**	**-**	**211 233**	**23 412**

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 31/12/2017	Total 31/12/2016
Credit institutions							-	-
Accounts and Overdrafts					-		-	-
- on demand and short notice					-		-	-
- term					-		-	-
Securities sold under repurchase agreements					-		-	-
TOTAL	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Note 4 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	31/12/2017	31/12/2016
Short-term credit facilities	2 172	850
Other loans	1 433 205	887 747
Customers transactions before impairment charges	**1 435 377**	**888 598**
Impairment		
Net carrying amount	**1 435 377**	**888 598**
Of which related receivables	2 283	1 016
Of which gross doubtful receivables		
Of which gross non-performing doubtful receivables		

Analysis by residual maturity excluding accrued interest

(€ '000s)	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 31/12/2017
Loans and advances to customers	66 350	19 720	49 488	377 335	920 199	**1 433 093**	**2 283**	**1 435 377**

Note 5 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible assets	31/12/2016	Additions	Transfers	Disposals	Amort.	Other movements	31/12/2017
Intangible assets	**11 064**	**234**				**227**	**11 525**
Start-up costs	2 123						2 123
IT development costs	8 547	205				195	8 947
Software	366	29				32	427
Web site	28						28
Intangible assets in progress	**63**	**221**	**45**			**(227)**	**102**
Intangible assets amortisation	**(4 294)**				**(2 240)**		**(6 533)**
Net carrying amount	**6 833**	**455**	**45**		**(2 240)**		**5 093**

Property, plant & equipment	31/12/2016						31/12/2017
Property, plant & equipment	748	12					766
Tangible assets in progress	-						-
Tangible assets amortization	**(199)**				**(98)**		**(297)**
Net carrying amount	**550**	**12**			**(98)**		**469**

Note 6 - OTHER ASSETS AND ACCRUALS

(€ '000s)	31/12/2017	31/12/2016
Other assets		
Cash collateral paid	68 376	20 682
Miscellaneous debtors	104	366
Impairment		
Net carrying amount	**68 480**	**21 047**
Accruals		
Deferred charges on bond issues	9 238	5 918
Deferred charges on hedging transactions	4 143	560
Prepaid charges	147	199
Accrued interest not yet due on hedging transactions	8 063	3 432
Other deferred income		
Other accruals		
TOTAL	**21 591**	**10 108**

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 31/12/2017	Total 31/12/2016
Negotiable debt securities	8 338				8 338		8 338	-
Bonds			833 382	1 500 000	2 333 382	5 933	2 339 315	1 252 985
Other debt securities					-		-	-
TOTAL	**8 338**	**-**	**833 382**	**1 500 000**	**2 341 720**	**5 933**	**2 347 653**	**1 252 985**

Note 8 - OTHER LIABILITIES and ACCRUALS

(€ '000s)	31/12/2017	31/12/2016
Other liabilities		
Cash collateral received		3 990
Miscellaneous creditors	1 312	1 466
TOTAL	**1 312**	**5 456**
Comptes de régulation		
Transaction to pay and settlement accounts		
Deferred revenues on bond issues	2 954	
Unrealised gains on hedging instruments	43 222	12 182
Unearned income		
Accrued expenses on hedging instruments	6 335	3 085
Other accrued expenses		
Other accruals	10 523	193
TOTAL	**63 034**	**15 460**

Note 9 - PROVISIONS

(€ '000s)	Balance as of 31/12/2016	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 31/12/2017
Provisions						
Financing commitment execution risks						
Provisions for other litigations						
Provisions for employee retirement and similar benefits	17	-	-	-	-	17
Provisions for other liabilities to employees						
Other provisions	488	-	-	(488)	-	-
TOTAL	**505**	**-**	**-**	**(488)**	**-**	**17**

Note 10 - CHANGES IN EQUITY

(€ '000s)	Share capital	Legal reserve	Share premiums	Statutory reserve	Translation, revaluation	Translation, revaluation subsidies	Retained earnings	Net income	Total equity
Balance as of 31/12/2015	**74 300**	**-**	**-**	**-**	**-**	**-**	**(8 046)**	**(12 082)**	**54 173**
Change in share capital	36 700								36 700
Change in share premium and reserves									
Allocation of 2015 net profit							(12 082)	12 082	
Net income as of 31/12/2016								(2 642)	(2 642)
Other changes									
Balance as of 31/12/2016	**111 000**	**-**	**-**	**-**	**-**	**-**	**(20 127)**	**(2 642)**	**88 231**
Dividend paid for 2016									
Change in share capital	21 500 (1)								21 500
Change in share premium and reserves									
Allocation of 2016 net profit							(2 642)	2 642	
Net income as of 31/12/2017								146	146
Other changes									
Balance as of 31/12/2017	**132 500**	**-**	**-**	**-**	**-**	**-**	**(22 769)**	**146**	**109 878**

(1) The share capital of Agence which amounts on December 31st, 2017 to €132,500,000 consists of 1,325,000 shares. Agence carried out three capital increases in 2017 for the benefit of the Territorial Company, its parent company. The first was subscribed on 6 March 2017 to €16,500k, the second on 28th June, 2017 for €1,700k and the third on 16th October, 2017 for €3,300k.

Note 11 - DERIVATIVES

Outstanding notional and Fair value

(€ '000s)	31/12/2017				31/12/2016			
	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	**3 875 642**	**(46 213)**	**1 747 928**	**(556)**	**2 216 385**	**(3 671)**	**274 942**	**1**
Organised markets	-	-	-	-	-	-	-	-
Interest rate contracts								
Other contracts								
Over-the-counter markets	**3 875 642**	**(46 213)**	**1 747 928**	**(556)**	**2 216 385**	**(3 671)**	**274 942**	**1**
Interest rate contracts	3 773 605	(36 275)	1 747 928	(556)	2 216 385	(3 671)	274 942	1
FRA								
Cross Currency Swaps	102 036	(9 938)						
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Exchange rate options								
Other options								
Over-the-counter markets	-	-	-	-	-	-	-	-
Caps, floors								
Foreign currency option								
Crédit derivatives								
Other options								

Amount of micro-hedge transaction as of 31/12/2017	3 573 358	(€ '000s)
Amount of macro-hedge transaction as of 31/12/2017	302 284	(€ '000s)
Amount of trading transaction as of 31/12/2017	1 747 928	(€ '000s)

Notional amount by maturity

(€ '000s)	31/12/2017					
	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	**35 022**	**998 738**	**2 841 882**	-	**713 728**	**1 034 200**
Organised markets	-	-	-	-	-	-
Interest rate contracts						
Other contracts						
Over-the-counter markets	**35 022**	**998 738**	**2 841 882**	-	**713 728**	**1 034 200**
Interest rate contracts	26 569	905 155	2 841 882		713 728	1 034 200
FRA						
Cross Currency Swaps	8 453	93 583				
Other contracts						
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-
Exchange rate options						
Other options						
Over-the-counter markets	-	-	-	-	-	-
Caps, floors						
Foreign currency option						
Crédit derivatives						
Other options						

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

V - Notes to the Income statement

Note 12 - INTEREST INCOME AND EXPENSES

(€ '000s)	31/12/2017	31/12/2016
Interest and similar income	**38 334**	**19 624**
Due from banks	5	97
Due from customers	12 584	7 662
Bonds and other fixed income securities	714	(281)
from Held-for-sale securities	*714*	*(281)*
from Investment securities		
Income from interest rate instruments	25 031	12 146
Other interest income		
Interest and similar expenses	**(31 849)**	**(14 956)**
Due to banks	(1 966)	(142)
Due to customers		
Debt securities	(10 694)	(5 006)
Expense from interest rate instruments	(19 188)	(9 808)
Other interest expenses		
Interest margin	**6 485**	**4 668**

Note 13 - NET FEE AND COMMISSION INCOME

(€ '000s)	31/12/2017	31/12/2016
Commission income	**73**	**1**
Interbank transactions		
Customer transactions	73	1
Securities transactions		
Forward financial instruments transactions		
Currencies transactions		
Financing commitments and guarantee		
Other commissions recieved		
Commission expenses	**(90)**	**(57)**
Interbank transactions	(2)	
Securities transactions		(12)
Forward financial instruments transactions	(87)	(45)
Currencies transactions		
Financing commitments and guarantee		
Other commissions paid		
Net fee and commission income	**(17)**	**(56)**

Note 14 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS

(€ '000s)	31/12/2017	31/12/2016
Gains/(losses) on Trading book		
Gains/(losses) on forward financial instruments	443	(1 140)
Gains/(losses) on foreign currency transactions		
Gains or (losses) on trading portfolio	**443**	**(1 140)**
Gains/(losses) from disposal of held-for-sale securities	4 051	5 786
Other income/(expenses) from held-for-sale securities		
Impairment (charges) and reversals on held-for-sale securities	140	(131)
Gains or (losses) on held-for-sale portfolio	**4 192**	**5 655**

Note 15 - GENERAL OPERATING EXPENSES

(€ '000s)	31/12/2017	31/12/2016
Employee expenses		
Wages and salaries	2 980	2 730
Post-employment benefit expenses	317	304
Other expenses	1 295	1 205
Total Employee expenses	**4 592**	**4 239**
Operating expenses		
Taxes and duties	87	753
External services	4 496	5 158
Total Administrative expenses	**4 583**	**5 911**
Charge-backs and reclassification of administrative expenses	(557)	(663)
Total General operating expenses	**8 618**	**9 487**

A reversal of provision was made during the year for € 488K. This reversal was recorded as a reduction of taxes and duties for the period. This provision had been recorded and accounted during the previous year in the same accounting item.

Note 16 - STAFF

	31/12/2017	31/12/2016
Director (corporate officer)	1	1
Managers	25,25	24,25
Technicians & employees	0,25	-
Apprentices and professional trainng contracts	7,5	5,5
Average staff during the year	**34**	**30,75**
Staff at year-end	**33**	**34**

Note 17 - 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 2017 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 2017 were the following ones :

(€ '000s)	31/12/2017
Fixed remuneration	783
Variable remuneration	47
Payments in kind	10
Total	**840**

In addition, members of the AFL Supervisory Board received €142k attendance fees.

Note 18 - EXTERNAL AUDITOR FEES

	Caillau Dedouit et Associés		KPMG Audit	
	2017 (€ '000s)	2016 (€ '000s)	2017 (€ '000s)	2016 (€ '000s)
Audit				
Fees related to statutory audit, certification, examination of:				
AFL-Société Opérationelle	67	56	75	70
Sub-total	**67**	**56**	**75**	**70**
Other fees and benefits (*) :				
AFL-Société Opérationelle	37	38	46	35
Sub-total	**37**	**38**	**46**	**35**
TOTAL	**103**	**94**	**121**	**105**

(*) Other fees and benefits are related to issue prospectus audit, capital increases and social, environmental and societal data audits.

Note 19 - INCOME TAX CHARGE

The standard method for current tax has been chosen for report individual accounts.
Tax losses amounting to €22.3m at 2017 year-end closing were not recognised as deferred tax assets.

Note 20 - RELATED PARTIES

There are, on 31 December 2017, an agreement of administrative services and a licensing for the use of a mark, which have been concluded between the Agence and the Agence France Locale Locale France - Territorial Corporation at normal market conditions.

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Tour EQHO
2 Avenue Gambetta
CS 60055
92066 Paris la Défense Cedex
France

CAILLIAU DEDOUIT et ASSOCIES
19, rue Clément Marot
75008 PARIS

Agence France Locale S.A.

Statutory auditors' report on the financial statements

For the year ended 31 December 2017
Agence France Locale S.A.
10-12 boulevard Vivier Merle - Tour Oxygène - 69003 Lyon

KPMG AUDIT FS I
Tour EQHO
2 Avenue Gambetta
CS 60055
92066 Paris la Défense Cedex
France

CAILLIAU DEDOUIT et ASSOCIES
19, rue Clément Marot
75008 PARIS

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: 10-12 boulevard Vivier Merle - Tour Oxygène - 69003 Lyon
Share capital: €.132,500,000

Statutory auditors' report on the financial statements

For the year ended 31 December 2017

Dear Shareholders,

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 31 December 2017.

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 31 December 2017 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 rules applicable to us, for the period from 1 January 2017 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 or in the French Code of ethics (code de déontologie) for statutory auditors.

Justification of Assessments - Key Audit Matters

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 of the 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, as well as how we addressed those risks.
We have decided that there is no key audit matter to communicate in our report.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

Verification of the Management Report and of the Other Documents Provided to Shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information given in the management report and in the other documents provided to the Shareholders with respect to the financial position and the financial statements

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 provided to Shareholders with respect to the financial position and the financial statements.

Report on corporate governance

We attest that the Supervisory Board's report on corporate governance sets out the information required by Articles L.225-37-3 and L.225-37-4 of the French Commercial Code.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code (code de commerce) relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of the shareholders and holders of the voting rights, and the cross-shareholdings has been properly disclosed in the management report.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Agence France Locale S.A. by the annual general meeting held on 17 December 2013.

As at 31 December 2017, KPMG and Cailliau Dedouit et Associés were in their 4th year of total uninterrupted engagement, and the 3rd year since the entity is considered as a Public Interest Entity (PIE) as defined by the European texts.

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 Committee 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 6 avril 2018	Paris, on the 6 April 2018
KPMG Audit FSI	Cailliau Dedouit et Associés
French original signed by	
Ulrich Sarfati *Partner*	Laurent Brun *Partner*