AGENCE FRANCE LOCALE

Financing our local governments' investments

Financial report

1 January to 30 June 2017

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GLOSSARY

ICC	Initial capital contribution
ACC	Additional capital contribution
ACPR	Autorité de Contrôle Prudentiel et de Résolution (French Banking Supervisory Authority)
AFL	Agence France Locale
AFL - ST	Agence France Locale – Société Territoriale
ALM	Asset and Liabilities Management
AMF	Autorité des Marchés Financiers
ASW	Asset Swap
ECB	European Central Bank
CAR	Risk and Audit Committee
CET1	Common Equity Tier 1
AVM	Average maturity
EAPB	European Association of Public Banks
ECP	Euro Commercial Paper
EMTN	Euro Medium Term Notes
EPCI	Etablissement Public de Coopération Intercommunal (Grouping of municipalities)
HQLA	High Quality Liquid Assets
DTA	Deferred tax assets
LCR	Liquidity Coverage Ratio
LGFA	Local Government Funding Agencies
NIM	Net interest margin
NSFR	Net Stable Funding Ratio
OAT	Obligations Assimilables du Trésor (French government treasuries)
NBI	Net banking income
PSPP	Public Sector Purchase Programme (debt-instrument purchase programme) from the European Central Bank
GOI	Gross operating income
NI	Net income
RWA	Risk Weighted Asset
IPT	Internal pricing transfer
NPV	Net present value

I. MANAGEMENT REPORT

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

1. Creation and structure

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

The Agence France Locale Group is organised as a dual structure comprised of Agence France Locale Société Territoriale (the parent company, with the status of a financial company, AFL-ST) and Agence France Locale (the subsidiary, a specialised lending institution, AFL). These two companies together form the Agence France Locale Group, whose dual-level governance separates the operational management performed by the specialised lending institution (AFL) from the development of financial strategy by Société Territoriale, in order to:

- prevent any interference by the member local authorities in the routine management activities of AFL;
- empower stakeholders to perform their missions;
- provide appropriate mechanisms for oversight and monitoring.

Accordingly, the Board of Directors of AFL-ST has adopted a rule that states that the majority of members of the Supervisory Board of the lending institution must be independent. In this way, the shareholders accept and acknowledge the extent to which banking and financial professionals are responsible for oversight of the lending institution.

The main missions of AFL-ST, the parent company of the group, are the following:

- representation of shareholders;
- oversight of the guarantee mechanism;
- appointment of members of the Supervisory Board of the lending institution;
- determination of major strategic policies;
- promotion of the Agence France Locale model, in connection with the subsidiary.

The main missions of AFL, a lending institution more than 99.99% owned by AFL-ST, are the following:

- day-to-day operational management of financial activities;
- raising of funds on capital markets;
- granting loans to shareholder local authority members exclusively; and
- alongside AFL-ST, promotion of the model to local authorities with the aim of increasing the number of member shareholders of AFL-ST.

2. Agence France Locale economic model

AFL is a specialised credit institution dedicated to financing the investments of local authorities. These local authorities are its exclusive shareholders through AFL-ST, which owns more than 99.9% of its shares. Like the local government financing agencies in Northern Europe[1], which have been active for several decades, and agencies in New Zealand and Japan, it is Agence France Locale's mission to be a long-term player in the financing of local investments. The Agence France Locale model is directly inspired its Nordic counterparts, and it also takes into account the restrictions specific to the French political and legal system. More specifically, the Agence France Locale model is broadly inspired by the Swedish and Finnish agencies, which have been financing local authorities in their respective countries since the end of the 1980s. This model is based on borrowing from capital markets, in the form of bond issues, in order to grant simple fixed-rate or variable-rate loans to shareholder local authorities.

Optimisation of financing costs is based on the high credit quality of AFL, which is underpinned by a sound financial position combined with a dual first-demand guarantee mechanism consisting of:

- the "Member Guarantees" granted by the shareholder local authority members of AFL-ST to any financial creditor of AFL, which enable the guarantees of the shareholder local authorities to be directly called. The amount of this guarantee is equal to the amounts of the outstanding loans with an initial duration greater than 364 days contracted by each local authority member from AFL[2]. Therefore, a creditor has the option of calling the guarantee from several local authorities. A local authority whose guarantee would be called by a creditor is obliged to inform AFL-ST, which may then call all of the other guarantees of the members in proportion to the amount of the loans that they contracted with the Company. This joint and proportional guarantee is organised to create joint liability between the member local authorities in the payment of the amounts due while keeping it limited, for each of them, to their outstanding loans. From an economic point of view, the amounts borrowed by AFL are supposed to be greater than the amounts that it lends to members, so that the securities issued by AFL are not totally covered by the Member Guarantees mechanism:

    - over the medium term, about 70% of the total amount of bonds issued by AFL in the markets will be used to grant medium-term and long-term loans to members,

    - the balance of the total amount of bonds issued by AFL on the capital markets is kept both to ensure the liquidity of AFL in accordance with its regulatory obligations and best management practices and to offer cash loans to members under the conditions and limits set by AFL's financial policies;

- the "AFL-ST Guarantee" granted by AFL-ST to any financial creditor of AFL also enables the guarantee of AFL-ST, which is then the sole counterparty of the creditor, to be directly called. The ceiling of the AFL-ST guarantee is set by the Board of Directors. It is supposed to cover all of the commitments of its subsidiary, AFL, to its financial creditors. The amount of the guarantee granted by AFL-ST to creditors, which is determined by the Board of Directors of AFL-ST, was initially fixed at €3.5 billion and was raised to €5 billion by the Board of Directors on 16 February 2017.

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[1] The local and regional government funding 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.

[2] Each medium-term and long-term loan granted by AFL to one of its members depends upon the granting by that Member of a guarantee commitment for an amount equivalent to the financing. This means that the total amount guaranteed under the Member Guarantee is always equal to the sum of medium-term and long-term loans granted and disbursed by AFL to its Members. The outstanding medium-term and long-term loans of each Member, and consequently the amounts of their guarantees, are published on AFL's website each working day. As the lending institution has broadened its commercial offer and offers short-term cash credit contracts to local authority members, the initial Member Guarantee model has developed to expressly exclude, on the basis of the guarantee, the cash credits, whose outstanding amount by nature may fluctuate strongly.

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

It should also be noted that, in accordance with its statutory provisions, the AFL-ST Guarantee may be called on behalf of financial creditors at the request of the AFL as part an agreement signed between the two companies. The purpose of this mechanism for the call, by third parties, to the direct beneficiaries of the "Member Guarantee" is so that the guarantees may be activated preventively due to non-compliance with regulatory ratios or the occurrence of a default.

Apart from the credit risk on local authorities, all of AFL's financial risks (other credit risks, foreign exchange risk, interest-rate risk and liquidity risk) are to be limited, supervised or neutralised.

With respect to prudential requirements, AFL's objective is to maintain the following ratios above regulatory requirements:

- a solvency ratio (Common Equity Tier One) at 12.5% minimum;
- a leverage ratio greater than 3.5%; and
- 30-day (LCR) and one-year (NSFR) liquidity ratios greater than 150%.

3. Rating of bonds issued by AFL

As at 30 June 2017, AFL's rating was Aa3 with Moody's, with a stable outlook. This rating was confirmed on 7 November 2016. The latest report from Moody's on AFL's rating is dated 15 May 2017.

Agence France Locale's EMTN issue programme was also rated by the rating agency Moody's. AFL's bond rating is at the best level of credit quality ("high grade"), with a rating of Aa3, as well as a stable outlook. AFL's short-term ECP issue programme, which was rated by the same agency, has the best rating of P-1.

B. Significant events during the first half of 2017 and post-closure events

1. Renewal of the decision-making bodies of the Agence France Locale Group

When the Group was founded in 2013, the Articles of Association of both Group companies provided for the appointment of members of the Board of Directors of AFL-ST and the Supervisory Board of AFL for a short period of three years, which corresponds to the period dedicated to the building-up of the institution, obtaining approval as a specialised financial institution and the commencement of banking activities. It was agreed that the composition of the Board of Directors of AFL-ST and the Supervisory Board of AFL was to be renewed at the general meetings called to approve the financial statements for the third financial year. Therefore, at the general meeting of shareholders of AFL-ST on 24 May 2017, the composition of the Board of Directors of AFL-ST was renewed for a period of six years, in accordance with the statutory and legal provisions in force, with the intent that the Board of Directors would reflect the composition of the shareholders of the Group and of establishing a governance shared between all categories of member local authorities.

The local authority members of the Group therefore collectively appointed the Chairman and Vice-Chairman of the Board of Directors and met by groups according to the category of local authority to which they belonged (municipal, departmental and regional blocks), in order to elect their representatives on the Board of Directors.

The composition of the Board of Directors following the renewal is as follows:

- Mr Jacques Pélissard (Chairman);
- Mr Richard Brumm (Vice-Chairman).

For the regional block:
- Pays de la Loire region, represented by Mr Laurent Dejoie.

For the departmental block:
- department of Essonne, represented by Mr Dominique Echaroux;
- department of Savoie, represented by Mr Luc Berthoud.

For the municipal block:
- Métropole Européenne de Lille, represented by Mr Michel Colin;
- Métropole de Lyon, represented by Ms Karine Dognin-Sauze;
- Métropole du Grand Nancy, represented by Mr Pierre Boileau;
- Eurométropole de Strasbourg, represented by Ms Caroline Barrière;
- Métropole de Toulouse, represented by Mr Sacha Briand;
- Commune de Grenoble, represented by Mr Hakim Sabri;
- Commune de Conches-en-Ouche, represented by Mr Jérôme Pasco;
- Commune de Roquefort-sur-Soulzon, represented by Mr Bernard Sirgue.

At the same time, the general meeting of shareholders of AFL, which took place on 5 May 2017, renewed the composition of its Supervisory Board.

The members of the Supervisory Board of AFL are appointed to their functions for a period of four years. The reduction of the term of office from six to four years after the renewal of the Board was decided at the general meeting of shareholders of AFL of 3 May 2016 in order to comply with the recommendations of the AFEP-MEDEF Corporate Governance Code to which the Company voluntarily submits.

Following the general meeting of shareholders of AFL of 5 May 2017, the composition of the AFL Supervisory Board is as follows:

- Mr Richard Brumm (Chairman);
- Mr Jacques Pélissard (Vice-Chairman);
- Ms Victoire Aubry;
- Ms Mélanie Lamant;
- Mr Lars Andersson;
- Mr François Drouin;
- Mr Olivier Landel;
- Mr Daniel Lebègue;
- Mr Rollon Mouchel Blaisot;
- Mr Nicolas Fourt; and
- Mr Dominique Schmitt.

2. Two capital increases

Two capital increases were carried out during the first half of 2017, bringing the number of shareholders to 207 local authorities at 30 June 2017, compared to 173 at 31 December 2016. Notable entries were the Territory of French Polynesia and municipalities such as Bry-sur-Marne, Le Blanc-Mesnil and Clichy-sous-Bois in the Paris region, Biscarosse in the Landes and a large number of small municipalities in Meurthe-et-Moselle participating in a joint investment project. The municipality community of Portes de Romilly-sur-Seine, a grouping of municipalities

(EPCI), joined Agence France Locale during the period. Lastly, Aix-Marseille-Provence decided to integrate all of its ancillary budgets into Agence France Locale.

On these occasions, several local authority members paid their second or third instalments of one third of the capital contribution.

As at 30 June 2017, the subscribed capital of the Agence France Locale Group stood at €135 million, compared to €115.9 million at 31 December 2016.

Expressed as outstanding debt, all of the shareholder local authorities of the Agence France Locale Group represent about 13% of the total outstanding debt of French local authorities as at the date of this report.

3. Continuation of loan production

AFL's loan activity to local authority members stood at €176.7 million in the first half of 2017. As at 30 June 2017, this resulted in exposure to the customers, expressed in French GAAP, of €1,065.3 million in loans made available and €133.4 million in lending commitments, representing a total amount of balance-sheet and off-balance-sheet commitments of €1,198.7 million.

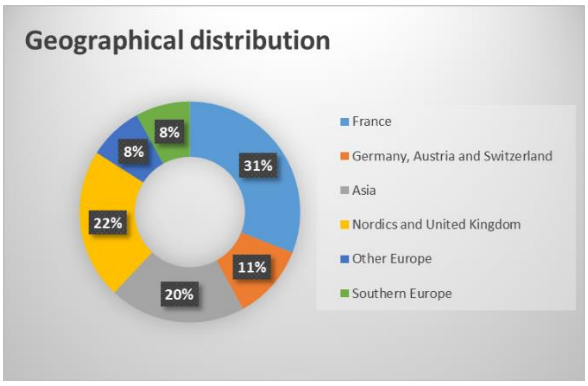
This production of loans in the first half of 2017 was a significant increase compared to 2016. Nevertheless, no conclusion may be drawn at this stage concerning the forecasts for volume that AFL has set for the year. This activity represented 51 loan contracts, which were concluded with an average maturity of 17.7 years at fixed or variable rates. During the period, the AFL crossed the threshold of the 250th loan granted, bringing the production of loans from the outset to €1,229.2 million on 30 June 2017.

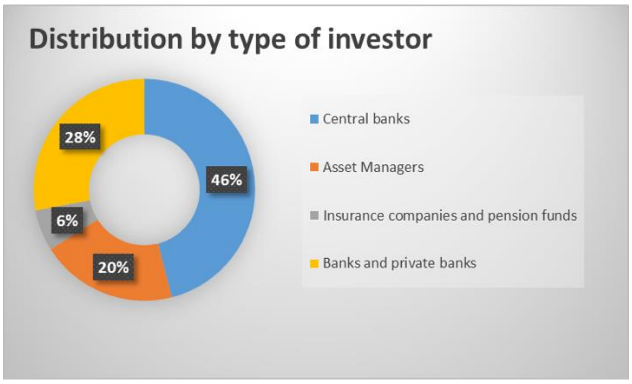
4. Medium-term and long-term financing transactions

At the beginning of 2017, AFL decided to make a rapid return to the market due to the election season in France and the rising uncertainties from the outcome of the elections, which complicated the marketing of a new bond issue for a period of several months.

a. Additional contribution to the 2023 series

Initially, AFL made an additional contribution of €250 million to the bond series with a maturity of 2023 at a margin of 27 basis points above the curve for French government bonds (OATs). At the initiative of the lead managers for the initial issue, which was executed in May 2016, this additional contribution was made soon after positive feedback from several central banks, for which the additional contribution enabled the outstanding 2023 series to reach a size of €750 million, which is generally required by that category of investors. In total, 20 investors positioned themselves on this new transaction, whose distribution by geographical origin and type of investors is as follows:





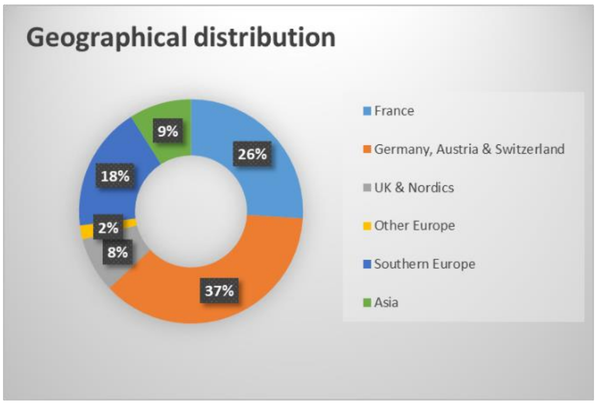
b. Launch of a two-year private placement in US dollars

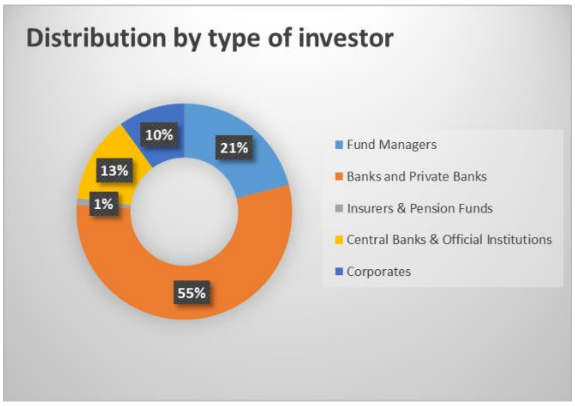
This was the third private placement issued by AFL since its creation and the second in US dollars. While the first one-year private placement in US dollars, issued in December 2015, had a three-month dollar coupon of LIBOR plus 40 basis points, this second private placement in US dollars, launched in January 2017 with a two-year maturity, offered a yield to investors of three-month dollar LIBOR plus 35 basis points. This transaction optimised AFL's financing costs by taking advantage of positive arbitrage between the US dollar/euro cross-currency swap.

c. Launch of the third benchmark issue in euros with a maturity of 2024

On 15 May 2017, AFL made its third benchmark bond issue in euros, of an amount of 500 million, with a maturity of seven years and a coupon of 0.5% corresponding to a margin of 25 basis points above the curve for French government bonds (OATs).

This issue was very well received by the market, with an order book of over €630 million and highly diversified placement, both by investor category and by geographical origin, as shown by the graphs below. Also, the loyalty of certain investors during this third benchmark issue testifies to the credibility of AFL's signature and the good understanding of the model of local government funding agency by capital markets.





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

5. Agence France Locale presentation day

On 24 May 2017, on the occasion of the general meeting of AFL-ST, AFL held its second annual presentation day at the Mutuelle Intériale exhibition in Paris, which was chaired by Rollon Mouchel-Blaisot, Chairman of the Board of Directors of AFL-ST. This day was an occasion for the economist Patrick Artus, Chief Economist at Natixis, to present his analysis of the international macroeconomic environment. Thomas Rougier, General Secretary of the Observatoire des Finances et de la Gestion Publique Locales (centre for finance and local public management) gave an update on the process of local public investment. As part of a subsequent debate that was hosted by Olivier Landel, the Managing Director of AFL-ST, this day also gave elected representatives of French local authorities an opportunity to speak about the situation in the local sphere, especially after a period of significant legal and institutional developments and in a context of economic restructuring. In the afternoon, the general meeting of shareholders took place, which included the renewal of the members of the Board of Directors of AFL-ST.

C. Results of the period for AFL

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

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

AFL has decided to prepare voluntarily financial statements according to IFRS for the period ending on 30 June 2017, for which comments are given in this report.

1. Individual AFL financial statements according to French GAAP

As at 30 June 2017, the net income of AFL showed a loss of €329 thousand, compared to a loss of €493 thousand at 30 June 2016. This result takes into account capital gains upon available for sale securities, which stood at € 2,343 thousand and relate to the management of the liquidity reserve portfolio. These capital gains are net of the cancellation of interest-rate hedging instruments for securities that were sold.

The net banking income generated over the first half-year by business activity stood at €5,152 thousand, compared to €5,071 thousand at 30 June 2016. This corresponds mainly to an interest margin of €3,148 thousand, up compared to €2,109 thousand in the first half of the previous year, net capital gains on sale of available-for-sale securities of €2,343 thousand and depreciation of investment securities of -€327 thousand.

In accordance with practices for the presentation of the results of financial institutions, the formation of the results for the year is presented in the paragraph below according to IFRS. The difference between French GAAP and IFRS mainly relates to deferred tax assets not recognised under French standards, foreign-exchange and interest-rate hedging inefficiencies and the depreciation over five years of start-up costs that are now allowed for those years.

Conversion of financial statements from French GAAP to IFRS

In thousand euros	**30 June 2017**
Net income – French GAAP	**(329)**
IFRS restatements	
Allocations to depreciation of start-up costs (taken for all of 2014 under IFRS)	211
Cancellation of company depreciation of available-for-sale securities	327
Hedging inefficiency of financial instruments	(162)
Activation of deferred tax on other time differences	(113)
Other restatements	28
Net income under IFRS	**(37)**

2. Financial statements according to IFRS

Over the first half of 2017, the NBI generated by business activity stood at €5,347 thousand, compared to €5,035 thousand at 30 June 2016. This corresponds mainly to an interest margin of €3,177 thousand over the half-year, a significant increase compared to the €2,109 thousand observed over the first half of the previous financial year, capital gain on available for sale securities of €2,343 thousand and a negative net hedge accounting result of - €162 thousand.

The interest margin of €3,177 thousand comes from three places:

- firstly, the income related to the loan portfolio at €2,979 thousand, once it was restated for hedges;
- secondly, income related to the management of the liquidity reserve, a loss of -€1,188 thousand, due to interest rates deeply anchored in negative territory; and
- lastly, the debt interest charge, which, for the reasons specified previously, represents a source of income standing at €1,386 thousand, once the income from hedging is taken into account. Amongst this income is €442.5 thousand of interest income generated on ECP issues.

The capital gain on sales, for €1,636 thousand, relates to the management of the liquidity reserve portfolio over the period. These sales led concurrently to the cancellation of interest-rate hedges for €707 thousand generating net overall capital gain of €2,343 thousand for the period.

The net result of the hedge accounting stood at €546 thousand. It consists of two elements, the cancellation of interest-rate hedges related to sales of securities, for €707 thousand, and an amount of -€162 thousand which represents, for instruments still in the portfolio on the date of closure, the sum of the variations from fair value of hedging instruments and the underlying hedged items. Amongst these variations, -€305 thousand relates to differences in valuation on instruments classified as macro-hedges and €144 thousand of income relates to valuation differences of instruments classified as micro-hedges. There remain unrealised valuation differences between hedging instruments and the underlying hedged items, one of whose components comes from an accounting practice that leads to an asymmetry in the valuation of hedging instruments collateralised daily and discounted on the basis of an EONIA curve, and of hedged items discounted on the basis of a Euribor curve, which, under IFRS, leads to the recognition of hedging inefficiencies that is recorded in the income statement. It should be noted that this is nevertheless latent income.

As at 30 June 2017, general operating expenses represented €4,334 thousand, compared to €4,438 thousand at 30 June 2016. Of this, €2,454 thousand is for personnel expenses, which are up from the first half of the previous year, when they were €2,230 thousand, mainly due to adjustments of taxes based on salaries. General operating expenses also include administrative charges, which were down to €1,985 thousand, compared to €2,362 thousand as at 30 June 2016, because of the effect of a reversal of provisions for risks and charges of €488 thousand.

After depreciation, amortisation and provisions, which amounted to €937 thousand, compared with €915 thousand as at 30 June 2016, operating income totalled €76 thousand, compared to €-318 thousand for the first half of the previous year.

After taking into account a -€113 thousand tax on profit related to changes on deferred tax accounts, the first half of 2017 ended with a negative net income of -€37 thousand, compared to -€275 thousand over the same period during the previous year.

The financial statements as at 30 June 2017 demonstrate increasing activities by AFL.

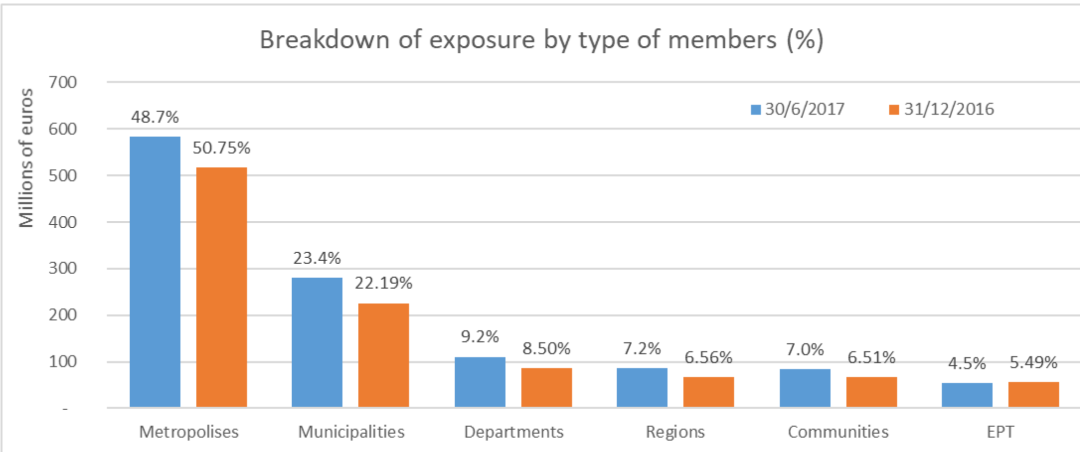
D. Assets as at 30 June 2017

AFL's assets are mainly composed of loans to local authorities, securities resulting from investing the liquidity reserve, AFL's bank accounts and margin calls made to swap counterparties. The significant increase in deposits made by AFL with the European Central Bank and the state treasury are the result of several fundraising operations carried out during the first half of 2017 and put into these accounts, pending disbursements to come as part of the production of loans over the second part of the year.

In thousands of euros	30/06/2017	31/12/2016
Loans and receivables to customers	1,060,617	892,227
Cash and central banks	412,607	57,929
Assets available for sale financial assets	654,066	354,081
Loans and receivables due from credit institutions	162,438	23,412
Cash collateral paid	42,594	20,682

1. Loans to local authorities

AFL lends exclusively to French local authorities that are shareholder members. As at 30 June 2017, the loan portfolio to customers on the balance sheet stood at €1,060.6 million and was characterised by strong exposure to the municipal block[3].



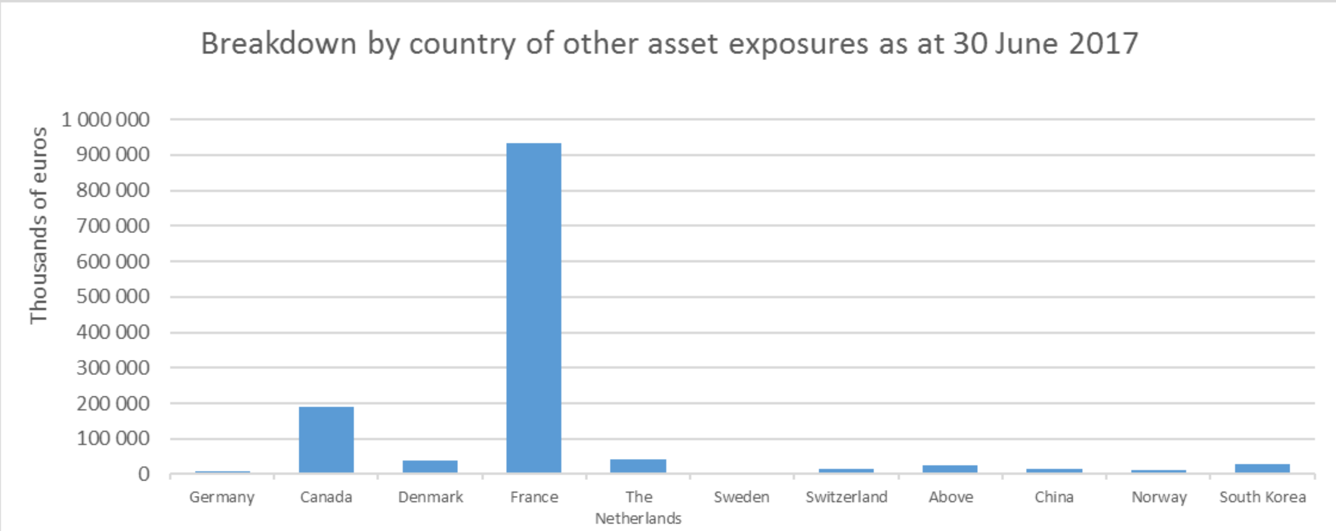
[3] The municipal block includes metropolises, municipalities and communities. The communities are composed of urban communities, suburban communities and municipality communities. The EPT are regional public entities created in the context of the metropolis of Greater Paris.

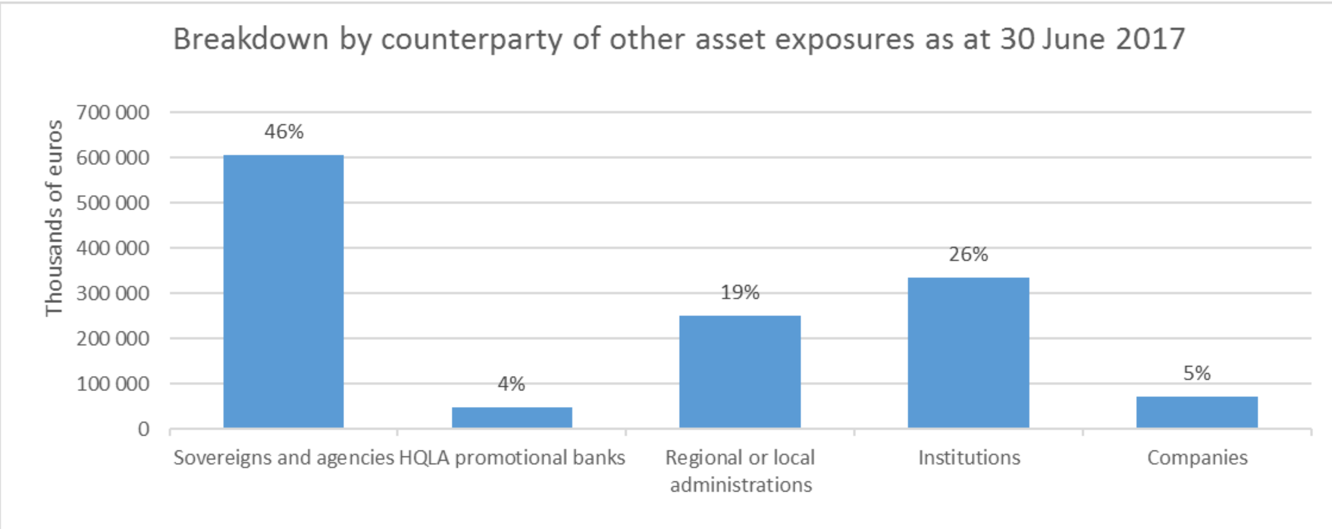
2. Other financial assets

a. Breakdown

The assets that make up the liquidity reserve consist mainly of securities issued by France or Member States of the European Union, regional governments, supranational institutions, public agencies and financial institutions, some of which are guaranteed or held by European Union or OECD member states. The issuers of these securities have excellent long-term credit ratings of at least A-. These assets also include deposits with the European Central Bank as well as with French banks. Lastly, and to a lesser extent, these assets cover margin calls paid to banks that are counterparties of hedging swaps or the LCH Clearnet clearing house.

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





The promotional banks (defined by the Delegated Act of 10 October 2014 on the LCR liquidity hedging ratio of the European Commission) represent a category of financial institutions whose securities are eligible for the HQLA (High Quality Liquid Assets) standard concerning their specifics, with regard to the European regulations.

b. Valuation of hedging swaps

AFL uses interest-rate swaps to cover the interest-rate risk that it bears on its balance sheet. Foreign exchange risk is also systematically hedged. These swaps are either contracted directly with bank counterparties or, for the great majority of interest-rate swaps, cleared with LCH Clearnet. As at 30 June 2017, the fair value of AFL's hedging swaps broke down as follows:

In thousands of euros	Nominal value	Mark to market value
Interest-rate swaps	4,260,285	(13,567)
Currency swaps	272,298	(9,054)
Total	**4,532,583**	**(22,753)**

As at 30 June 2017, the aggregate amount of margin calls paid pursuant to interest-rate swaps stood at €42.6 million. At the same date, there was no margin call received.

c. Securitisation

AFL has no exposure to securitisation.

E. Debts and capital as at 30 June 2017 (IFRS)

AFL's liabilities are mainly composed of bond issues, which have been executed since the beginning of AFL's banking activities in March 2015. Debt issuance has been supplemented from the beginning of 2017 by short-term debt securities issued under AFL's ECP programme. The debt portfolio comprises three euro-denominated public issues with seven-year maturities, one private placement denominated in US dollars with a maturity of two years and outstanding US dollar-denominated ECPs for an equivalent amount of €200 million. As at 30 June 2017, the debt book value stood at €2,207 million, after taking into account, in the amortised cost, the consequences of the changes in interest rates since the day of issue, under the rules of hedge accounting.

After the two capital increases carried out during the first half of 2017, the amount of AFL's equity capital stood at €111.5 million.

Excerpts of the main liabilities

In thousands of euros	30/06/2017	31/12/2016
Debts represented by a security	2,206,949	1,259,073
Equity capital	111,487	93,529

F. Risk management

Given the nature of its balance sheet and the risks to which it is exposed, AFL has put in place an asset liability management framework with the aim of minimising the exposure of its result and its equity capital to market risks as well as to credit and counterparty risks. This system is based on financial policies that aim to hedge and supervise the risks caused by its financial activity.

1. Credit and counterparty risk

a. Credit and counterparty risk management policy

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

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

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

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

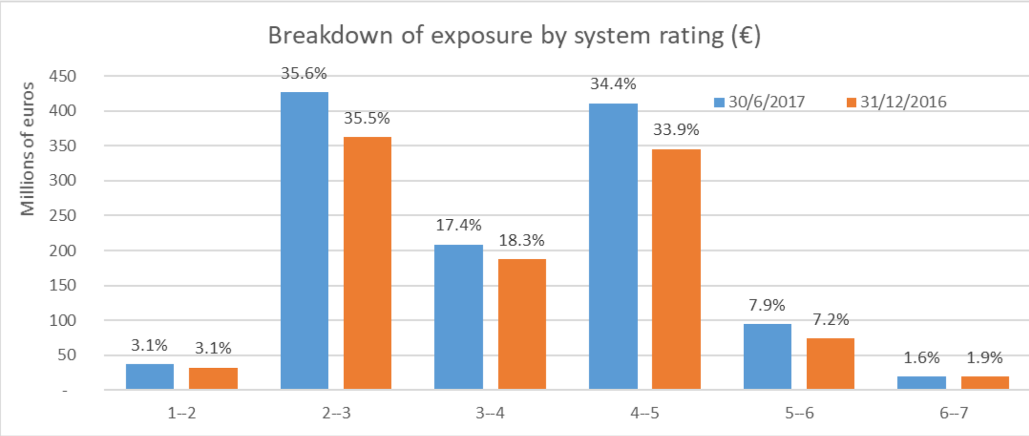
The counterparty and concentration risk to which AFL is exposed also comes from the investments of its liquidity reserve – a risk that is significantly reduced by its conservative investment policy.

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

As at 30 June 2017, the proportion, in notional value, of interest-rate swaps executed by AFL processed through clearing houses and bilaterally stood respectively at 83% and 17%.

b. Credit risk related to local and regional authorities

As at 30 June 2017, the weighted average rating of AFL’s exposure to local authorities was 3.72 according to its internal rating system, and 38.7% of the exposure was in the rating segment 1-3, compared to 38.6% at 31 December 2016, and 90.5% was in segment 1-5, compared to 90.8% at 31 December 2016.



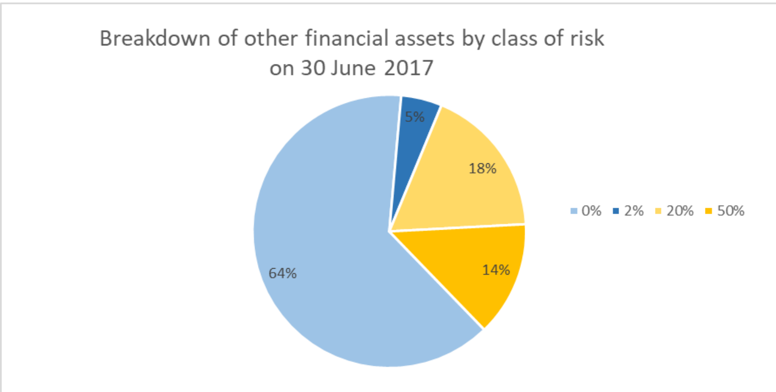
As at 30 June 2017, the five largest exposures represented 35% of the credit portfolio, compared to 39% on 31 December 2016 and the first exposure 7.6%, compared to 8.6%.

c. Credit risk related to other exposures

AFL has three other sources of exposure:

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

As of 30 June 2017, the liquidity reserve had a limited risk profile. In fact, 64% corresponds to exposure on counterparties weighted at 0%, 18% to exposures weighted at 20% and 14% to exposures weighted at 50%, represented by commercial banks rated between A+ and A-, to which should be added the 5% clearing house exposure weighted at 2%. The exposure to the commercial banks corresponds to derivative positions, bank accounts and securities issued by the banks[4].



d. Sensitive debt, doubtful debt, disputed debt, depreciation and provisions

AFL does not identify any sensitive, doubtful or disputed debt. Consequently, no depreciation or provision was recognised as at 30 June 2017 on the loans granted to local authorities or on market transactions.

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

2. Other balance sheet risks

a. Liquidity risk

The liquidity risk is understood in three separate ways:

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

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

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

- holding a liquidity reserve that consists of liquid and cashable assets to ensure that AFL's operational activity can be maintained, even under a temporary disruption of capital markets that makes it impossible to seek financing under normal conditions or leads to a very great and unanticipated consumption of collateral resulting from adverse movements in interest rates or foreign exchange rates;

- a financing strategy that favours the diversification of sources and debt instruments. AFL issues both bonds in the bond market and debt securities in the money market and seeks to diversify the distribution by investor category and by geographical zone. In this regard, AFL pays particular attention, notably concerning its bond issues. Lastly, AFL makes "benchmark" issues denominated in euros, as well as "non-benchmark" issues in euros and potentially in foreign currencies, mainly in the form of private placements;

- with the aim of controlling its liquidity transformation risk, AFL strictly monitors the differences in maturity of its exposures on the asset and liability sides, and limits to one year the average lifetime difference between its assets and its liabilities. AFL also complies with the NSFR (Net Stable Funding Ratio) regulatory ratio, which it has set at a minimum level of 150%. Lastly, AFL regularly monitors the price of liquidity.

As at 30 June 2017, the LCR regulatory 30-day liquidity ratio stood at 1,612%. Expressed as a cash flow requirement, the liquidity reserve is estimated at more than 12 months. This high level results from the choice made in the spring to return to the bond market in the aftermath of the presidential elections in France, which resulted in a considerable tightening of margins of treasury bonds and other French public issuers and in anticipation of significant requirements related to the production of credit over the last months of the year. The NSFR regulatory transformation ratio was at 218% as at 30 June 2017, and the difference in average lifetime (DVM) reached -0.89 years, representing a level significantly below the limit of one year.

b. Interest rate risk

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

Consequently, AFL has established a policy of hedging interest rate risk to immunise its balance sheet against undesirable market movements. However, a limited share of fixed-rate loans is not hedged against interest rate risk. The purpose of this share, which represents the only fixed rate component of the balance sheet and is financed by equity capital, is to stabilise the net interest margin of AFL. The exposure to interest rate risk is measured regularly by the sensitivity of the Net Present Value of AFL.

AFL's interest rate hedging policy consists of:

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

The interest rate risk hedging strategy resulted in notional outstanding swaps of €4,260 million as at 30 June 2017.

Breakdown of outstanding interest-rate swaps on 30 June 2017	Total notional (in thousands of euros)
Micro-hedges on debt	2,000,000
Micro-hedges on loans and securities	2,020,386
Macro-hedges on loans	239,899
Total long-term swaps	**4,260,285**

The interest rate risk related to the replacement of AFL's equity capital is governed by the sensitivity of the Net Present Value, whose level stood at -3.2% as at 30 June 2017, on the assumption of a parallel translation of +200 basis points from the rates curve.

During 2017, the sensitivity of the Net Present Value of AFL remained strictly below 15% of equity capital on the assumption of a parallel translation of more or less 200 basis points from the rates curve.

c. Exchange rate risk

The hedging policy specifies that exchange rate risk must be fully hedged by setting up micro-hedging instruments. Therefore, the assets and liabilities initially denominated in currencies other than the euro are systematically swapped into euros as soon as they are entered onto the balance sheet and until their final maturity. As at 30 June 2017, the notional amount of currency swaps on AFL balance sheet stood at €272.3 million.

3. Management of other risks

a. Operational and permanent control risks

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

- the **business lines** are the main contributors to the operational risk control system. They are therefore responsible, within their respective scopes, for overseeing and identifying risks, contributing to the system for reporting incidents and defining and implementing action plans;
- the **operational risk oversight function**, hosted within AFL's Risk, Control and Compliance Department, is independent of the business lines. Its role is to design, set up and coordinate the system;
- the **second-level permanent control** exercises control over the implementation of upstream systems;
- the **periodic control** system is responsible for independently reviewing the entire operational risk control system.

The risk control system also covers reputation risk and the risk associated with the security of information systems.

b. Security and means of payment

AFL does not make means of payment available to its clients.

G. Equity capital and prudential ratios

The contributions of equity capital resulting from regular capital increases enable AFL to develop all of its operational and financial activities. One characteristic of these is the generation of low-risk weighted exposures that contributes little in terms of the solvency ratio.

AFL reports regulatory equity capital to the ACPR both on a consolidated basis, according to IFRS, for its parent company AFL- ST, and on a company basis according to French GAAP, for the lending institution. As at 30 June 2017, prudential equity capital stood at €100.2 million, according to French GAAP, for the lending institution. Given the credit quality of the assets carried by AFL, the Basel III solvency ratio based on the standard method is 26.15% on a company basis. The leverage ratio on the same date stands at 4.03%.

H. Prospects for 2017

In 2016, the financials of local authorities were characterised by their strong resistance even though they suffered, for the third consecutive year, from a drop in State grants in a context of low economic growth.

The announcement in 2016 by the French President of a reduction by half of the savings required of municipalities and inter-municipalities in 2017, i.e. a decrease of €1 billion instead of €2 billion, combined with the renewal and increase in the exceptional investment funds of €1.2 billion, was a signal favourable to a stabilisation in the drop-in capital expenditure for the local authorities concerned. However, new uncertainties appeared with the proposals of candidate Emmanuel Macron concerning the abolition of the tax on furnished accommodations and the announcement since then by the French President during the national regional conference on 17 July of a policy that will require €13 billion in spending cuts by local authorities over his five-year term of office.

1. Loan production in the second half of 2017

At the date of this report, total credit commitments stood at €1,273 million. From that date until the end of the year, it is expected that the acceleration of the rate of production of loans will cover the funding requirements of shareholder members for the year 2017, taking into account the normal seasonal nature of recourse to borrowing by local authorities, which is generally concentrated at the end of the year. However, there was a higher level of loan production over the first six months of 2017 than was the case during previous years. Nevertheless, it is not certain that this will result in an increase over the year in recourse to loans by local authorities, as it may express a desire to fix favourable financial conditions due to the fear of a rise in interest rates.

2. Capital increase in the second half of 2017

As at 30 June 2017, the capital subscribed in Agence France Locale Group by the 207 local authority members stood at €135 million. At the date of this report, committed capital stood at €144.33 million. This committed capital will be paid up in future in the context of new capital increases. At a minimum, one capital increase will be performed before the end of 2017 to maintain the rate of new memberships by local authorities with Agence France Locale and continue the process of growing the institution.

AGENCE FRANCE LOCALE IFRS GAAP

BALANCE SHEET

Assets as of June 30, 2017

(€ '000s)	Notes	30/06/2017	31/12/2016
Cash, central banks	4	412,607	57,929
Financial assets at fair value through profit or loss	1	16,185	6,505
Hedging derivative instruments	2	15,807	16,777
Available-for-sale financial assets	3	654,066	354,081
Loans and receivables due from credit institutions	4	162,438	23,412
Loans and advances to customers	5	1,060,617	892,227
Revaluation adjustment on interest rate hedged portfolios			1,091
Held-to-maturity financial assets			
Deferred tax assets	6	5,792	5,887
Accruals and other assets	7	43,227	21,308
Crédit-bail et location avec option d'achat			
Property, plant and equipment	8	514	550
Goodwill			
TOTAL ASSETS		**2,376,552**	**1,385,769**

Liabilities as of June 30, 2017

(€ '000s)	Notes	30/06/2017	31/12/2016
Central banks		213	
Financial liabilities at fair value through profit or loss	1	16,651	6,504
Hedging derivative instruments	2	38,094	20,448
Due to credit institutions			
Due to customers			
Debt securities	9	2,206,949	1,259,073
Revaluation adjustment on interest rate hedged portfolios		1,205	
Current tax liabilities			
Deferred tax liabilities	6		61
Accruals and other liabilities	10	1,934	5,649
Provisions	11	19	506
Subordinated debt			
Equity		**111,487**	**93,529**
Equity, Group share		**111,487**	**93,529**
Share capital and reserves		129,200	111,000
Consolidated reserves		(17,628)	(14,263)
Reevaluation reserve			
Gains and losses recognised directly in equity		(48)	157
Profit (loss) for the period		(37)	(3,365)
Non-controlling interests			
TOTAL LIABILITIES		**2,376,552**	**1,385,769**

Income statement

(€ '000s)	Notes	30/06/2017	30/06/2016	31/12/2016
Interest and similar income	12	16,701	8,150	19,587
Interest and similar expenses	12	(13,524)	(6,041)	(14,920)
Commissions (income)	13	29		1
Commissions (expense)	13	(41)	(49)	(57)
Net gains (losses) on financial instruments at fair value through profit or loss	14	545	(294)	(1,177)
Net gains (losses) on available-for-sale financial assets	15	1,636	3,267	5,786
Income on other activities			1	
Expenses on other activities				
NET BANKING INCOME		**5,347**	**5,035**	**9,220**
Operating expenses	16	(4,334)	(4,438)	(9,486)
Net depreciation, amortisation and impairments of tangible and intangible assets	8	(937)	(915)	(1,855)
GROSS OPERATING INCOME		**76**	**(318)**	**(2,121)**
Cost of risk				
OPERATING INCOME		**76**	**(318)**	**(2,121)**
Net gains and losses on other assets	17			
INCOME BEFORE TAX		**76**	**(318)**	**(2,121)**
Income tax	6	(113)	43	(1,243)
NET INCOME		**(37)**	**(275)**	**(3,365)**
Non-controlling interests				
NET INCOME GROUP SHARE		**(37)**	**(275)**	**(3,365)**
Basic earnings per share (in EUR)		(0.03)	(0.25)	(3.03)
Diluted earnings per share (in EUR)		(0.03)	(0.25)	(3.03)

Net income and other comprehensive income

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Net income	**(37)**	**(275)**	**(3,365)**
Items will be reclassified subsequently to profit or loss	**(48)**	**(428)**	**157**
Unrealized or deferred gains and losses of financial assets available for sale	(48)	(428)	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	**(48)**	**(428)**	**157**
NET INCOME AND GAINS AND LOSSES THROUGH EQUITY	**(85)**	**(703)**	**(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	18,200 (1)						**18,200**		**18,200**
Elimination of treasury shares									
Allocation of profit			(3,365)			3,365	**-**		
Dividends 2016 paid									
Sub-total of changes linked to transactions with shareholders	**18,200**	**-**	**(3,365)**	**-**	**-**	**3,365**	**18,200**	**-**	**18,200**
Changes in fair value through equity				54			**54**		**54**
Change in value of through profit or loss				(259)			**(259)**		**(259)**
Changes in actuarial gains on retirement benefits									
Changes in gains and losses recognized directly in equity	**-**	**-**	**-**	**(205)**	**-**	**-**	**(205)**	**-**	**(205)**
June 30, 2017 Net income						(37)	**(37)**		**(37)**
Sub-total	**-**	**-**	**-**	**(205)**	**-**	**(37)**	**(242)**	**-**	**(242)**
Effect of acquisitions and disposals on non-controlling interests									
Shareholders' equity at 30 June 2017	**129,200**	**-**	**(17,628)**	**(48)**	**-**	**(37)**	**111,487**	**-**	**111,487**

(1) The share capital of Agence which amounts on June 30th, 2017 to € 129,200,000 consists of 1,292,000 shares. Agence carried out two capital increases during the first half of 2017 for the benefit of the Territorial Company, its parent company. The first was subscribed on 6 March 2017 to € 16,500k and the second on 28th June 2017 for € 1,700k.

Cash flow statement

(€ '000s)	30/06/2017	31/12/2016
Net income before taxes	**76**	**(2,121)**
+/- Net depreciation and amortisation of tangible and intangible non-current assets	937	1,855
+/- Net provisions and impairment charges	(488)	488
+/- Expense/income from investing activities	(2,598)	(9,976)
+/- Expense/income from financing activities	148	142
+/- Other non-cash items	(15,185)	4,045
= Non-monetary items included in net income before tax and other adjustments	**(17,186)**	**(3,447)**
+/- Cash from interbank operations		
+/- Cash from customer operations	(176,295)	(503,246)
+/- Cash from financing assets and liabilities	(3,904)	2,967
+/- Cash from not financing assets and liabilities	17	719
- Income tax paid		
= Decrease/(increase) in cash from operating activities	(180,182)	(499,560)
= CASH FLOW FROM OPERATING ACTIVITIES (A)	**(197,293)**	**(505,128)**
+/- Flows linked to financial assets and investments	(350,808)	104,601
+/- Flows linked to investment properties		
+/- Flows linked to tangible and intangible non-current assets	(178)	(275)
= CASH FLOW FROM INVESTING ACTIVITIES (B)	**(350,986)**	**104,326**
+/- Cash from or for shareholders	18,200	36,700
+/- Other cash from financing activities	973,540	399,461
= CASH FLOW FROM FINANCING ACTIVITIES (C)	**991,740**	**436,161**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)		
Increase/(decrease) in cash equivalents (A + B+ C + D)	**443,462**	**35,359**
Cash flow from operating activities (A)	(197,309)	(505,128)
Cash flow from investing activities (B)	(350,986)	104,326
Cash flow from financing activities (C)	991,740	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	**524,803**	**81,341**
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	524,803	81,341
CHANGE IN NET CASH	**443,462**	**35,359**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

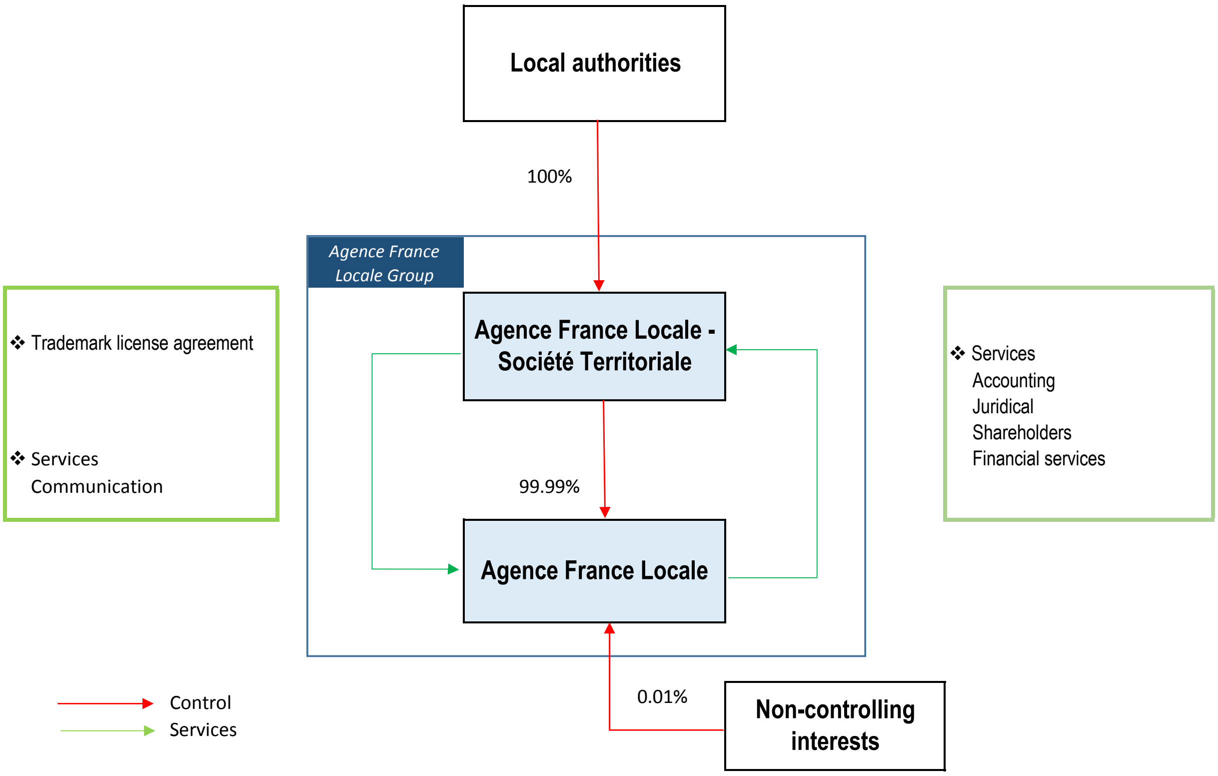
I - General framework

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 half year financial statements were approved by the Board of Directors as of September 7, 2017.

II - Highlights from the first half of 2017

Despite its seasonal shape the credit activity of the Agence France Locale to member local authorities was more dynamic during the first half of 2017 compared with the first half of the previous financial year. As at 30 June 2017, the credit production amounted to €176.7 million compared with €110.4 million as at 30 June 2016. On 30 June 2017, AFL reached a €1 billion outstanding loan threshold with €1,062.2 million of long term loans to member local authorities on its balance sheet. The off-balance sheet committed but undisbursed loans amounted to €133,4 million as at 30 June 2017.

On January 23, 2017, Agence France Locale issued a new tranche of €250 million on top 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 corresponding to a margin of 25 basis points against the yield curve of French government bonds (OATs). These two 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 $150 million as at June 30, 2017.

During the first half of 2017, Agence France Locale's capital raised by €18.2m to €129.2m following two capital increases exclusively subscribed by its parent company, Société Territoriale. Following these transactions, the total number of shareholders of the Agence France Locale Group has been increased to 207.

Over the first half of 2017 the NBI generated by the business reached €5,347K compared to €5,035K as at 30 June 2016. It mainly corresponds to an interest margin of €3,177K which increased sharply compared to € 2,109 million recorded in the first half of 2016, and net capital gains on investment securities disposal of €2,343K and an impairment on available-for-sale securities for -€162K.

The interest margin of €3,177k stems from three items: firstly, an income of €2,979k from the loan portfolio, once restated to hedge accounting; secondly, a negative income of -€1,188k from the management of the cash reserve, in a context of deep negative interest rates; and lastly, a positive income of €1,386k associated to interest charges given the reasons stated above, net of hedge accounting. Among these revenues, €442.5k represent negative interests received on ECP issues.

The €1,636k 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 €707k, generating net capital gains of €2,343k for the period.

Net income from hedge accounting came to: €546k It comprises two items. Firstly, the disposal revenues in relation to the interest rate hedging of available-for-sale financial assets, amounting to €707k, which must be set against the gains from the underlying security disposals; and secondly, -€162k representing, for the instruments still in the portfolio at the end of the period, the balance of the fair value differences of hedged items and their hedging. Among these differences, -€305k relate to valuation differential expenses on instruments classified under macro-hedging and €144k 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.

As at 30 June 2017, general operating expenses came to €4,334k as compared to €4,438k as at June 30, 2016. They include €2,454k of personnel expenses, compared with €2,230k for the first half of 2016; an increase mainly due to the regularization of taxes and duties on wages. General operating expenses also include administrative expenses, which were down to €1,985k, compared with €2,362k as at June 30, 2016, because of a reversal of tax provisions of €488k.

After depreciation, amortization and provisions, amounting to €937k compared with €915k as at June 30, 2016, operating income came to €76k compared to €-318k for the first half of the previous year.

The first half-year 2017 closed with a negative net income of -€37k compared with -€275k over the same period of the previous year.

Events after the end of the reporting period

No significant subsequent events occurred on the beginning of the first half 2017 after the accounts closure date has to be reported.

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

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

The condensed interim financial statements for the half-year ended June 30, 2017 were prepared in accordance with IAS 34, Interim financial reporting wich identify accounting and valuation principles to be applied to a half-year financial report.

The preparation of the financial statements involves making assumptions and estimates that may or may not prove accurate in the future. These estimates, which are based on the information available as at 30 June 2017, 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

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).

Accounting principles applied to the financial statements

The accounting principles and methods used to prepare the interim financial statements are identical to those applied at 31 December 2016.

V - Notes to the Balance Sheet

Note 1 - Financial assets at fair value through profit or loss

	30/06/2017		31/12/2016	
(€ '000s)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Financial assets held for trading	16,185	16,651	6,505	6,504
Financial assets at fair value option through profit or loss				
Total financial assets at fair value through profit or loss	**16,185**	**16,651**	**6,505**	**6,504**

Financial assets held for trading

	30/06/2017		31/12/2016	
(€ '000s)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Equity instruments				
Debt securities				
Loans and advances				
Derivatives	16,185	16,651	6,505	6,504
Total Financial assets held for trading	**16,185**	**16,651**	**6,505**	**6,504**

	30/06/2017				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	**456,554**	**456,554**	**16,185**	**16,651**	**137,471**	**137,471**	**6,505**	**6,504**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**456,554**	**456,554**	**16,185**	**16,651**	**137,471**	**137,471**	**6,505**	**6,504**
Interest rate contracts	456,554	456,554	16,185	16,651	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)	30/06/2017		31/12/2016	
	Assets	Liabilities	Assets	Liabilities
Derivatives designated as fair value hedges	13,585	36,206	15,792	17,889
Derivatives designated as cash flow hedges				
Derivatives designated as portfolio hedges	2,222	1,888	985	2,559
Total Hedging derivatives	**15,807**	**38,094**	**16,777**	**20,448**

Detail of derivatives designated as fair value hedges

	30/06/2017				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	**2,272,298**	**1,107,278**	**13,585**	**36,206**	**1,250,000**	**762,085**	**15,792**	**17,889**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**2,272,298**	**1,107,278**	**13,585**	**36,206**	**1,250,000**	**762,085**	**15,792**	**17,889**
Interest rate contracts	2,000,000	1,107,278	13,585	27,152	1,250,000	762,085	15,792	17,889
FRA								
Cross Currency Swaps	272,298			9,054				
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Detail of derivatives designated as interest rate hedged portfolios

	30/06/2017				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	**36,100**	**203,799**	**2,222**	**1,888**	**39,100**	**165,200**	**985**	**2,559**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**36,100**	**203,799**	**2,222**	**1,888**	**39,100**	**165,200**	**985**	**2,559**
Interest rate contracts	36,100	203,799	2,222	1,888	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)	30/06/2017	31/12/2016
Government paper and similar securities	568,041	354,081
Bonds	86,025	
Other fixed income securities		
Net amount in balance sheet	**654,066**	**354,081**
Including depreciation	-	-
Including net unrealised gains and losses	(2,323)	(281)

Fixed-income securities - Analysis by contreparty

(€ '000s)	30/06/2017	31/12/2016
Local public sector	447,366	258,105
Financial institutions	191,715	95,976
Central banks	14,985	
Net amount in balance sheet	**654,066**	**354,081**

Fixed income securities held on Financial institutions include € 120,675k 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 30/06/2017
Government paper and similar securities	354,080	1,211,404	(994,648)	(1,755)	261	(1,302)	568,041
Bonds	-	90,096	(3,989)	(54)	64	(91)	86,025
Other fixed income securities	-	-	-	-	-	-	-
TOTAL	**354,080**	**1,301,500**	**(998,637)**	**(1,809)**	**325**	**(1,394)**	**654,066**

Note 4 - RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	30/06/2017	31/12/2016
Mandatory reserve deposits with central banks	412,607	57,929
Other deposits		
Cash and central banks	**412,607**	**57,929**

Receivables on credit institutions

(€ '000s)	30/06/2017	31/12/2016
Loans and receivables		
- demand	112,438	23,412
- time	50,000	
Securities bought under repurchase agreements		
TOTAL	**162,438**	**23,412**
Impairment		
NET CARRYING AMOUNT	**162,438**	**23,412**

Note 5 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	30/06/2017	31/12/2016
Short-term credit facilities	1,692	850
Other loans	1,058,925	891,377
Customers transactions before impairment charges	**1,060,617**	**892,227**
Impairment		
Net carrying amount	**1,060,617**	**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)	30/06/2017	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	**(113)**	**(1,243)**
Income statement (charge) / credit	(113)	(1,243)
Recognised in equity	**80**	**994**
Available-for-sale financial assets	80	994
Cash flow hedges		
Other		
Net asset as at	**5,792**	**5,826**
Of which deferred tax assets	5,792	5,887
Of which deferred tax liabilities		61

Deferred tax net assets are attributable to the following items:

(€ '000s)	30/06/2017	31/12/2016
Available-for-sale financial assets	19	
Cash flow hedges		
Losses carried forward	5,606	5,606
Other temporary differences	167	281
TOTAL DEFERRED TAX ASSETS	**5,792**	**5,887**

Deferred tax net liabilities are attributable to the following items:

(€ '000s)	30/06/2017	31/12/2016
Available-for-sale financial assets		61
Cash flow hedges		
Other temporary differences		
TOTAL DEFERRED TAX LIABILITIES	**-**	**61**

Note 7 - OTHER ASSETS AND ACCRUALS

(€ '000s)	30/06/2017	31/12/2016
Other assets		
Cash collateral paid	42,594	20,682
Other assets	153	366
Impairment		
Net carrying amount	**42,747**	**21,047**
Accruals		
Prepaid charges	338	199
Other deferred income	86	
Transaction to recieve and settlement accounts		
Other accruals	56	62
Total	**480**	**260**
TOTAL OTHER ASSETS AND ACCRUALS	**43,227**	**21,308**

Note 8 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible fixed assets	31/12/2016	Additions	Transfers	Disposals	Amort.	Other movements	30/06/2017
Intangible fixed assets							
IT development costs	8,547	10				2	8,559
Other intangible assets	394	1					395
Intangible assets in progress	63	122	33			(2)	216
Intangible fixed assets gross amount	**9,004**	**133**	**33**	**-**	**-**	**-**	**9,169**
Depreciation and allowances - Intangible fixed assets	(3,000)				(888)		(3,888)
Intangible fixed assets net carrying amount	**6,004**	**133**	**33**	**-**	**(888)**	**-**	**5,281**

Tangible fixed assets	31/12/2016	Additions	Transfers	Disposals	Amort.	Other movements	30/06/2017
Property, plant & equipment	748	12					760
Tangible fixed assets gross amount	**748**	**12**	**-**	**-**	**-**	**-**	**760**
Depreciation and allowances - Tangible fixed assets	(199)				(48)		(247)
Tangible fixed assets net carrying amount	**550**	**12**	**-**	**-**	**(48)**	**-**	**514**

Note 9 - DEBT SECURITIES

(€ '000s)	30/06/2017	31/12/2016
Negotiable debt securities	131,441	
Bonds	2,075,508	1,259,073
Other debt securities		
TOTAL	**2,206,949**	**1,259,073**

Note 10 - ACCRUALS AND OTHER LIABILITIES

(€ '000s)	30/06/2017	31/12/2016
Other liabilities		
Cash collateral received		3,990
Miscellaneous creditors	1,326	1,132
Total	**1,326**	**5,122**
Accruals		
Transaction to pay and settlement accounts		
Other accrued expenses	607	527
Unearned income		
Other accruals		
Total	**607**	**527**
TOTAL ACCRUALS AND OTHER LIABILITIES	**1,934**	**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 30/06/2017
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)	30/06/2017	31/12/2016
Commitments given	**224,994**	**133,782**
Financing commitments	133,449	133,782
For credit institutions		
For customers	*133,449*	*133,782*
Guarantee commitments		
For credit institutions		
For customers		
Commitments on securities	91,545	-
Securities to be delivered to the issuance	*87,543*	
Other securities to be delivered	*4,002*	-
Commitments received	**12,636**	**2,711**
Financing commitments		
From credit institutions		
Guarantee commitments	2,711	2,711
From credit institutions		
From customers	*2,711*	*2,711*
Commitments on securities	9,925	
Securities receivable	*9,925*	

VI - Notes to the Income Statement

Note 12 - INTEREST INCOME AND EXPENSES

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Interest and similar income	**16,701**	**8,150**	**19,587**
Due from banks	3	28	97
Due from customers	5,632	3,428	7,625
Bonds and other fixed income securities	252	(89)	(281)
from Held-for-sale securities	*252*	*(89)*	*(281)*
from Held-to-maturity securities			
Income from interest rate instruments	10,813	4,782	12,146
Other interest income			
Interest and similar expenses	**(13,524)**	**(6,041)**	**(14,920)**
Due to banks	(788)	(20)	(142)
Due to customers			
Debt securities	(4,774)	(2,150)	(5,006)
Expense from interest rate instruments	(7,962)	(3,870)	(9,772)
Other interest expenses			
Interest margin	**3,177**	**2,109**	**4,667**

Note 13 - NET FEE AND COMMISSION INCOME

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Commission income	**29**	**-**	**1**
Interbank transactions			
Customer transactions			
Securities transactions			
Forward financial instruments transactions			
Currencies transactions			
Financing commitments and guarantee	29		1
Other commissions recieved			
Commission expenses	**(41)**	**(49)**	**(57)**
Interbank transactions		(1)	
Securities transactions		(24)	(12)
Forward financial instruments transactions	(41)	(24)	(45)
Currencies transactions			
Financing commitments and guarantee			
Other commissions paid			
Net fee and commission income	**(11)**	**(49)**	**(56)**

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

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Gains/(losses) on Trading book	(1)		1
Net result of hedge accounting	546	(293)	(1,177)
Net result of foreign exchange transactions	1	(1)	(1)
TOTAL	**545**	**(294)**	**(1,177)**

Analysis of net result of hedge accounting

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Fair value hedges			
Fair value changes in the hedged item attributable to the hedged risk	13,644	(18,754)	(12,434)
Fair value changes in the hedging derivatives	(13,501)	18,715	12,440
Hedging relationship disposal gain	707	(231)	(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	(2,296)	3,525	1,074
Fair value changes in the hedging derivatives	1,990	(3,548)	(1,124)
Net result of hedge accounting	**546**	**(293)**	**(1,177)**

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

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Gains from disposal of fixed income securities	2,873	3,281	6,522
Losses from disposal of fixed income securities	(1,237)	(13)	(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	**1,636**	**3,267**	**5,786**

Note 16 - GENERAL OPERATING EXPENSES

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Wages and salaries	1,587	1,492	2,763
Post-employment benefit expenses	162	162	304
Other expenses	705	577	1,205
Total Employee expenses	**2,454**	**2,230**	**4,272**
Operating expenses			
Taxes and duties	(124)	107	753
External services	2,108	2,255	4,709
Total Administrative expenses	**1,985**	**2,362**	**5,462**
Charge-backs and reclassification of administrative expenses	(105)	(154)	(248)
Total General operating expenses	**4,334**	**4,438**	**9,486**

A €488k provision for liabilities & charges has been reversed during the first half of 2017. This provision reversal has been added back from taxes and duties of the period.

VII - Notes to Risk exposure

A - Fair value of financial instruments

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

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

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

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

Fair value of instruments carried at fair value:

	30/06/2017			
		Measured using		
(€ '000s)	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Financial assets at fair value through profit or loss	**16,185**		16,185	
Hedging derivative instruments	**15,807**	-	15,807	-
Government paper and similar securities	568,041	568,041	-	-
Bonds	86,025	86,025	-	-
Other fixed income securities	-	-	-	-
Total Available-for-sale financial assets	**654,066**	**654,066**	**-**	**-**
Total Financial assets	**686,058**	**654,066**	**31,992**	**-**
Financial liabilities				
Financial liabilities at fair value through profit or loss	**16,651**		16,651	
Hedging derivative instruments	**38,094**	-	38,094	-
Total Financial liabilities	**54,745**	**-**	**54,745**	**-**

Fair values of instruments carried at amortised cost:

	30/06/2017				
			Measured using		
(€ '000s)	**Net Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Cash, central banks	**412,607**	412,607	-	-	412,607
Loans and receivables due from credit institutions	**162,438**	162,438	-	-	162,438
Loans and advances to customers	**1,060,617**	1,060,617	-	-	1,060,617
Total Held-to-maturity financial assets	**-**	**-**			
Total Financial assets	**1,635,663**	**1,635,663**	**-**	**-**	**1,635,663**
Financial liabilities					
Debt securities	**2,206,949**	2,218,818	1,999,581	87,921	131,316
Total Financial liabilities	**2,206,949**	**2,218,818**	**1,999,581**	**87,921**	**131,316**

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

B - Credit risk exposure

The tables below disclose the maximum exposure to credit risk at 30 June 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 30/06/2017
Cash, central banks	412,607			**412,607**
Financial assets at fair value through profit or loss	16,185			**16,185**
Hedging derivative instruments	15,807			**15,807**
Available-for-sale financial assets	654,066			**654,066**
Loans and receivables due from credit institutions	162,438			**162,438**
Loans and advances to customers	1,060,617			**1,060,617**
Revaluation adjustment on interest rate hedged portfolios	16			**16**
Current tax assets				
Other assets	42,747			**42,747**
Sub-total Assets	**2,364,484**	**-**	**-**	**2,364,484**
Financing commitments given	133,449			**133,449**
TOTAL Credit risk exposure	**2,497,933**	**-**	**-**	**2,497,933**

Analysis by counterparty

(€ '000s)	Total 30/06/2017
Central banks	412,607
Local public sector	1,641,445
Credit institutions guaranteed by the EEA States	59,651
Credit institutions	297,469
Other financial corporationsguaranteed by the EEA States	46,040
Other financial corporations	25,668
Non-financial corporations guaranteed by the EEA States	14,985
Non-financial corporations	69
Total Exposure by counterparty	**2,497,933**

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 30/06/2017
France	2,120,371
Canada	190,293
Netherlands	43,141
Denmark	37,903
South Korea	29,746
Supranationaux	24,257
China	14,911
Switzerland	14,887
Norway	9,984
Germany	7,431
Sweden	5,010
Total Exposure by country	**2,497,933**

As credits are solely granted to French local authorities, the largest exposure is to France.
Exposures to other countries (EEA, North Ameriac and Asia) 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 30/06/2017
Cash, central banks	412,607				**412,607**			**412,607**
Financial assets at fair value through profit or loss			6,017	9,601	**15,618**	**567**		**16,185**
Hedging derivative instruments			4,190	12,486	**16,676**	**(869)**		**15,807**
Available-for-sale financial assets								
Government paper and similar securities	26,003	32,056	249,863	261,105	569,027	1,283	(2,269)	568,041
Bonds		4,116	81,899		86,015	64	(54)	86,025
Total Available-for-sale financial assets	**26,003**	**36,172**	**331,762**	**261,105**	**655,042**	**1,346**	**(2,323)**	**654,066**
Loans and receivables due from credit institutions	112,438		50,000		**162,438**			**162,438**
Held-to-maturity financial assets								
Loans and advances to customers	19,870	49,654	281,595	712,758	**1,063,877**	**1,460**	**(4,719)**	**1,060,617**
Revaluation adjustment on interest rate hedged portfolios								
Current tax assets	16				**16**			**16**
Other assets	42,747				**42,747**			**42,747**
TOTAL ASSETS								**2,364,484**
Central banks						**213**		**213**
Financial assets at fair value through profit or loss			6,016	9,602	**15,618**	**1,033**		**16,651**
Hedging derivative instruments	3,714	57	9,610	24,966	**38,347**	**(252)**		**38,094**
Debt securities	131,316		834,774	1,242,739	**2,208,829**	**1,617**	**(3,497)**	**2,206,949**
Revaluation adjustment on interest rate hedged portfolios							**1,205**	**1,205**
Other liabilities	1,326				**1,326**			**1,326**
TOTAL LIABILITIES								**2,264,439**

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 30th June 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 the first half of 2017 are described into the financial report as at 30th June 2017.

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Agence France Locale S.A.

Statutory Auditors' Review Report on the half-yearly financial statements in accordance with IFRSs

For the period from January 1, 2017 to June 30, 2017
Agence France Locale S.A.
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Référence :

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This is a free translation into English of the statutory auditors' review report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

Agence France Locale S.A.

Registered office : Tour Oxygène - 10-12, boulevard Vivier Merle - 69393 Lyon cedex 03
Share capital : €.129,200,000

Statutory Auditors' Review Report on the half-yearly financial statements in accordance with IFRSs

For the period from January 1, 2017 to June 30, 2017

To the shareholders,

In our quality of statutory auditors of Agence France Locale S.A. and in answer to your request within the context of the communication of historical financial information linked to the Base Prospectus, we conducted a review of the accompanying condensed half-yearly financial statements of Agence France Locale – S.A. in accordance with IFRSs as adopted by the European Union, for the period from January 1, 2017 to June 30, 2017.

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

We conducted our review in accordance with professional standards applicable in France and the professional doctrine of the French national auditing body (Compagnie nationale des commissaires aux comptes) related to this engagement. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly financial statements as at June 30, 2017 are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

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

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

Paris La Défense, September 28, 2017	Paris, September 28, 2017
KPMG Audit FS I	Cailliau Dedouit et Associés
Ulrich Sarfati *Partner*	Laurent Brun *Partner*

AGENCE FRANCE LOCALE

BALANCE SHEET

Assets as of 30th of june 2017

(€ '000s)	Notes	30/06/2017	31/12/2016
Cash and central banks	2	412,578	57,929
Government paper and similar securities	1	569,855	354,161
Receivables on credit institutions	2	162,438	23,412
Loans and advances to customers	4	1,065,337	888,598
Bonds and other fixed income securities	1	86,006	
Equities and other variable income securities			
Investments in non-consolidated companies and other long-term investments			
Investments in consolidated companies			
Intangible assets	5	5,899	6,833
Property, plant and equipment	5	514	550
Other assets	6	42,763	21,047
Accruals	6	15,557	10,108
TOTAL ASSETS		**2,360,947**	**1,362,637**

Liabilities as of 30th of june 2017

(€ '000s)	Notes	30/06/2017	31/12/2016
Central banks		213	
Due to banks	3		
Customer borrowings and deposits			
Debt securities	7	2,220,684	1,252,985
Other liabilities	8	1,808	5,456
Accruals	8	32,121	15,460
Provisions	9	17	505
Subordinated debt			
General banking risk fund (GBRF)			
Equity (excluding GBRF)	10	**106,102**	**88,231**
Share capital		129,200	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 (+/-)		(329)	(2,642)
TOTAL LIABILITIES		**2,360,947**	**1,362,637**

INCOME STATEMENT

(€ '000s)	Notes	30/06/2017	30/06/2016	31/12/2016
+ Interest and similar income	12	16,720	8,167	19,624
- Interest and similar expenses	12	(13,572)	(6,058)	(14,956)
+ Income from variable income securities				
+ Fee and commission income	13	29		1
- Fee and commission expenses	13	(41)	(49)	(57)
+/- Net gains (losses) on held for trading portfolio	15	707	(238)	(1,140)
+/- Net gains (losses) on placement portfolio	15	1,308	3,249	5,655
+ Other banking income	14			
- Other banking expense	14			
NET BANKING INCOME		**5,152**	**5,071**	**9,127**
- General operating expenses	16	(4,334)	(4,437)	(9,487)
+ Other operating income				
- Depreciation and amortization	5	(1,147)	(1,127)	(2,281)
GROSS OPERATING INCOME		**(329)**	**(493)**	**(2,642)**
- Cost of risk				
OPERATING INCOME		**(329)**	**(493)**	**(2,642)**
+/- Net gains (losses) on fixed assets	17			
PRE-TAX INCOME ON ORDINARY ACTIVITIES		**(329)**	**(493)**	**(2,642)**
+/- Net extraordinary items				
- Income tax charge				
+/- Net allocation to FGBR and regulated provisions				
NET INCOME		**(329)**	**(493)**	**(2,642)**
Basic earnings per share		(0.25)	(0.45)	(2.38)

OFF-BALANCE SHEET

(€ '000s)

COMMITMENTS GIVEN AND RECEIVED	Notes	30/06/2017	31/12/2016
Commitments given		**224,994**	**133,782**
Financing commitments		133,449	133,782
Guarantee commitments			
Commitments on securities		91,545	
Commitments received		**12,636**	**2,711**
Financing commitments			
Commitments received from credit institutions			
Guarantee commitments		2,711	2,711
Commitments on securities		9,925	
Derivatives	11	**4,532,583**	**2,491,327**

NOTES TO THE INDIVIDUAL HAL YEAR ACCOUNTS

I - Publication context

The half year financial statements were approved by the Executive Board as of September 7, 2017.

II - Highlights from the first half of 2017

Despite its seasonal shape the credit activity of the Agence France Locale to member local authorities was more dynamic during the first half of 2017 compared with the first half of the previous financial year. As at 30 June 2017, the credit production amounted to €176.7 million compared with €110.4 million as at 30 June 2016. On 30 June 2017, AFL reached a €1 billion outstanding loan threshold with €1,062.2 million of long term loans to member local authorities on its balance sheet. The off-balance sheet committed but undisbursed loans amounted to €133,4 million as at 30 June 2017.

On January 23, 2017, Agence France Locale issued a new tranche of €250 million on top 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 corresponding to a margin of 25 basis points against the yield curve of French government bonds (OATs). These two 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 $150 million as at June 30, 2017.

During the first half of 2017, Agence France Locale's capital raised by €18.2m to €129.2m following two capital increases exclusively subscribed by its parent company, Société Territoriale. Following these transactions, the total number of shareholders of the Agence France Locale Group has been increased to 207.

Over the first half of 2017 the NBI generated by the business reached €5,152k compared to €5,071k as at 30 June 2016. It mainly corresponds to an interest margin of €3,148k which increased sharply compared to €2,109 million recorded in the first half of 2016, and net capital gains on investment securities disposal of €2,343k and an impairment on available-for-sale securities for -€327k.

The interest margin of €3,148k stems from three items: firstly, an income of €2,979k from the loan portfolio, once restated to hedge accounting; secondly, a negative income of -€1,217k from the management of the cash reserve, in a context of deep negative interest rates; and lastly, a positive income of €1,386k associated to interest charges given the reasons stated above, net of hedge accounting. Among these revenues, €442.5k represent negative interests received on ECP issues.

The €1,636k 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 €707k, generating net capital gains of €2,343k for the period.

As at 30 June 2017, general operating expenses came to €4,334k as compared to €4,437k as at June 30, 2016. They include €2,454k of personnel expenses, compared with €2,205k for the first half of 2016; an increase mainly due to the regularization of taxes and duties on wages. General operating expenses also include administrative expenses, which were down to €2,422k, compared with €2,636k as at June 30, 2016, because of a reversal of tax provisions of €488k.

After depreciation, amortization and provisions, amounting to €1,147k compared with €1,127k as at June 30, 2016, operating income came to -€329k compared to -€493k for the first half of the previous year.

The first half-year 2017 closed with a negative net income of -€329k compared with -€493k over the same period of the previous year.

Subsequent events

No significant subsequent events occurred on the beginning of the first half 2017 after the accounts closure date has to be reported.

III - Accounting principles and valuation methods

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

Presentation format

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

Preparation basis

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

• Ongoing concern principle,

• Segregation of accounting periods,

• Consistency of methods.

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

The accounting principles and methods applied in drawing up these half-yearly financial statements are identical to those applied at 31 December 2016.

Identity of the parent company consolidating the accounts of the Agence as of June 30, 2017

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

IV - Notes to the Balance Sheet

Note 1 - PORTFOLIO

(€ '000s)

30/06/2017	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	569,027	86,015		655,042
Unlisted securities				-
Accrued interest	1,283	64		1,346
Impairment	(455)	(73)		(528)
Net carrying amount	**569,855**	**86,006**	**-**	**655,860**
Residual net Premium/Discount	7,949	714		8,663

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 30/06/2017	Total 31/12/2016
Government paper and similar securities								
Net amount	26,000	32,012	249,617	260,943	568,572	1,283	569,855	354,161
NET CARRYING AMOUNT	**26,000**	**32,012**	**249,617**	**260,943**	**568,572**	**1,283**	**569,855**	**354,161**
Bonds and other fixed income securities								
Net amount	-	4,116	81,826	-	85,942	64	86,006	-
NET CARRYING AMOUNT	**-**	**4,116**	**81,826**	**-**	**85,942**	**64**	**86,006**	**-**

Analysis by type of portfolio

Portfolio *(€ '000s)*	Gross amount 31/12/2016	Additions	Disposals	Transfers	Prem/Disc Amort.	Change in accrued interest	Impairment	Total 30/06/2017	Unrealized gains/(losses)
Transaction									
Held-for-sale	354,161	1,301,500	(998,404)		(1,393)	325	(327)	655,860	(2,220)
Investment									
NET CARRYING AMOUNT	**354,161**	**1,301,500**	**(998,404)**	**-**	**(1,393)**	**325**	**(327)**	**655,860**	**(2,220)**
Of which Premium/Discount	7,340	24,326	(21,609)		(1,393)			8,663	

Note 2 -RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	30/06/2017	31/12/2016
Mandatory reserve deposits with central banks	412,578	57,929
Other deposits		
Cash and central banks	**412,578**	**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 30/06/2017	Total 31/12/2016
Credit institutions							-	-
Loans and receivables							-	-
- demand	112,438						112,438	23,412
- time			50,000				50,000	-
Securities bought under repurchase agreements							-	-
TOTAL	**112,438**	**-**	**50,000**	**-**	**-**	**-**	**162,438**	**23,412**
Impairment								
NET CARRYING AMOUNT	**112,438**	**-**	**50,000**	**-**	**-**	**-**	**162,438**	**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 30/06/2017	Total 31/12/2016
Credit institutions							-	-
Accounts and Overdrafts					-		-	-
- demand					-		-	-
- time					-		-	-
Securities sold under repurchase agreements					-		-	-
TOTAL	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Note 4 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	30/06/2017	31/12/2016
Short-term credit facilities	1,692	850
Other loans	1,063,645	887,747
Customers transactions before impairment charges	**1,065,337**	**888,598**
Impairment		
Net carrying amount	**1,065,337**	**888,598**
Of which related receivables	1,460	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 30/06/2017
Loans and advances to customers	19,870	18,774	30,879	281,595	712,758	**1,063,877**	**1,460**	**1,065,337**

Note 5 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible assets	31/12/2016	Additions	Transfers	Disposals	Amort.	Other movements	30/06/2017
Intangible assets	**11,064**	**11**				**2**	**11,076**
Start-up costs	2,123						2,123
IT development costs	8,547	10				2	8,559
Web site	366	1					367
Software	28						28
Intangible assets in progress	**63**	**122**	**33**			**(2)**	**216**
Intangible assets amortisation	**(4,294)**				**(1,099)**		**(5,393)**
Net carrying amount	**6,833**	**133**	**33**		**(1,099)**		**5,899**

Property, plant & equipment	31/12/2016						30/06/2017
Property, plant & equipment	748	12					760
Tangible assets in progress	-						-
Tangible assets amortization	(199)				(48)		(247)
Net carrying amount	**550**	**12**			**(48)**		**514**

Note 6 - OTHER ASSETS AND ACCRUALS

(€ '000s)	30/06/2017	31/12/2016
Other assets		
Cash collateral paid	42,594	20,682
Other assets	169	366
Impairment		
Net carrying amount	**42,763**	**21,047**
Accruals		
Deferred charges on bond issues	10,238	5,918
Deferred charges on hedging transactions	1,854	560
Prepaid charges	338	199
Accrued interest not yet due on hedging transactions	3,041	3,432
Other deferred income	86	
Other accruals		
TOTAL	**15,557**	**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 30/06/2017	Total 31/12/2016
Negotiable debt securities					-		-	-
Bonds	131,441		837,627	1,250,000	2,219,068	1,617	2,220,684	1,252,985
Other debt securities					-		-	-
TOTAL	**131,441**	**-**	**837,627**	**1,250,000**	**2,219,068**	**1,617**	**2,220,684**	**1,252,985**

Note 8 - OTHER LIABILITIES and ACCRUALS

(€ '000s)	30/06/2017	31/12/2016
Other liabilities		
Cash collateral received		3,990
Miscellaneous creditors	1,808	1,466
TOTAL	**1,808**	**5,456**
Comptes de régulation		
Transaction to pay and settlement accounts		
Unrealised gains on hedging instruments	18,204	12,182
Unearned income		
Accrued expenses on hedging instruments	4,138	3,085
Other accrued expenses		
Other accruals	9,779	193
TOTAL	**32,121**	**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 30/06/2017
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	18,200 (1)								18,200
Change in share premium and reserves									
Allocation of 2016 net profit							(2,642)	2,642	
Net income as of 30/06/2017								(329)	(329)
Other changes									
Balance as of 30/06/2017	**129,200**	**-**	**-**	**-**	**-**	**-**	**(22,769)**	**(329)**	**106,102**

(1) The share capital of Agence which amounts on June 30th, 2017 to €129,200,000 consists of 1,292,000 shares. Agence carried out two capital increases in the first half of 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.

Note 11 - DERIVATIVES

Outstanding notional and Fair value

(€ '000s)	30/06/2017				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	**3,619,475**	**-**	**913,108**	**-**	**2,216,385**	**-**	**274,942**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**3,619,475**	**-**	**913,108**	**-**	**2,216,385**	**-**	**274,942**	**-**
Interest rate contracts	3,347,177		913,108		2,216,385		274,942	
FRA								
Cross Currency Swaps	272,298							
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Exchange rate options								
Other options								
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Caps, floors								
Foreign currency option								
Crédit derivatives								
Other options								

Amount of micro-hedge transaction as of 30/06/2017	3,379,577	(€ '000s)
Amount of macro-hedge transaction as of 30/06/2017	239,899	(€ '000s)
Amount of trading transaction as of 30/06/2017	913,108	(€ '000s)

Notional amount by maturity

(€ '000s)	30/06/2017					
	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	**208,784**	**1,054,195**	**2,356,496**	**-**	**393,708**	**519,400**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts						
Other contracts						
Over-the-counter markets	**208,784**	**1,054,195**	**2,356,496**	**-**	**393,708**	**519,400**
Interest rate contracts	30,069	960,612	2,356,496		393,708	519,400
FRA						
Cross Currency Swaps	178,715	93,583				
Other contracts						
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**
Exchange rate options						
Other options						
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**
Caps, floors						
Foreign currency option						
Crédit derivatives						
Other options						

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

V - Notes to the Income statement

Note 12 - Interest income and expenses

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Interest and similar income	**16,720**	**8,167**	**19,624**
Due from banks	3	28	97
Due from customers	5,651	3,445	7,662
Bonds and other fixed income securities	252	(89)	(281)
from Held-for-sale securities	*252*	*(89)*	*(281)*
from Investment securities			
Income from interest rate instruments	10,813	4,782	12,146
Other interest income			
Interest and similar expenses	**(13,572)**	**(6,058)**	**(14,956)**
Due to banks	(817)	(20)	(142)
Due to customers			
Debt securities	(4,774)	(2,150)	(5,006)
Expense from interest rate instruments	(7,981)	(3,887)	(9,808)
Other interest expenses			
Interest margin	**3,148**	**2,109**	**4,668**

Note 13 - Net fee and commission income

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Commission income	**29**	**-**	**1**
Interbank transactions			
Customer transactions	29		1
Securities transactions			
Forward financial instruments transactions			
Currencies transactions			
Financing commitments and guarantee			
Other commissions recieved			
Commission expenses	**(41)**	**(49)**	**(57)**
Interbank transactions		(1)	
Securities transactions		(24)	(12)
Forward financial instruments transactions	(41)	(24)	(45)
Currencies transactions			
Financing commitments and guarantee			
Other commissions paid			
Net fee and commission income	**(11)**	**(49)**	**(56)**

Note 14 - Other banking income and expenses

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Other banking income	**-**	**-**	**-**
Re-invoiced expenses outside the Group			
Expense reclassifications			
Reversals of provisions			
Other banking expenses	**-**	**-**	**-**
Other sundry operating expenses			
Depreciation charges to provisions			

Note 15 - Analysis of gains and losses on portfolio transactions

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Gains/(losses) on Trading book			
Gains/(losses) on forward financial instruments	707	(238)	(1,140)
Gains/(losses) on foreign currency transactions			
Gains or (losses) on trading portfolio	**707**	**(238)**	**(1,140)**
Gains/(losses) from disposal of held-for-sale securities	1,636	3,267	5,786
Other income/(expenses) from held-for-sale securities			
Impairment (charges) and reversals on held-for-sale securities	(327)	(18)	(131)
Gains or (losses) on held-for-sale portfolio	**1,308**	**3,249**	**5,655**

Note 16 - General operating expenses

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Employee expenses			
Wages and salaries	1,587	1,467	2,730
Post-employment benefit expenses	162	162	304
Other expenses	705	577	1,205
Total Employee expenses	**2,454**	**2,205**	**4,239**
Operating expenses			
Taxes and duties	(124)	107	753
External services	2,545	2,529	5,158
Total Administrative expenses	**2,422**	**2,636**	**5,911**
Charge-backs and reclassification of administrative expenses	(542)	(405)	(663)
Total General operating expenses	**4,334**	**4,437**	**9,487**

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

Note 17 - +/- Net gains (losses) on fixed assets

(€ '000s)	30/06/2017	30/06/2016	31/12/2016
Gains on sales of Investment securities			
Gains on sales of tangible or intangible assets			
Reversal of impairment			
Total Gains on fixed assets	**-**	**-**	**-**
Losses on sales of Investment securities			
Losses on sales of tangible or intangible assets			
Charge of impairment			
Total Losses on fixed assets	**-**	**-**	**-**

Note 18 - Income tax charge

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

Tax losses amounting to €22.1m at 2016 year-end closing were not recognised as deferred tax assets.

Note 19 - Related parties

There are, on 30 June 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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Agence France Locale S.A.

Statutory Auditors' Review Report on the Half-yearly Financial Statements

For the period from January 1, 2017 to June 30, 2017
Agence France Locale S.A.
Tour Oxygène - 10-12, boulevard Vivier Merle - 69393
Lyon cedex 03
This report contains 15 pages
Référence :

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This is a free translation into English of the statutory auditors' report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

Agence France Locale S.A.

Registered office : Tour Oxygène - 10-12, boulevard Vivier Merle - 69393 Lyon cedex 03
Share capital : €.129,200,000

Statutory Auditors' Review Report on the Half-yearly Financial Statements

For the period from January 1, 2017 to June 30, 2017

To the shareholders,

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

- the review of the accompanying condensed half-yearly financial statements of Agence France Locale – S.A. for the period from January 1, 2017 to June 30, 2017,
- the verification of the information presented in the half-yearly management report.

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

I. Conclusion on the financial statements

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

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly financial statements do not give a true and fair view of the assets and liabilities and of the financial position of the company as at June 30, 2017, and of the results of its operations for the six-month period then ended, in accordance with the accounting rules and principles applicable in France.

II. Specific verification

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

Paris La Défense, September 28, 2017	Paris, September 28, 2017
KPMG Audit FS I	Cailliau Dedouit et Associés
Ulrich Sarfati *Partner*	Laurent Brun *Partner*