AGENCE
FRANCE
LOCALE

Financer l'investissement
de nos collectivités

2016 management report

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AGENCE FRANCE LOCALE

Financer l'investissement de nos collectivités

GLOSSARY

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

A. Review of activities for the period

1. Company background, shareholding structure, business model and rating

a. Background and shareholding structure

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

The Agence France Locale Group is organised around a twofold structure consisting of Agence France Locale - Société Territoriale (the parent company with the status of financial company) and of Agence France Locale (the subsidiary, a specialised credit institution). The Agence France Locale Group is formed by the combination of these two companies. The purpose of its two-tier governance is to separate operational management by the specialised credit institution (Agence France Locale) from the financial strategy developed by Société Territoriale so that:

- member regional and local authorities do not interfere in AFL's day-to-day management activities;
- stakeholders are empowered to complete their missions; and
- there are suitable monitoring and control mechanisms.

Accordingly, the Société Territoriale Board of Directors has adopted a rule stating that independent members must comprise a majority of the credit institution's Supervisory Board. In so doing, shareholders accept and acknowledge that it is important for banking and financial professionals to be responsible for the oversight of the credit institution.

The main tasks of Société Territoriale, the Group's parent company, are as follows:

- representation of shareholders;
- management of the guarantee mechanism;
- appointment of the members of the credit institution's Supervisory Board; and
- determination of major strategic guidelines.

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

- day-to-day operational management of financial activities;
- fund-raising on capital markets;
- granting of credit exclusively to shareholder member regional and local authorities; and
- promotion of the model among local authorities to increase the number of shareholder members of Société Territoriale.

b. AFL's business model

AFL is an investment financing facility for local authorities in which they are the exclusive shareholders through Société Territoriale, the majority shareholder and over 99.9% owner of AFL. Like the local government financing agencies in Northern Europe,[1] which have existed for several decades, and agencies in New Zealand or Japan, AFL was established to be a long-term player in the financing of local investments. The Agence France Locale model draws directly on its Nordic counterparts while integrating the restrictions specific to French law. More specifically, the Agence France Locale Group's model is largely inspired by Swedish and Finnish agencies, which

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

have financed local authorities in their respective countries since the late 1980s. This model is based on borrowing from the markets, through bond issues in particular, to grant simple fixed- or floating-rate loans to local government shareholders.

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

- on the one side, the "Member Guarantees" granted by local authorities that are Société Territoriale shareholders to any financial creditor of AFL providing the possibility to call on the local authority shareholders directly as guarantors. The amount of the guarantee is equal to the amounts of the loans outstanding for a period exceeding 364 days contracted by each member authority with AFL.[2] As a result, a creditor has the option of calling on several regional and local authorities as guarantors. A local authority called to act as a guarantor by a creditor is obliged to inform Société Territoriale, which in turn can call all of the other members as guarantors in proportion to the amount of their loans contracted with the Company. This guarantee is organised to create solidarity between the member regional and local authorities in the payment of the amounts due while each of them is limited to its own outstanding loan. From an economic point of view, the amounts borrowed by AFL are intended to be higher than the amounts it lends to members, and the securities issued by AFL are not fully covered by the Member Guarantee mechanism:
    - approximately 70% of the total amount of AFL borrowings issued on the markets is used to provide medium- and long-term loans to members,
    - 30% of the total amount of borrowings issued by AFL on the markets are retained both to ensure AFL's liquidity in accordance with its regulatory obligations and good management practices, and to offer cash credits to members under the conditions and within the limits set by AFL's financial policies;

- on the other, the "Société Territoriale Guarantee" granted by Agence France Locale – Société Territoriale to any financial creditor of AFL providing the possibility to call on Société Territoriale as a guarantor, which then makes it the sole counterparty of the creditor. The ceiling of the Société Territoriale Guarantee is set by the Board of Directors. Its purpose is to cover all of the commitments of its Agence France Locale subsidiary to its financial creditors. The amount of the guarantee granted by Société Territoriale to the creditors is set by the Société Territoriale Board of Directors. It was established at €3.5 billion by the Board of Directors on 18 November 2014 and raised to €5 billion by the Société Territoriale Board of Directors on 16 February 2017.

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

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

[2] Each medium-term and long-term loan granted by AFL to one of its Members is conditional on the granting by that Member of a guarantee commitment for an amount equivalent to the said financing. It follows from this principle that the total amount guaranteed under the Member Guarantee is at all times equal to the sum of the medium- and long-term loans granted and mobilised by AFL to the Members. The outstanding medium-term and long-term credits of each Member and therefore the amount of their guarantee are published each working day on the AFL website. Since the credit institution has expanded its commercial offering and offers short-term credit agreements to member communities, the original Membership Guarantee Model (Membership Guarantee Model 2014.1) evolved to specifically exclude short term credits whose outstanding nature may fluctuate widely from the guarantee base. Membership Guarantee Model 2016.1 came into effect on 30 April 2016 following the completion of the Shareholders' Agreement amending process.

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

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

- a Common Equity Tier One ratio of at least 12.5% (regulatory limit of 8.625%);
- a leverage ratio greater than 3.5% (regulatory limit of 3%); and
- thirty-day (LCR) and one-year (NSFR) liquidity ratios above 150% (100% regulatory limits).

In this respect, regulatory requirements respecting the leverage ratio could soon receive favourable treatment for public banks, including local authority financing agencies.

c. Rating of bonds issued by AFL

On January 29, 2015, AFL was awarded the long-term rating of Aa2 by Moody's, one slot below that of the French government, in recognition of the robust model that it embodies. As a result of downward revisions in the government's rating in 2015, AFL's rating has been revised accordingly. As at 31 December 2016, AFL's rating was therefore Aa3 with Moody's, with a stable outlook, a score confirmed on 7 November 2016.

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

2. Key events of the year

As it does annually, AFL updated the Base Prospectus for the EMTN Debt Issuance Programme, to a cumulative total amount of €3,000,000,000 (three billion euros). On 15 April 2016, the Autorité des Marchés Financiers gave its approval (No. 16-140), that allowed Agence France Locale to issue new bonds with the authorisation of its Management Board, up to a ceiling of €1.1 billion, which corresponds to the 2016 issue amount set by the Supervisory Board on 15 December 2015.

On this basis, AFL launched a benchmark public bond issue on 11 May 2016 for a nominal amount of €500 million. The securities for the transaction were invested with a yield of 0.307%, which corresponds to a margin of 31bps compared to the yield curve for French government fungible treasury bonds (Obligations Assimilables du Trésor, OAT). This issue received a very favourable reception from the financial markets, as was evidenced by the variety of investors, both in type and geographical origin, with almost 70% of them being international investors. Further to this issue, AFL had no other recourse to the bond market during the 2016 financial year.

In 2016, AFL also finalised the implementation of an ECP programme so that it could issue negotiable debt securities at the beginning of 2017, thus diversifying its sources of financing through access to the money market.

During the year ended 31 December 2016, AFL continued its lending activity to member local authorities and crossed the threshold of €1 billion loaned since the beginning of its activities in April 2015, for a total gross amount of €1,053 million.

Credit production for 2016 amounted to €544.1 million and at 31 December 2016, AFL had €888.6 million in outstanding loans on the assets side of its balance sheet and €133.8 million in signed credit agreements with a 2017 disbursement date. Note that in 2016 as in 2015, the seasonal nature of the use of loans was strong, with significant concentration over the last two months of the year.

This credit production represents an estimated market share of almost 3.5% of total financing to local authorities for 2016, and more than 25% for local authorities that are members of Société Territoriale. These 101 medium- and long-term loans were largely settled on maturity at 15 years, with an average maturity of 15.4 years at fixed or floating rates. The amounts of these loans range from €100 thousand to €50 million.

During 2016, AFL supplemented its product offering to borrowers through the provision of cash loans and medium- and long-term loans in mobilisation phase. Cash credits are expressly excluded from the scope of the Member Guarantee model. The entry into force of the new 2016.1 Member Guarantee model following an amendment to the Shareholders' Agreement, has been effective since 30 April 2016.

Development of AFL's activities in 2016 also focused on the continuation of new local authority members adhering to Société Territoriale, the extension in 2015 of the scope of French parliamentary law to cover territorial public institutions, in this respect authorising their eligibility and accession to Société Territoriale and likewise the voting of specific legislation for French Polynesia that approved the latter's inclusion.

In order to accelerate the creation of equity through a faster rate of investment by local authorities in the capital of Société Territoriale, on 30 September 2016 the General Meeting of Shareholders approved the introduction of more flexible terms for the calculation and settlement of initial capital contributions (ICCs) by local authorities.

These new terms and conditions are specified in detail in the consolidated management report prepared for the year ended 31 December 2016 by Société Territoriale.

During 2016, AFL's capital increased from €36.7 million to €111 million following four capital increases subscribed exclusively by its parent company, Société Territoriale. As a result of the completion of these capital increase operations, the total number of regional and local authorities members of the Agence France Locale Group was increased to 173 from 131 as at 31 December 2015.

As regards the governance of the Agence France Locale Group, in line with the recommendations issued jointly by the Société Territoriale Board of Directors and the AFL Supervisory Board, AFL shareholders were asked by Société Territoriale to sell the single share of AFL's capital that they held to Société Territoriale, the majority shareholder. Given that unlisted public limited companies may be made up of two shareholders, the purpose of this divestiture transaction, which aims to simplify the Group's governance and reduce its obligations in terms of consultation with its shareholders, was examined favourably by the Société Territoriale Board of Directors and approved by the Company's General Meeting of Shareholders on 22 November 2016. After the divestitures, which were still being finalised as at 31 December 2016, AFL's capital will be held by Société Territoriale and Métropole de Lyon, with Société Territoire holding exclusive control of AFL as defined in Article L. 225-87 of the French Commercial Code, thus providing the wherewithal to exclude agreements between Société Territoriale and its subsidiary from the scope of supervision for regulated agreements.

Following the resignation of Jacky Darne, Chairman of the Supervisory Board of AFL and Vice Chairman of the Société Territoriale Board of Directors, Richard Brumm was appointed Chairman of the Supervisory Board on 20 June 2016. The Board of the French Prudential Supervision and Resolution Authority (***ACPR***) issued a favourable opinion for this appointment. In compliance with the provisions of Article L. 225-78 of the French Commercial Code, the co-option of Richard Brumm was ratified by the Company's General Meeting of Shareholders on 22 November 2016.

Mr. Richard Brumm was also co-opted by the Board of Directors of Société Territoriale as Vice-Chairman of the Board.

During the year, AFL became a member of the Brussels-based EAPB, which represents European public banks and whose mission is to raise awareness and represent the interests of public banks in European institutions with regard to all regulatory issues. As such, the EAPB is an important channel for AFL to be heard and, insofar as possible, make progress on topics that impact the financing of local authorities.

In this respect, regulatory obligations relating to the leverage ratio are about to be amended favourably for public development banks. As soon as the text is slated to enter into force during 2018, the public development banks, to which AFL is considered to belong as a local authority-financing agency, should be subject to a leaner leveraging ratio requirements for development loans on their balance sheets.

3. Balance sheet assets (IFRS)

As at 31 December 2016, AFL's assets consist of a steady increase in loans to member local authorities, as well as assets held in the Company's liquidity reserve.

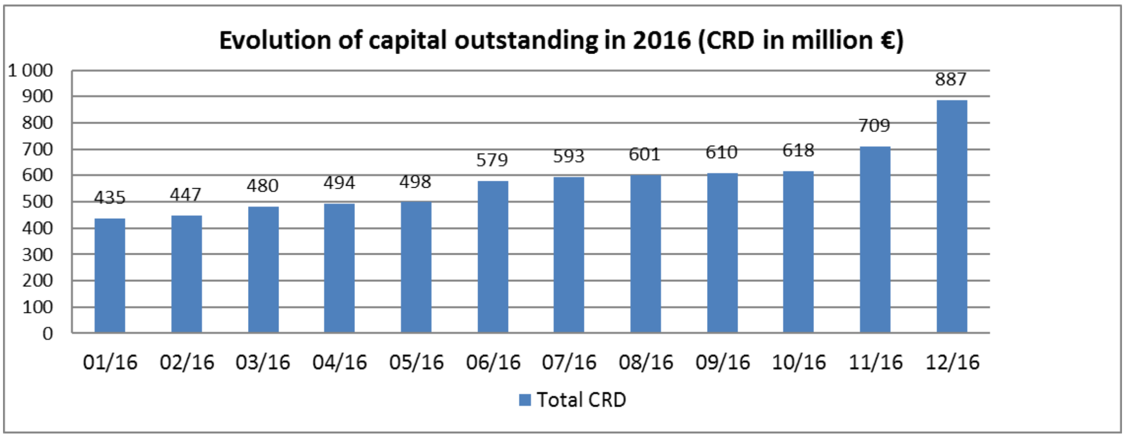
Excerpts of main assets as at 31 December 2016 (IFRS)

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

a. Loans to local authorities

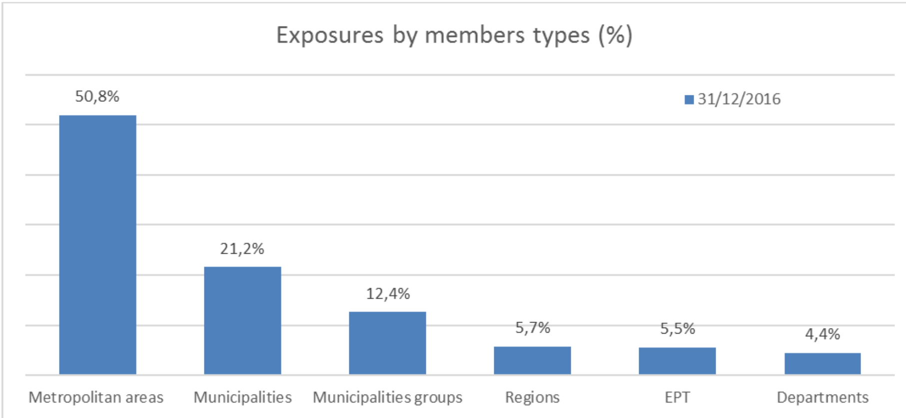
The credit portfolio recognised on AFL's balance sheet as assets amounted to €892.2 million at 31 December 2016, compared with €383.5 million at 31 December 2015, after taking into account the amortised cost due to hedge accounting of the impact from changes in interest rates. This portfolio must be supplemented by loans signed but not disbursed that appear off the balance sheet, in order to have a complete view of AFL's outstanding credit. At 31 December 2016, off-balance sheet commitments amounted to €133.8 million, compared with €121.9 million at 31 December 2015. At 31 December 2016, the sum of the balance sheet and off-balance sheet exposures of loans to local authorities amounted to €1,026 million.

Monthly changes for 2016 in the outstanding principal of the credit portfolio under French GAAP are shown in the graph below.



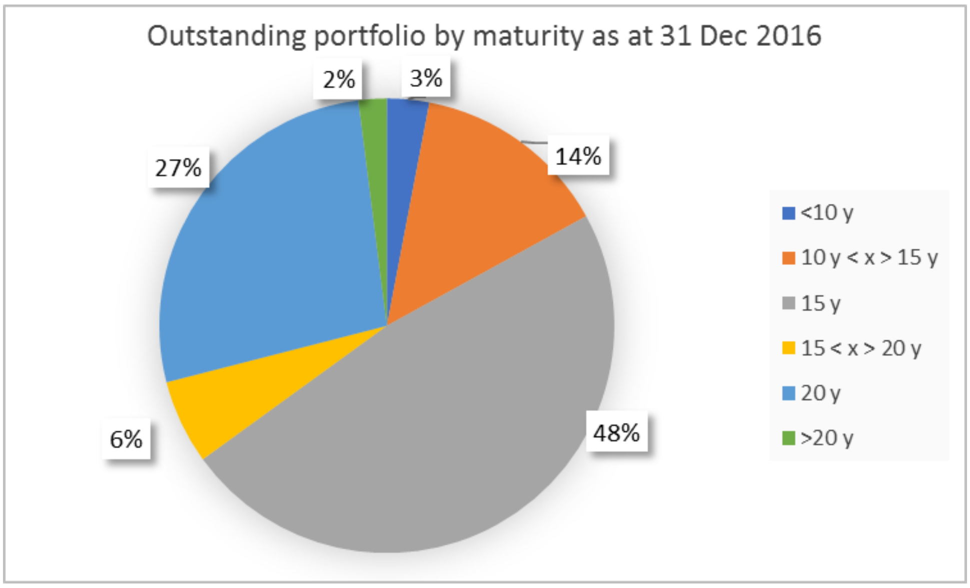
Agence France Locale lends exclusively to French local authorities that are shareholders of Société Territoriale. More than 50% of direct exposures are to metropolitan areas and more than 80% to the municipal block.

Graph:
Breakdown of exposures by type of local authority as at 31 December 2016



As regards the characteristics of loan agreements, at 31 December 2016, half had a residual maturity equal to 15.58 years and the average maturity of the portfolio weighted by outstanding amounts was 15.59, compared with 16.38 and 16.27 at 31 December 2015.

Graph:
Breakdown of the local authority loan portfolio by maturity as at 31 December 2016



b. Liquidity reserve

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

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

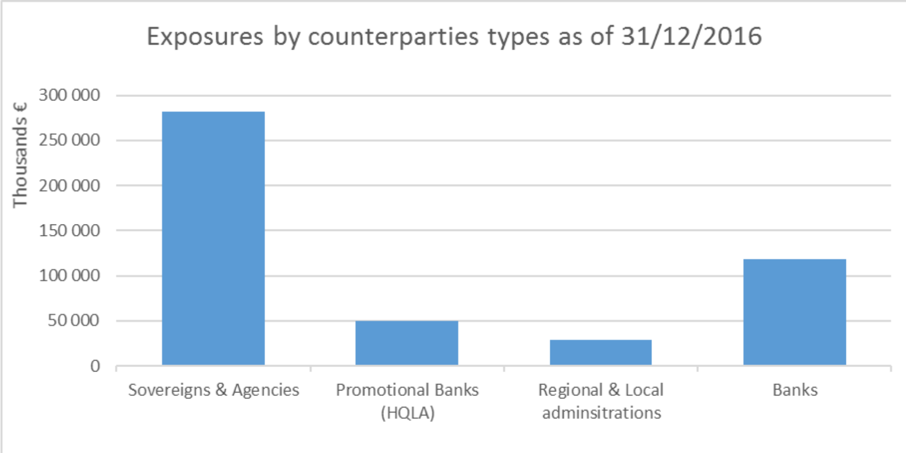
As at 31 December 2016, the assets comprising the liquidity reserve amounted to €435.4 million and consisted mainly of securities issued or guaranteed by the French government or European Union governments or supranational institutions that have the best ratings, as well as securities issued by financial institutions, some of which are guaranteed by European States. The other financial assets that make up the liquidity reserve also include bank accounts with French banks and the Banque de France.

The AFL liquidity reserve is divided into two segments:

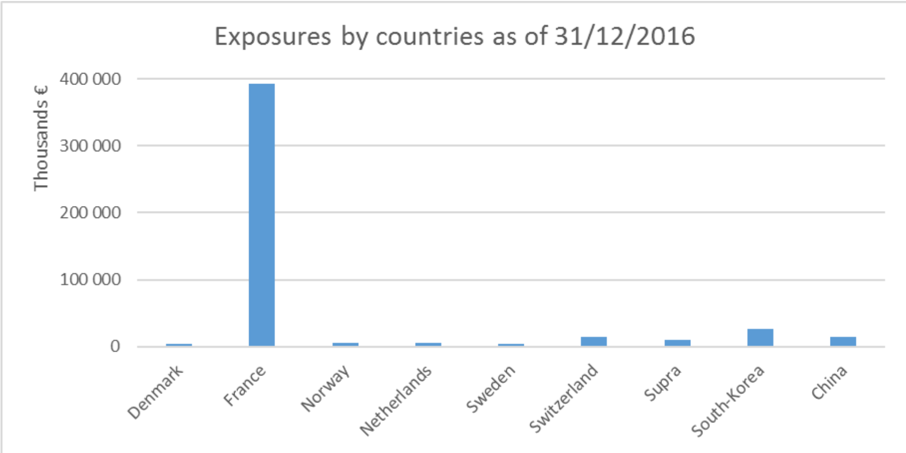
- one segment invested in very short-term instruments, including deposits on nostro accounts and the Banque de France;
- a segment consisting of HQLA-accredited securities, due to their high rating and high degree of liquidity.

As a result of its liquidity reserve investments, AFL incurs credit risk on the issuers of the assets it acquires or the exposures it takes. However, this credit risk is limited in view of the quality of the counterparties, which all enjoy the best rating levels from the major rating agencies. As at 31 December 2016, 79% of the liquidity reserve consists of so-called "HQLA" assets and the remaining 21% consists mainly of nostro accounts, deposits with the Banque de France and a few exposures in securities on the banking sector. It should be noted that the vast majority of exposures to the liquidity reserve relate to French issuers as shown in the graph below.

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



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



Finally, the balance of financial assets on the balance sheet consists of margin calls paid to AFL counterparty banks for its interest rate and currency hedging activities or to the LCH Clearnet clearing house.

c. Subsidiaries and shareholdings

- Subsidiary and shareholding activity:

Agence France Locale has no subsidiaries or shareholdings in other companies;

- Equity investments and takeovers

Agence France Locale has no investments in and did not take over any company during the past financial year;

- Controlled companies and treasury shares

Agence France Locale does not control any company as at 31 December 2016, as defined by Article L. 233-3 of the French Commercial Code. Therefore, no treasury shares are held by a controlled company.

d. Cross-shareholdings

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

e. Returns on assets

Article R511-16.1 of the French Monetary and Financial Code states that credit institutions must publish the return on their assets defined as the ratio between net profit and total assets in their annual report. As AFL's net profit is negative in both French GAAP and IFRS, the return on assets is therefore negative. This situation can be explained by AFL's recent start-up of its banking activities.

4. Balance sheet liabilities (IFRS)

AFL's liabilities consist mainly of debts incurred in connection with bond issues that have been made since the beginning of AFL's activities and have not yet matured. Liabilities also include the margin calls paid by AFL counterparties for its interest rate and currency hedging activities. At the close of the period ended 31 December 2016, outstanding debt amounted to €1,259 million after taking into account at amortised cost, due to hedge accounting, the impact of changes in interest rates since the dates of issuance of the debt instruments. Collateral received in connection with the margin calls paid to AFL amounted to €4 million.

After the four capital increases in 2016, AFL's equity capital amounted to €93.5 million under IFRS and €88.2 million under French GAAP.

Excerpts of main liabilities as at 31 December 2016 (IFRS)

In thousands of euros	31/12/2016	31/12/2015	31/12/2014
Dettes securities	1 259 073	840 536	-
Equity	93 529	62 046	29 316

5. Debt management

5.1 Financial debt of AFL

During 2016, Agence France Locale performed a euro-denominated syndicated bond issue with a maturity of seven years for an amount of €500 million. This transaction was launched on 11 May 2016, under AFL's EMTN programme, for the purpose of having sufficient liquidity to ensure the operational functioning of AFL in anticipation of dynamic credit activity at the end of the year and the prevention of the effects, which were expected to be negative, of the British vote on continued membership of the United Kingdom within the European Union.

The interest rate at the launch of this new benchmark loan of €500 million with a maturity of 20 March 2023 is 0.307%, for a margin of 31 basis points above the French OAT Treasury Bond curve. The issue was very successful, as evidenced by the number of investors that were a part of it, their geographical distribution and the type of investor.

Fifty investors participated in the transaction, for a total order amount of approximately €800 million. The result of the transaction is in line with the success of the inaugural issue in March 2015, as evidenced by the diversity of the investment both geographically and by type of institution:

- geographical distribution gave priority to domestic investors (29%) and the remainder were spread between the Benelux countries (25%) the United Kingdom (16%), Germany/Austria/Switzerland (15%), the Nordic countries (8%), Italy (5%) and other countries (2%);

- the type of investors confirmed the influence of asset managers (43%) as well as the cash position of banks (32%), and the significant participation of insurers and pension funds (13%) and central banks and public institutions (12%).

5.2 Breakdown of Agence France Locale accounts payable and accounts receivable

The figures presented below relate to the breakdown of the balance of accounts payable by Agence France Locale suppliers at the close of the financial years ended 31 December 2014, 2015 and 2016, in compliance with Articles L. 441-6-1 and D. 441 of the French Commercial Code. Accounts payable are characterized by a settlement period of less than thirty days.

Breakdown of Agence France Locale accounts payable

In euros	31/12/2016	31/12/2015	31/12/2014
Supplier payables	747 054€	707 874€	609 810€

6. Risk management

Because of its model, AFL operates within the framework of particularly conservative risk policies similar to the local authority financing agencies of Northern Europe. Nevertheless, risk-taking is inherent in the activity and reflects the desire for growth in an environment that is intrinsically prone to uncertainties. The internal control and risk management system set up by AFL aims to ensure that risks are properly appreciated and managed, in compliance with a specifically conservative framework.

AFL's loan portfolio consists exclusively of public borrowers with a particularly low risk profile. Interest rate, currency and liquidity risks are contained and limited. Operational risks are subject to a control system.

6.1 Credit and counterparty risk

a. Portfolio quality

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

In addition to its exposures to French local authorities linked in particular to loans and cash credits granted by AFL - 20% flat-rate weighted, the weighting approach chosen by AFL being the standard approach -, AFL has three types of exposures:

- securities acquired in connection with the management of its liquidity reserve;
- the balance of its accounts with French banks and the Banque de France;
- its derivative exposures, as a hedge against interest rate and currency risks.

As at 31 December 2016, the risk-weighted allocation of Agence France Locale credit exposures revealed a very high quality portfolio, with an average weighting of 16.6%.

The table below presents the exposures to credit risk on the basis of French GAAP accounting data restated for regulatory adjustments.[3]

Exposures by risk weight (standard method) (€)	31/12/2016 Agence France Locale Social - French gaap	
0%	272 283 763	18%
2%	35 523 794	2%
20%	1 160 096 423	77%
50%	33 658 719	2%
100%	549 558	0%
150%	262 562	0%
1250%	-	0%
Other risk-weights	-	0%
Total exposure to credit and counterparty risk	1 502 374 820	100%

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b. Local government loan portfolio

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

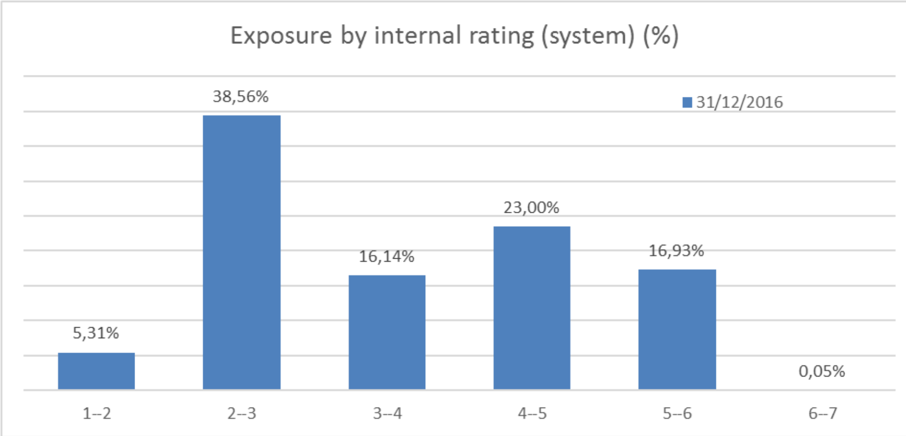
- to evaluate the financial positions of local and regional authorities, public inter-municipal co-operation institutions and local public entities for membership in the Agence France Locale Group through the establishment of a so-called "quantitative" or "financial" rating. On a scale from 1 to 7 (1 being the best score and 7 the worst), only local authorities rated between 1 and 5.99 may join the Agence France Locale Group. This rating system is automated and determined by the accounting and financial data published once a year by the General Directorate of Public Finance (the French Ministry of Finance);

- to evaluate the financial positions of the local authorities applying to AFL for credit using, in addition to the above-mentioned financial rating, a so-called "socio-economic" rating, potentially supplemented by a so-called "qualitative" rating. Lastly, the AFL Credit Committee decides on the final score awarded to the community concerned.

The breakdown by rating of its portfolio of loans to local authorities reveals a portfolio that is already granular and of good quality. As at December 2016, this portfolio was more than 49% exposed to local authorities with ratings ranging from 1 to 2.99. The five largest exposures accounted for 38.9% of assets. The largest exposure accounted for 8.6% of assets and the fifth-largest 6.5%. As at 31 December 2016, the average rating of loans made by AFL to its members, weighted by volumes outstanding, amounted to 3.57. This rating is stable over one year.

[3] Adjustments due to the calculation of regulatory exposures to derivatives and the partial recognition of off-balance sheet loans.

Graph:
Breakdown of the loan portfolio by local government rating as at 31 December 2016[4]



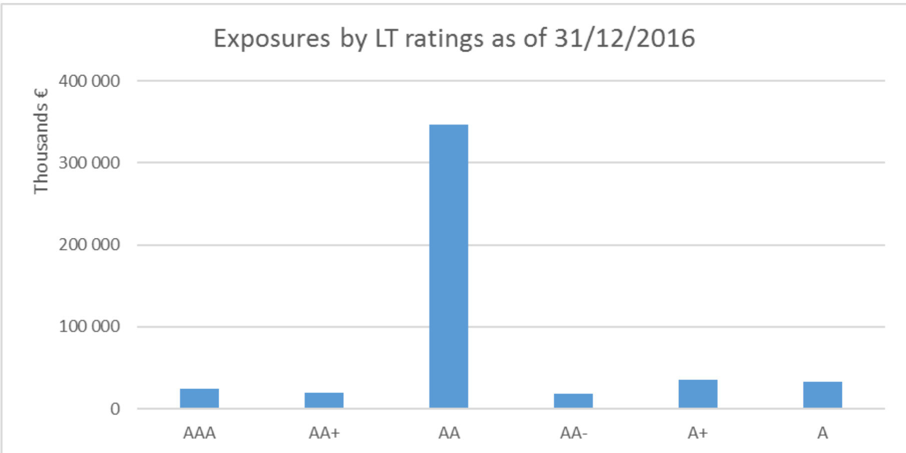
c. Credit risk related to other exposures

AFL has three other types of exposures:

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

The ratings of these exposures are of very high quality, with over 81% of exposures strictly rated equal to or greater than AA on the Standard & Poor's scale. The weighted average risk of this portfolio is 9.4%.

Graph:
Allocation of ratings of other AFL assets, other than loans to member regional and local authorities, as at 31 December 2016



[4] The System Rating corresponds to the financial rating +/- the impact of the socio-economic rating.

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

As at 31 December 2016, interest rate swaps were up 28%[5] on a bilateral basis, while other interest rate swaps were cleared in clearing houses, with a daily collateralisation for all instruments from the first euro.

d. Doubtful receivables, disputed claims, provisions

At 31 December 2016, outstanding doubtful or contentious receivables were nil. No collective provisions and no specific provisions were made as of 31 December 2016 for loans granted to local authorities or other assets.

6.2 Liquidity risk

AFL has three kinds of liquidity needs: the financing of its lending activities to member regional and local authorities, the financing of the liquidity requirements related to its liquidity reserve and the financing of the margin calls for the hedging derivatives it concludes to hedge the interest rate and currency risks that it naturally contributes to the balance sheet. AFL has also adopted a very strict liquidity policy whose main objective is ultimately to ensure that it has sufficient liquidity to maintain its operational activities, in particular its lending activities, for a period of twelve months. As part of its liquidity policy, AFL has put in place a system based on three objectives:

- the holding of a liquidity reserve made up of liquid assets that can be mobilised for the regulatory LCR (Liquidity Coverage Ratio) set at a minimum level of 150%;
- a financing strategy that encourages a diversity of debt instruments (including benchmark issues in euros, non-benchmark issues in euros and potentially in foreign currencies, private investments, etc.) as well as diversity of the investor base, both by type and geographical area;
- a limited transformation into liquidity by strict monitoring of the maturity spreads. As a result, AFL limits the average life-to-asset spread between its assets and liabilities to one year and maintains the regulatory NSFR (Net Stable Funding Ratio) above 150%.

As at 31 December 2016, the outstanding debt on the market in EMTN format amounted to €1.25 billion with an average maturity of 5.6 years.

As at 31 December 2016, the LCR thirty-day liquidity ratio was 695%; AFL held a liquid asset amount to meet nearly seven months of its cash flow requirements.[6]

As at 31 December 2016, the ALT variance was 0.1 years and the NSFR ratio was 173%.

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[5] Calculation carried out on the basis of the regulatory STAs using the STD method. At 31 December 2015, bilateral swaps accounted for 47% of the total and swaps processed and netted 53%.
[6] AFL estimate based on a development scenario.

6.3 Interest rate and currency risks

AFL naturally contributes interest rate and currency risks both to its assets (loans granted by Agence France Locale and securities held in its liquidity reserves) and to its liabilities (loans issued). In order to maintain its financial base for the development of its lending activities, AFL has also set up a hedging policy for interest rate and currency risks in order to limit the exposure of its balance sheet and the volatility of its revenues to unwanted market movements.

AFL's interest rate hedging policy consists of:

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

The hedging strategy for interest rate risk translates into a notional outstanding amount of swaps of €2.2 billion at 31 December 2016.

As at 31 December 2016, the sensitivity of the NPV was -7.9% under the assumption of a parallel translation of more than 100bps and -11.8% under the assumption of a translation of more than 200bps of the yield curve.

Throughout 2016, the sensitivity of AFL's net present value to a change of plus or minus 200bps remained below 20% of equity. The table below shows the sensitivity of the NAV as at 31 December 2015, 30 June 2016 and 31 December 2016.

	31/12/2016	30/06/2016	31/12/2015	Limite
Sc. +100bp	-7,9%	-7,1%	-1,1%	±20%
Sc. -100bp	9,0%	8,3%	1,1%	±20%
Sc. -100bp (floor)	2,2%	1,7%	1,1%	±20%
Sc. +200bp	-11,8%	-17,9%	-2,2%	±20%
Sc. -200bp	15,7%	13,3%	2,2%	/
Sc. -200bp (floor)	2,2%	1,7%	2,1%	±20%

AFL's investment policy stipulates that currency risk must be fully covered by the introduction of micro-hedging instruments. As a result, assets and liabilities denominated in currencies other than the euro are systematically swapped into euros at the balance sheet date and until their final maturity.

6.4 Operational risks

The operational risk management system provides for the reporting and analysis of incidents related to a failure of processes, people or systems. In 2016, no significant operating loss was incurred. The amount of capital requirements for operational risk amounted to €783,300 as at 31 December 2016.

6.5 Disputes

AFL was not involved in any disputes during the 2016 financial year.

6.6 Prudential ratios and equity

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

AFL deferred regulatory capital to the ACPR both on a consolidated basis, in accordance with IFRS, for its parent company Société Territoriale, and on a company basis, in accordance with French GAAP, for the credit institution.

As at 31 December 2016, prudential capital amounted to €81.4 million, in accordance with French GAAP, for the credit institution. Given the quality of credit of the assets carried by the Agency, the solvency ratio reached 30.57% on a company basis. In addition, the leverage ratio stood at 5.39% on that same date.

The table below provides a statement of the prudential and capital adequacy ratios per quarter for the year 2016.

Solvability ratio	31/12/2015	31/03/2016	30/06/2016	30/09/2016	31/12/2016
Solvability ratio	24,11%	34,67%	32,63%	30,55%	*30,57%*
Internal limit	12,50%	12,50%	12,50%	12,50%	*12,50%*
Regulatory limit	8,00%	8,63%	8,63%	8,63%	*8,63%*

Leverage ratio	31/12/2015	31/03/2016	30/06/2016	30/09/2016	31/12/2016
Leverage ratio	4,39%	6,49%	5,48%	5,28%	5,39%
Internal limit	3,50%	3,50%	3,50%	3,50%	*3,50%*
Regulatory limit	3,00%	3,00%	3,00%	3,00%	*3,00%*

Liquidity ratios	31/12/2015	31/03/2016	30/06/2016	30/09/2016	31/12/2016
LCR	573%	1185%	4855%	4693%	695%
NCRR	52%	41%	81%	77%	64%
NSFR	232%	217%	255%	233%	173%

7. Expected situations and future prospects

The size and structure of the AFL balance sheet should continue to grow with the continued increase in production of loans to shareholder members and the programming of new capital increases by Société Territoriale to allow for the arrival of new regional and local authorities that will, as a result, need AFL financing.

AFL's growth is intrinsically linked to the increase in memberships of new local authorities for the increase of the amount of its own funds and the continued increase in the outstanding amount of its loan portfolio.

8. Profit for the year

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

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

AFL also prepared financial statements on a voluntary basis to IFRS for the financial year ended 31 December 2016, which are discussed in this report.

8.1 Financial statements to French GAAP

The financial year ended 31 December 2016 is AFL's third year. At the end of the year, gross operating profit and net profit rose to -€2,642 thousand. These results are to be compared with the gross operating profit for the year ended 31 December 2015, which amounted to -€11,411 thousand, with a net profit of -€12,082 thousand. This significant reduction in the net loss reflects the increase in loan activity and the effects of the resulting increase in the loan portfolio, coupled with exceptional capital gains generated by the sale of shares as well as a positive contribution from the liquidity reserve.

At the end of 2016, net banking income generated by business was €9,127 thousand compared to €371 thousand at 31 December 2015. This corresponds mainly to a net margin of interest of €4,668 thousand, capital gains on the sale of investment securities of €5,786 thousand, a loss of negative hedging relationships of -€1,140 thousand and a depreciation of investment securities of -€131 thousand.

The interest margin of €4,667 thousand originated from three items:

- firstly, revenues related to the gradual creation of the loan portfolio in the amount of €4,747 thousand, once restated for their hedges;
- secondly, revenues related to the management of the liquidity reserve (-€669 thousand), due to interest rates deeply anchored in negative territory; and
- lastly, the interest expense from debt, which, for the reasons mentioned above, represents a source of income amounting to €590 thousand, once the income from hedging it is taken into account.

Capital gains on disposals amounting to €5,786 thousand are related to two different events:

- an exceptional capital gain of €3,146 thousand from the sale of securities originally classified as investment securities that had been reclassified as placement securities after Agence France Locale decided to change the use of its own funds in December 2015;
- the capital gains generated in connection with the portfolio management of the liquidity reserve for an amount of €2,640 thousand. The cancellation of interest rate hedges on all disposals of securities resulting in capital gains generated a charge of €1,140 thousand. The result was net capital gains of €4,646 thousand net of cancellations.

For the year ended 31 December 2016, general operating expenses amounted to €9,487 thousand compared with €10,130 thousand for the previous year. These expenses included €4,239 thousand in personnel costs, up from €3,797 thousand last year, mainly due to a base effect on recruitments during 2015. General operating expenses also include administrative expenses, which fell sharply to €5,911 thousand, compared to €11,554 thousand at 31 December 2015, before transfer of charges to fixed assets or to be allocated. This decline is mainly the result of the completion of the first phase of the construction and implementation of the IT infrastructure and deployment of the customer portal, resulting in a significant reduction in capitalised IT expenses totalling €120 thousand for 2016, compared with €4,439 thousand for the previous year.

After depreciation and amortisation of €2,281 thousand, compared with €1,652 thousand at 31 December 2015, operating profit at the end of the year was -€2,642 thousand.

The 2016 financial year resulted in a negative net profit of -€2,642 thousand, compared to -€12,082 thousand the previous year.

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

Transition from French GAAP to IFRS

	31-Dec-16
Net profit – French GAAP	**(2,642)**
Consolidation adjustments	
Deprec. and amort. of establishment costs (as a whole in 2014 under IFRS)	426
Cancellation of impairment losses on available-for-sale securities	131
Revaluation of loans that have been terminated	7
Impact of the new effective interest rate on loans that have been terminated	(1)
Micro-hedging inefficiency	7
Profit from macro-hedging of loans	(50)
Deferred tax assets on tax losses	(1,069)
DTA on other temporary differences	(174)
Net profit under IFRS	**(3,365)**

8.2 Financial statements in IFRS

For the year ended 31 December 2016, in IFRS, gross operating profit totalled -€2,121 thousand and net profit was -€3.365 thousand, compared with gross operating income for the year ended 31 December 2015, which totalled -€10,995 thousand and net profit -€7,777 thousand. This significant reduction in the net loss reflects the increase in loan activity and the effects of the resulting increase in the loan portfolio, coupled with exceptional capital gains generated by the sale of shares as well as a positive contribution from the liquidity reserve.

At the end of 2016, net banking income generated by business was €9,220 thousand compared to €361 thousand at 31 December 2015. This corresponds mainly to a net margin of interest of €4,667 thousand, net gains on disposals of available-for-sale securities of €5,786 thousand, and a net loss on negative hedge accounting of -€1,133 thousand.

The interest margin of €4,667 thousand originated from three items:

- firstly, revenues related to the gradual creation of the loan portfolio in the amount of €4,747 thousand, once restated for their hedges;
- secondly, revenues related to the management of the liquidity reserve (-€669 thousand), due to interest rates deeply anchored in negative territory;
- lastly, the interest expense from debt, which, for the reasons mentioned above, represents a source of income amounting to €590 thousand, once hedging effects are taken into account.

Capital gains on disposals amounting to €5,786 thousand are related to two different events:

- an exceptional capital gain of €3,146 thousand from the sale of securities originally classified as investment securities that had been reclassified as placement securities after Agence France Locale decided to change the use of its own funds in December 2015;
- furthermore, they include the capital gains generated in connection with the portfolio management of the liquidity reserve for an amount of €2,640 thousand.

The net loss from hedge accounting is -€1,177 thousand. It consists of two elements. Firstly, charges for the cancellation of the interest rate hedging of available-for-sale financial securities amounting to €1,133 thousand, which are to be considered in relation to the gains realised on the underlying asset disposals and, secondly, an amount of -€43 thousand, which represents the sum of the fair value differences of the hedged items and their hedges for the instruments still in the portfolio at the balance sheet date. Of these differences, €50 thousand relate to valuation differential charges on macro-hedged instruments and €6 thousand relate to valuations of micro-hedged instruments. This hedge accounting result is mainly explained by the fact that Agence France Locale took into account a market practice that resulted in an asymmetry of valuation between the hedging instruments collateralised on a daily basis and discounted on an Eonia curve, and the hedged items, which were updated on an Euribor curve, which, in IFRS, caused a hedge ineffectiveness that is recognised in the income statement. It should be noted, however, that this is a latent result.

As at 31 December 2016, general operating expenses amounted to €9,486 thousand compared with €10,131 thousand for the previous year. These expenses include €4,272 thousand in personnel costs, up from €3,797 thousand for 2015 mainly due to a base effect on recruitments made during the year of 2015. General operating expenses also include administrative expenses, which fell sharply to €5,642 thousand, compared to €10,964 thousand at 31 December 2015, before transfer of charges to fixed assets. This decline is mainly the result of the completion of the first phase of the construction and implementation of the IT infrastructure and deployment of the customer portal, resulting in a reduction in capitalised expenses totalling €120 thousand for 2016, compared with €4,439 thousand for the previous year.

After depreciation and amortisation of €1,855 thousand, compared with €1,226 thousand at 31 December 2015, operating profit at the end of the year was €2,121 thousand.

Changes in the corporate income tax rate from 33.1/3% to 28% and the application of the liability method resulted in a deferred tax expense of €1,069 thousand related to tax losses previously activated, in addition to a €174 thousand tax expense on other temporary tax deferrals. The tax losses recorded in 2016 did not give rise to any deferred tax assets.

Financial year 2016 resulted in a negative net profit of -€3,365 thousand, compared to -€7,777 thousand over the same period the previous year.

8.3 Subsequent events

The tax authorities began an auditing period of the financial statements for financial years 2014 and 2015. An estimate of the risks resulting from this procedure has been taken into account by the company in the financial statements for the year.

8.4 Proposed allocation of profit

It is proposed that the total net loss for the year ended 31 December 2016 (annual financial statements prepared in accordance with French GAAP), which amounts to €2,641,630.85, be allocated to retained earnings.

8.5 Dividends distributed

No dividend is proposed for the year ended 31 December 2016, and none was distributed in the two previous financial years.

8.6 Tax-deductible expenses (Articles 39.4 and 39.5 of the French General Tax Code)

During the financial year ended 31 December 2016, AFL incurred no expenses as defined by Articles 39-4 and 39-5 of the French General Tax Code.

9. Significant events since the balance sheet date

9.1 Production of new loans

As regards medium- and long-term loan production since the end of the financial year, this amounted to €74 million at the end of February 2016 for a total of ten loan contracts signed at the publication date of the report.

9.2 Capital increase

At the balance sheet date, the Agence France Locale Group had already completed a capital increase on 6 March 2017, which resulted in an increase in its share capital of €16.5 million, to €127.5 thousand. This increase in capital enabled ten new regional and local authorities to join Société Territoriale as shareholders, raising the number of members of the Agence France Locale Group to 183.

9.3 Increase in the limit of the Société Territoriale guarantee

On 16 February 2017, the Société Territoriale Board of Directors approved an increase in the amount of the Société Territoriale guarantee granted to the financial creditors of Agence France Locale to a total of €5 billion.

9.4 Financing on capital markets

In January 2017, AFL launched its first issuance of negotiable debt securities under its ECP financing programme, which aims to optimise cash management while diversifying AFL's financing resources through access to new investors in the money market and improved resource costs.

As part of its regular financing activities on the financial markets, on 23 January 2017, AFL made a contribution of €250 million to its 20 March 2023 bond issue, at a margin of 27 basis points above the interpolated curve of French Government OAT treasury bonds. This issue was invested with major French and international investors, thus cushioning AFL's position on the public debt market in euros. In addition, AFL conducted a private two-year issue of $100 million under very good conditions.

The diversification of financing helps to improve AFL's funding mix, which in turn helps to optimise the financial conditions offered to local authorities for the loans they receive from AFL.

10. Data on share capital and shares

10.1 Shareholding structure

At 31 December 2016, AFL's share capital totalled €111 million, divided into 1,110,000 shares with a par value of €100 each, of the same category, fully subscribed and paid up.

AFL neither issued nor authorised the issue of any preferred shares during the financial year ended 31 December 2016.

At the date of signature of this report, AFL's share capital consists entirely of registered shares.

Under the terms of the Shareholders' Agreement relating to Agence France Locale Group, AFL shareholders other than Société Territoriale have undertaken not to transfer the company's shares to a third party or to any other party to the Agreement whenever it, too, is a shareholder in Société Territoriale.

Under the aforementioned Agreement, each AFL shareholder, other than Société Territoriale, has granted it a right of pre-emption on any transfer of Agence France Locale shares that it plans to carry out for the benefit of a third party or another shareholder, if the transferring shareholder has lost its status as a member of Société Territoriale.

Pursuant to Article 15 of the Shareholders' Agreement and in accordance with the new provisions of Article L. 225-1 of the French Commercial Code, which state that a minimum of two shareholders is required to constitute a public limited company, Société Territoriale has requested that the shareholders of Agence France Locale, with the exception of the Métropole de Lyon, sell the sole share held by them.

Since the aforementioned sales are being finalised, the Company's shareholding structure at the date of signature of this report is as follows. In pursuit of the accomplishment of its corporate purpose, which consists in particular in being a shareholder of Agence France Locale, only Société Territoriale has subscribed to capital increases, since the General Meeting of Shareholders of Agence France Locale has given the Company's Management Board a delegation of authority to carry out capital increases up to a limit of €150 million with the cancellation of shareholders' preferential subscription rights to the benefit of Société Territoriale.

At the date of this report, after the close of the twelfth capital increase on 6 March 2017, AFL's share capital breaks down as follows:

	Share capital		**Voting rights**	
	Number of shares	%	Number of voting rights	%
Société Territoriale	1,274,990	99.99	1,274,990	99.99
Pays de la Loire Region	1	0.0001	1	0.0001
Department of Aisne	1	0.0001	1	0.0001
Department of Essonne	1	0.0001	1	0.0001
Department of Savoie	1	0.0001	1	0.0001
Lyon Metropolitan Area	1	0.0001	1	0.0001
Lille European Metropolitan Area	1	0.0001	1	0.0001
Valenciennes Metropolitan Area Urban Community	1	0.0001	1	0.0001
Bordeaux Metropolitan Area	1	0.0001	1	0.0001
City of Grenoble	1	0.0001	1	0.0001
Commune of Lons-le-Saunier	1	0.0001	1	0.0001
TOTAL	1,275,000	100	1,275,000	100

10.2 Information on AFL's purchase of its own shares

During the year ended 31 December 2016, AFL made no transactions in its own shares. Furthermore, the Company does not hold any of its own shares as at 31 December 2016.

10.3 Transactions on AFL securities by its officers

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

10.4 Information on items that may have an impact on a public offer

No element referred to in that article is likely to have an impact in the event of a public offer. These provisions are in any case not applicable given the structure and purpose of AFL.

10.5 Development and stock market situation of AFL

At 31 December 2016, AFL's capital consisted of 1,110 thousand shares with a value of €100. AFL shares are not tradable on a regulated market.

11. AFL Research and Development activity

Given its corporate purpose, AFL does not undertake operations in the field of research and development.

12. Information about the company

In compliance with the provisions of Article L. 225-102-1 of the French Commercial Code, company information relating to Agence France Locale is given in the management report of Société Territoriale, its parent company, which controls it as defined in Article L. 233-3 of the French Commercial Code.

13. Environmental information

In compliance with the provisions of Article L. 225-102-1 of the French Commercial Code, environmental information relating to the Agence France Locale is specified in the management report of Société Territoriale, its parent company, which controls it as defined in Article L. 233-3 of the French Commercial Code.

14. Social information

In compliance with the provisions of Article L. 225-102-1 of the French Commercial Code, social information relating to Agence France Locale is given in the management report of Société Territoriale, its parent company, which controls it as defined in Article L. 233-3 of the French Commercial Code.

15. Fight against money laundering and the financing of terrorism

Since the financial sector is exposed to the risk of money laundering and the financing of terrorism, credit institutions must, under the control of the ACPR, put in place preventive measures in this area. In this context, the Company has set up mechanisms to combat money laundering and terrorist financing (AML/CFT), compliant with ongoing applicable regulations, through which it carries out controls on all business relationships with which it contracts in the course of its operational and financial activities.

B. Governance

1. Agreements referred to in Articles L. 225-86 *et seq.* of the French Commercial Code

In compliance with the provisions of Article L. 225-86 *et seq.* of the French Commercial Code, the agreements mentioned below are contained in a special report by the Statutory Auditors.

Regulated agreements entered into during the year ended 31 December 2016:

- Agence France Locale – Société Territoriale first demand guarantee, signed on 13 May 2016 in accordance with the Société Territoriale Model First Demand Guarantee entered into on 20 February 2015;
- amendment of the terms of the trademark licensing agreement entered into on 24 June 2014 between Société Territoriale and AFL, the purpose of which is to harmonise the conditions for its renewal with those of the Group's other regulated agreements (excluding exceptions) and to change the term of that agreement from one (1) year with tacit renewal over an indefinite period;
- clarification of the employment contracts of the salaried members of the Management Board to explicitly mention AFL's compensation policy.

Regulated agreements still being executed during the year ended 31 December 2016:

- Société Territoriale Model First Demand Guarantee signed on 20 February 2015;
- memorandum of understanding relating to the Société Territoriale Model First Demand Guarantee signed on 20 February 2015;
- Agence France Locale – Société Territoriale first demand guarantee, signed on 20 February 2015 in accordance with the Société Territoriale Model First Demand Guarantee entered into on 20 February 2015;
- Agence France Locale – Société Territoriale first demand guarantee, signed on 2 December 2015 in accordance with the Société Territoriale Model First Demand Guarantee entered into on 20 February 2015, with the understanding that the guarantee commitment expired on 6 December 2016;
- Agence France Locale – Société Territoriale first demand guarantee, signed on 11 December 2015 in accordance with the Société Territoriale Model First Demand Guarantee entered into on 20 February 2015, with the understanding that the guarantee commitment expired on 16 December 2016;
- services agreement between Société Territoriale and Agence France Locale dated 24 June 2014 relating to institutional communication;
- services agreement between Société Territoriale and Agence France Locale dated 24 June 2014, relating to Agence France Locale - Société Territoriale internal controls;
- services agreement between Société Territoriale and Agence France Locale dated 24 June 2014 (effective 5 June 2014);
- licensing agreement for the use of a trademark signed on 24 June 2014;
- Shareholders' Agreement entered into on 24 June 2014;
- tax consolidation agreement effective 1st January 2015;
- employment contracts for salaried members of the Agence France Locale Management Board.

It is specified that, with the exception of the First Demand Guarantees granted by Société Territoriale to AFL, all agreements entered into between Société Territoriale and AFL are for an indefinite period.

2. Report prepared by the Chairman of the Supervisory Board pursuant to Article L. 225-68 of the French Commercial Code

Pursuant to Article L. 225-68 of the French Commercial Code, the Chairman of the Supervisory Board's report on corporate governance, internal control and risk management for 2016 is attached as Appendix 2 to this report.

3. Terms and functions of the members of the Supervisory Board

For purposes of compliance with the provisions of Article L. 225-102-1 of the French Commercial Code and in the light of the information in our possession, the list of all terms of office and functions exercised in any company by each of the corporate officers during the past financial year is as follows:

Given Name, Surname Date and place of birth	*Functions exercised and specific duties (if any)*	*Date of first appointment and expiry date of term*	*Offices and positions held within the Group*	*Offices and positions held outside the Group*
Richard Brumm born on 20 October 1946 in Lyon (69006).	Chairman of the Supervisory Board as of 20 June 2016.	Appointed by the Supervisory Board on 20 June 2016. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	Vice-Chairman of the Board of Directors of Société Territoriale.	Representative of the City of Lyon to: – the Opéra National de Lyon (Registered Association) (SIREN No. 339 391 021); – Crédit Municipal de Lyon (SIREN No. 266 900 299) (Member of the Policy and Supervisory Board). Representative of the Lyon Metropolitan Area to: – SEM Patrimoniale du Grand Lyon (518 422 704 RCS Lyon) (Director); – Société Anonyme Immobilière d'Économie Mixte de Vaulx-en-Velin (404 997 868 RCS Lyon) (Chairman and Chief Executive Officer); – Société Publique Locale Gestion des Espaces Publics du Rhône-Amont (316 312 594 RCS Lyon) (Director); – Société Publique Locale Lyon-Confluence (423 793 702 RCS Lyon) (Director); – Syndicat Mixte pour l'Aménagement et la Gestion du Grand Parc de Miribel Jonage (SIREN No. 256 900 655) (Director).
Jacky Darne, born on 18 December 1944 in Rosières (43800). ***Independent member***	Chairman of the Supervisory Board from 17 December 2013 to 3 May 2016.	Listed in the Articles of Incorporation dated 17 December 2013. Resigned, effective 3 May 2016.	Vice-Chairman of the Board of Directors of Société Territoriale. Resigned, effective 3 May 2016.	None.

Given Name, Surname Date and place of birth	*Functions exercised and specific duties (if any)*	*Date of first appointment and expiry date of term*	*Offices and positions held within the Group*	*Offices and positions held outside the Group*
Rollon Mouchel-Blaisot, born on 19 June 1959 in Carteret (50270).	Vice-Chairman of the Supervisory Board Member of the Appointments, Remuneration and Corporate Governance Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	Chairman of the Board of Directors of Société Territoriale.	Director General of Services of the French Mayors Association.
Olivier Landel born on 9 January 1963 in Paramé (35400 Saint-Malo).	Member of the Supervisory Board. Member of the Audit and Risk Committee. Member of the Strategy Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	Chief Executive Officer of Société Territoriale.	Executive Officer of France Urbaine. Chief Executive Officer of Agence France Locale – Société Territoriale.
Lars Andersson born on 27 March 1952 in Sweden. ***Independent member***	Member of the Supervisory Board. Member of the Strategy Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	None.	Founder and President of AB Marten Andersson Productions (AB MA Productions).
Victoire Aubry-Berrurier born on 5 June 1966 in La Roche-sur-Yon (85000). ***Independent member***	Member of the Supervisory Board. Member of the Audit and Risk Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	None.	– Member of the Executive Committee of Icade in charge of Finance, IT and Legal Affairs; – Director of ICADE Management (GIE) (318 607 207 RCS Paris); – Director of Deux Alpes Loisirs (SA) (064 501 406 RCS Grenoble).
François Drouin born on 7 August 1951 in Quierschied (Germany). ***Independent member***	Member of the Supervisory Board. Member of the Audit and Risk Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	None.	– Chairman of the Board of Directors of the Société Concessionnaire Française pour la Construction et l'Exploitation du Tunnel Routier sous le Mont-Blanc (SA) (582 056 511 RCS Paris); – Chairman of the Board of Directors of Société Française du Tunnel Routier du Fréjus (SEM) (962 504 049 RCS Chambéry); – Chairman of ETI Finance (SAS) (797 802 568 RCS Paris); – Vice-Chairman of the Board of Directors of BPI France (SA) (320 252 489 RCS Créteil).

Given Name, Surname Date and place of birth	***Functions exercised and specific duties (if any)***	***Date of first appointment and expiry date of term***	***Offices and positions held within the Group***	***Offices and positions held outside the Group***
Nicolas Fourt born on 22 September 1958 in Nancy (54000). ***Independent member***	Member of the Supervisory Board. Member of the Audit and Risk Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	None.	– Deputy Chief Executive Officer and Director of Acofi Gestion (SA) (415 084 433 RCS Paris); – Chief Executive Officer of Alfafinance Analytics And Advisory (SAS) (523 571 218 RCS Paris); – Chairman of Migus & Associés (SAS) (501 228 647 RCS Paris); – Director of Acofi Holding (SAS) (510 571 995 RCS Paris); – Director of Denis Friedman Productions (SA) (409 756 350 RCS Paris); – Manager of Misty (EURL) (484 135 603 RCS Paris); – Manager of Migus Conseil (SARL) (519 192 512 RCS Paris); – Manager of NF Conseil (SARL) (519 411 441 RCS Nanterre); – Director of Alfafinance (SAS) (751 891 748 RCS Paris).
Daniel Lebègue born on 4 May 1943 in Lyon (69004). ***Independent member***	Member of the Supervisory Board. Member of the Appointments, Remuneration and Corporate Governance Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	None.	President of the l'Observatoire sur la Responsabilité Sociétale des Entreprises (ORSE).
Simon Munsch born on 10 July 1977 in Sarrebourg (57400).	Member of the Supervisory Board. Member of the Appointments, Remuneration and Corporate Governance Committee. Member of the Audit and Risk Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016. Resigned effective 31 January 2017.	None.	Director General of Services, Regional Council of Occitanie.
Mélanie Lamant born on 23 August 1975 in Croix (59170).	Member of the Supervisory Board. Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon.	Co-opted by the Supervisory Board on 23 March 2017. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial	None.	None.

Given Name, Surname Date and place of birth	*Functions exercised and specific duties (if any)*	*Date of first appointment and expiry date of term*	*Offices and positions held within the Group*	*Offices and positions held outside the Group*
		statements for the year ended 31 December 2016.		
Dominique Schmitt born on 2 June 1948 in Strasbourg (67000). *Independent member*	Member of the Supervisory Board. Member of the Strategy Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	None.	Representative of the City of Cagnes-sur-Mer to: – Société d'Economie Mixte pour le Développement et l'Aménagement de Cagnes-sur-Mer (SEM) (352 856 348 RCS Antibes) (Chairman of the Board of Directors).

- The members of the Management Board have not performed any management, executive, administrative or supervisory functions in other companies.

4. Compensation of members of the Management Board

The composition of the members of the Management Board remained unchanged during the year ended 31 December 2016.

For purposes of compliance with the provisions of Article L. 225-102-1 of the French Commercial Code and in accordance with AMF Recommendation DOC-2016-05, AFL has given details of the compensation and benefits of all kinds paid during the year to the Company's corporate officers (see table below). Furthermore, the Company has not granted any retirement commitments or other life annuity benefits to corporate officers.

In compliance with Article 16.4 of the Company's Articles of Association, the Supervisory Board determines the method and amount of compensation of each member of the Management Board and reviews it annually.

The variable compensation of each member of the Management Board is defined on the basis of collective targets and individual targets. All of these targets are listed in the Company's compensation policy, which is approved annually by the Supervisory Board. The company provides insurance for the Chairman of the Management Board in the absence of unemployment insurance.

Yves Millardet Chairman of the Management Board Deputy Chief Executive Officer of Société Territoriale	**Year ended 31 December 2014** Gross annual amount paid in 2014 (in euros)	**Year ended 31 December 2015** Gross annual amount paid in 2015 (in euros)	**Year ended 31 December 2016 Gross annual amount paid in 2016** **(in euros)**
Fixed compensation for his corporate office	250,808	255,000	255,000
Variable compensation	0	0	30,000
Exceptional compensation(1)	0	0	0
Directors' fees	0	0	0
Benefits in kind	7,119	7,708	7,720

TOTAL	259,348	262,708	292,720

Ariane Chazel Director of Risk, Internal Control and Compliance	**Year ended 31 December 2014** Gross annual amount paid in 2014 (in euros)	**Year ended 31 December 2015** Gross annual amount paid in 2015 (in euros)	**Year ended 31 December 2016** Gross annual amount paid in 2016 (in euros)
Fixed compensation for her corporate office	44,339	154,130	154,130
Variable compensation	0	0	19,434
Benefits in kind	0	0	0
TOTAL	44,339	154,130	173,564
Thiébaut Julin Chief Financial Officer	**Year ended 31 December 2014** Gross annual amount paid in 2014 (in euros)	**Year ended 31 December 2015** Gross annual amount paid in 2015 (in euros)	**Year ended 31 December 2016** Gross annual amount paid in 2016 (in euros)
Fixed compensation for his corporate office	121,501	217,391	217,391
Variable compensation	0	0	27,150
Benefits in kind	0	0	0
TOTAL	121,501	217,391	244,541
Philippe Rogier Credit Director	**Year ended 31 December 2014** Gross annual amount paid in 2014 (in euros)	**Year ended 31 December 2015** Gross annual amount paid in 2015 (in euros)	**Year ended 31 December 2016** Gross annual amount paid in 2016 (in euros)
Fixed compensation for his corporate office	155,664	156,222	156,222
Variable compensation	0	0	30,000
Benefits in kind	0	0	0
TOTAL	155,664	156,222	186,222

Furthermore, the Company did not grant stock options to members of the Management Board in 2016. Similarly, no performance shares were allocated to members of the Management Board during the past financial year.

5. Determination of directors' fees

The Appointments, Remuneration and Corporate Governance Committee has proposed that directors' fees be allocated as follows within the limit of the amount of the total directors' fees to be allocated to the members of the Supervisory Board set by the Annual General Meeting of Shareholders on the basis of the provisions of the Internal Regulations of the Supervisory Board for the members of the Supervisory Board who may benefit from this rule.

In light of these provisions, three members of the Supervisory Board (Rollon Mouchel-Blaisot, Simon Munsch and Olivier Landel) have voluntarily waived the right to receive directors' fees. Olivier Landel, in his capacity as Chief Executive Officer, received the gross sum of €50 thousand for 2016 for his term as a corporate officer of the parent company of Agence France Locale.

In compliance with the provisions of Article L. 225-45 of the French Commercial Code, the Supervisory Board approved the proposal to allocate directors' fees for the 2015 financial year issued by the Appointments, Remuneration and Corporate Governance Committee:

	Amount paid in 2016 (€)		
	Amount	Members of Committees (excluding President)	**Total**
J. Darne	30 000	-	**30 000**
R. Mouchel Blaisot	-	-	**-**
F. Drouin	25 000	-	**25 000**
D. Lebègue	25 000	-	**25 000**
N. Fourt	15 000	5 000	**20 000**
V. Aubry	13 333	5 000	**18 333**
O. Landel	-	-	**-**
L. Andersson	25 000	-	**25 000**
D. Schmitt	15 000	5 000	**20 000**
S. Munsch	-	-	**-**
Total			**163 333**

Richard Brumm, who was co-opted by the Supervisory Board on 20 June 2016 as a member and as Chairman of the Supervisory Board, received no remuneration during the 2016 financial year. Richard Brumm, who was elected to his office, does not receive any directors' fees.

23 March 2017,

The Management Board,
Represented by Yves Millardet, Chairman

AGENCE FRANCE LOCALE — Financer l'investissement de nos collectivités

APPENDIX 1
TABLE OF RESULTS FOR THE PAST THREE YEARS

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

Parent company financial statements at 31 December

TYPE OF INDICATIONS	2016	2015	2014
I. - Financial position at year-end:			
a) Share capital	€111,000,000	€74,300,000	€35,800,000
b) Number of shares issued	1,110,000	743,000	358,000
c) Number of bonds convertible into shares	0	0	0
II. - Overall profit from transactions:			
a) Net banking income (equal to revenues excluding VAT)	€9,126,552	€371,080	€310,558
b) Profit before tax, depreciation, amortisation and provisions	(€2,641,631)	(€12,081,549)	(€8,045,759)
c) Corporate income tax	€0	0	0
d) Profit after tax, depreciation, amortisation and provisions	(€2,641,631)	(€12,081,549)	(€8,045,761)
e) Amounts of dividends distributed	€0	€0	€0
III. - Profit from transactions reduced to a single share:			
a) Profit after tax but before Appropriation/Recovery of FRBG	(€2.38)	(€16.26)	(€22.47)
d) Profit after tax [depreciation, amortisation and provisions]	(€2.38)	(€16.26)	(€22.47)
c) Dividend paid for each share	€0	€0	€0
IV. - Personnel:			
a) Number of employees (or average workforce if there were variations)	25	22	18
b) Amount of payroll	€2,730,465	€2,580,170	€1,358,558
c) Amount paid for social benefits (social security, works, etc.)	€1,508,267	€1,217,110	€627,721

APPENDIX 2

AGENCE FRANCE LOCALE

A public limited company (*société anonyme*) with a Management Board and Supervisory Board and capital of €127,500,000
Registered office: Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon
799 379 649 RCS Lyon

2016 REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD ON CORPORATE GOVERNANCE, INTERNAL CONTROL AND RISK MANAGEMENT

Dear Shareholders,

In accordance with Article L. 225-68 of the French Commercial Code, and in my capacity as Chairman of the Supervisory Board of Agence France Locale (the ***Company***), it is my honour to present this report as approved by the Supervisory Board at its meeting on 23 March 2017 for the 2016 financial year. It includes information on:

- corporate governance, including the composition and functioning of the Supervisory Board, and more specifically the conditions for the preparation and organisation of the work of the Supervisory Board and the application of the principle of balanced representation of women and men on the Supervisory Board; and

- the Supervisory Board's internal control and risk management procedures.

Note that the Company is a public limited company (*société anonyme*) with a Management Board and a Supervisory Board. This form allows for a separation between the management of the Company provided by the Management Board and the overseeing of its management by the Supervisory Board.

This report has been prepared with the support of the Management Board and the Company's Chief Legal Officer.

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

I. Corporate governance

1. Declaration of compliance with the Code of Corporate Governance

In compliance with the provisions of Article L. 225-68 of the French Commercial Code, the Company declares that it adheres to and adopts the recommendations issued by the *Association Française des Entreprises Privées* and the *Mouvement des Entreprises de France* contained in their code of corporate governance revised in November 2013 (the ***AFEP-MEDEF Code***) as a reference framework for corporate governance. In this context, the Company's Supervisory Board has adopted internal regulations that incorporate the main provisions of the Code. The AFEP-MEDEF Code and the internal regulations of the Supervisory Board can be consulted at the registered office of the Company.

The Company's desire to take the good governance requirements of the AFEP-MEDEF Code into consideration caused the Combined General Meeting of Shareholders of 3 May 2016 to approve the amendment of the terms of office of the members of the Supervisory Board in accordance with the recommendations of Article 14 of the aforementioned Code. The members of the Supervisory Board are henceforth appointed for a renewable term of four (4) years.

Nevertheless, in order to take the specific characteristics of the Company into account, the Company has decided to disregard some of its provisions, in accordance with the elements set out below.

- Balanced representation of men and women on the Supervisory Board

At 31 December 2016, the Company's Supervisory Board consisted of one woman and nine men, representing a ratio of 10% to 90%. The AFEP-MEDEF Code recommends a balanced representation of men and women on the Supervisory Board, with the ultimate goal of 40% representation of women. The current composition of the Supervisory Board is inherited from the Groupe Agence France Locale incorporation process. Given that gender equality and, more generally, diversity is an important part of the Company's values, it wishes to increase the balance of its Supervisory Board in the medium term.

To this end, the Groupe Agence France Locale Group has, on numerous occasions, through the votes of its Supervisory Board and its Appointments, Remuneration and Corporate Governance Committee (***ARCGC***), including the renewal of terms of the Supervisory Board that took place at the General Meeting called to approve the financial statements for the year ended 31 December 2016, renewed its commitment to seek out diversified profiles, thus enabling the Supervisory Board to perform its tasks through the deployment of diverse skills, value the integration of women and ensure quality governance, in the pursuit of effective and efficient participation of its members on committees.

The Company's ARCGC has also approved the possibility that new members may join the Supervisory Board before the overhaul scheduled for the spring of 2017. The recruitment of new members, especially women, prior to the overhaul of the Supervisory Board in the spring of 2017 would have the advantage of naturally regulating the staggering of terms of office in accordance with the recommendations of the AFEP-MEDEF Code of Corporate Governance, and of improving the equal representation of men and women on the Supervisory Board.

- Absence of shares held by members of the Supervisory Board (Article 14 of the AFEP-MEDEF Code).

Finally, contrary to the recommendations of the AFEP-MEDEP Code, the members of the Supervisory Board do not hold any shares in Groupe Agence France Locale or Société Territoriale. This principle stems from the structure of Groupe Agence France Locale, whose shareholding is intended to be composed solely of local and regional authorities that are shareholders of Société Territoriale.

2. <u>The Supervisory Board</u>

2.1. <u>Composition of the Supervisory Board</u>

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

(a) the Chairman of the Board of Directors of Société Territoriale;

(b) the Vice-Chairman of the Board of Directors of Société Territoriale;

(c) the Chief Executive Officer of Société Territoriale;

(d) one expert with an in-depth knowledge of the problems related to the finances of Regional and Local Authorities; and

(e) at least four (4) members with acknowledged professional skills in financial, accounting, management, control or risk matters who serve on independent public or private bodies.

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

The independence of the members of the Supervisory Board of Agence France Locale is a key element in guaranteeing the managerial autonomy of the Management Board with respect to Société Territoriale. In this context, the articles of association of Agence France Locale state that the number of independent members of the Supervisory Board must always be greater than the number of representatives of Société Territoriale and from Regional and Local Authorities. In practice, the minimum composition of the Supervisory Board required by Article 2.2 of the Company's Articles of Association automatically means that independent members make up half of the

Supervisory Board, even though the threshold of one-third independent members stated in Article 9.2 of the AFEP-MEDEF Code is not expressly referred to in the Company's Articles of Association.

The Supervisory Board consists of the following persons as at the date of signature of this report:

Given Name, Surname Date and place of birth	***Functions exercised and specific duties (if any)***	***Date of first appointment and expiry date of term***	***Offices and positions held within the Group***	***Offices and positions held outside the Group***
Richard Brumm born on 20 October 1946 in Lyon (69006).	Chairman of the Supervisory Board as of 20 June 2016.	Appointed by the Supervisory Board on 20 June 2016. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	Vice-Chairman of the Board of Directors of Société Territoriale.	Representative of the City of Lyon to: – the Opéra National de Lyon (Registered Association) (SIREN No. 339 391 021); – Crédit Municipal de Lyon (SIREN No. 266 900 299) (Member of the Policy and Supervisory Board). Representative of the Lyon Metropolitan Area to: – SEM Patrimoniale du Grand Lyon (518 422 704 RCS Lyon) (Director); – Société Anonyme Immobilière d'Économie Mixte de Vaulx-en-Velin (404 997 868 RCS Lyon) (Chairman and Chief Executive Officer); – Société Publique Locale Gestion des Espaces Publics du Rhône-Amont (316 312 594 RCS Lyon) (Director); – Société Publique Locale Lyon-Confluence (423 793 702 RCS Lyon) (Director); – Syndicat Mixte pour l'Aménagement et la Gestion du Grand Parc de Miribel Jonage (SIREN No. 256 900 655) (Director).
Jacky Darne, born on 18 December 1944 in Rosières (43800). ***Independent member***	Chairman of the Supervisory Board from 17 December 2013 to 3 May 2016.	Listed in the Articles of Incorporation dated 17 December 2013. Resigned, effective 3 May 2016.	Vice-Chairman of the Board of Directors of Société Territoriale. Resigned, effective 3 May 2016.	None.
Rollon Mouchel-Blaisot, born on 19 June 1959 in Carteret (50270).	Vice-Chairman of the Supervisory Board. Member of the Appointments, Remuneration and Corporate Governance Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	Chairman of the Board of Directors of Société Territoriale.	Director General of Services of the French Mayors Association.

Given Name, Surname Date and place of birth	*Functions exercised and specific duties (if any)*	*Date of first appointment and expiry date of term*	*Offices and positions held within the Group*	*Offices and positions held outside the Group*
Olivier Landel born on 9 January 1963 in Paramé (35400 Saint-Malo).	Member of the Supervisory Board. Member of the Audit and Risk Committee Member of the Strategy Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	Chief Executive Officer of Société Territoriale.	General Delegate France Urbaine. Chief Executive Officer of Agence France Locale – Société Territoriale.
Lars Andersson born on 27 March 1952 in Sweden. ***Independent member***	Member of the Supervisory Board. Member of the Strategy Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	None.	Founder and President of AB Marten Andersson Productions (AB MA Productions).
Victoire Aubry-Berrurier born on 5 June 1966 in La Roche-sur-Yon (85000). ***Independent member***	Member of the Supervisory Board. Member of the Audit and Risk Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	None.	– Member of the Executive Committee of Icade in charge of Finance, IT and Legal Affairs; – Director of ICADE Management (GIE) (318 607 207 RCS Paris); – Director of Deux Alpes Loisirs (SA) (064 501 406 RCS Grenoble).
François Drouin born on 7 August 1951 in Querschied (Germany). ***Independent member***	Member of the Supervisory Board Member of the Audit and Risk Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	None.	– Chairman of the Board of Directors of the Société Concessionnaire Française pour la Construction et l'Exploitation du Tunnel Routier sous le Mont-Blanc (SA) (582 056 511 RCS Paris); – Chairman of the Board of Directors of Société Française du Tunnel Routier du Fréjus (SEM) (962 504 049 RCS Chambéry); – Chairman of ETI Finance (SAS) (797 802 568 RCS Paris); – Vice-Chairman of the Board of Directors of BPI France (SA) (320 252 489 RCS Créteil).

Given Name, Surname Date and place of birth	*Functions exercised and specific duties (if any)*	*Date of first appointment and expiry date of term*	*Offices and positions held within the Group*	*Offices and positions held outside the Group*
Nicolas Fourt born on 22 September 1958 in Nancy (54000); ***Independent member***	Member of the Supervisory Board. Member of the Audit and Risk Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	None.	– Deputy Chief Executive Officer and Director of Acofi Gestion (SA) (415 084 433 RCS Paris); – Chief Executive Officer of Alfafinance Analytics And Advisory (SAS) (523 571 218 RCS Paris); – Chairman of Migus & Associés (SAS) (501 228 647 RCS Paris); – Director of Acofi Holding (SAS) (510 571 995 RCS Paris); – Director of Denis Friedman Productions (SA) (409 756 350 RCS Paris); – Manager of Misty (EURL) (484 135 603 RCS Paris); – Manager of Migus Conseil (SARL) (519 192 512 RCS Paris); – Manager of NF Conseil (SARL) (519 411 441 RCS Nanterre); – Director of Alfafinance (SAS) (751 891 748 RCS Paris).
Daniel Lebègue born on 4 May 1943 in Lyon (69004). ***Independent member***	Member of the Supervisory Board. Member of the Appointments, Remuneration and Corporate Governance Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	None.	President of the l'Observatoire sur la Responsabilité Sociétale des Entreprises (ORSE).
Simon Munsch born on 10 July 1977 in Sarrebourg (57400). ***Independent member***	Member of the Supervisory Board. Member of the Appointments, Remuneration and Corporate Governance Committee. Member of the Audit and Risk Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016. Resigned effective 31 January 2017 at midnight.	None.	Director General of Services, Regional Council of Languedoc – Roussillon – Midi-Pyrénées.
Mélanie Lamant born on 23 August 1975 in Croix (59170).	Member of the Supervisory Board.	Co-opted by the Supervisory Board on 23 March 2017. Expiry of term of office following the meeting of the annual	None.	None.

Given Name, Surname Date and place of birth	***Functions exercised and specific duties (if any)***	***Date of first appointment and expiry date of term***	***Offices and positions held within the Group***	***Offices and positions held outside the Group***
	Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon.	Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.		
Dominique Schmitt born on 2 June 1948 in Strasbourg (67000). ***Independent member***	Member of the Supervisory Board. Member of the Strategy Committee.	Listed in the Articles of Incorporation dated 17 December 2013. Expiry of term of office following the meeting of the annual Ordinary General Meeting called to approve the financial statements for the year ended 31 December 2016.	None.	Representative of the City of Cagnes-sur-Mer to: – Société d'Economie Mixte pour le Développement et l'Aménagement de Cagnes-sur-Mer (SEM) (352 856 348 RCS Antibes) (Chairman of the Board of Directors).

Richard Brumm is the successor as member and Chairman of the Supervisory Board to Jacky Darne who, since he no longer holds an elective office, resigned effective midnight on 3 May 2016.

Richard Brumm was co-opted by the Supervisory Board for those offices on 20 June 2016, pursuant to Article L. 225-78 of the French Commercial Code and Article 15.9.1 of the Company's Articles of Association, for the remainder of the term of office of Jacky Darne, until the Supervisory Board's terms of office are renewed at the next Annual General Meeting called to approve the financial statements.

In accordance with legal and statutory provisions, his appointment to the Supervisory Board was approved by the General Meeting of Shareholders of 22 November 2016.

The independence of the members of the Supervisory Board of the Company is a key element in guaranteeing the managerial autonomy of the Management Board with respect to Société Territoriale. In this context, the Company's articles of association state that the number of independent members of the Supervisory Board must always be greater than the number of representatives of Société Territoriale and from regional and local authorities. In order to ensure that independence, the Supervisory Board has specified the criteria to be used to assess it.

The internal regulations of the Supervisory Board state that classification as an independent member, which must be discussed by the Company's Appointments, Remuneration and Corporate Governance Committee on a case-by-case basis according to the particular situation of each member, involves (i) the absence of any relationship whatsoever with the Company, its group or its management, and (ii) the absence of any particular interest in the Company or its group. Such independence shall be assessed in particular in the light of the following criteria:

(a) an independent member shall not be and shall not have been, during the five (5) years preceding his or her appointment,

   (i) an employee of the Company or of Société Territoriale,

   (ii) a member of the Management Board of the Company,

   (iii) a member of the Board of Directors, Chief Executive Officer, Deputy Chief Executive Officer or Secretary General of Société Territoriale;

(b) an independent member must have no close family relationship with a person holding one of the functions referred to in paragraphs (i) to (iii) above or with another member of the Supervisory Board;

(c) an independent member must not hold office in a company in which the Company holds a direct or indirect corporate office;

(d) An independent member must not be a significant customer, supplier, banker or financier of the Company or of Société Territoriale;

(e) an independent member must not be an elected official or an employee of a Regional or Local Authority that is a shareholder of the Company;

(f) an independent member must not be or have been, during the three (3) years preceding his or her appointment, an auditor of the Company or of Société Territoriale;

(g) an independent member must not have been a member of the Supervisory Board for more than twelve years, with the understanding that the loss of independent membership will not occur until after the expiry of the term in which he/she exceeded twelve years in office.

The nomination of each independent member is proposed by the Société Territoriale Board of Directors to the Supervisory Board of the Company before being submitted to the General Meeting of Shareholders of the Company.

The independence of the candidate is assessed by both the ARCGC of Agence France Locale and the ARCGC of Société Territoriale. On the basis of both of these opinions, the Board of Directors of Société Territoriale will then decide whether or not to propose the member thus classified as independent and for whom possible risks of conflict of interest may be ruled out, to the AFL Supervisory Board. The application is then submitted for the approval of the General Meeting of Shareholders.

All independent members of the Supervisory Board met the conditions set out above. They are also regularly asked to update the list of offices held by them outside the Agence France Locale Group so that, where relevant, any risk of conflicts of interest can be identified.

The Appointments, Remunerations and Corporate Governance Committee conducts an annual review of the collective functioning of the Supervisory Board and its Committees and verifies the experience and skills of the members of the Supervisory Board on an individual basis. Under the terms of the skills audit, it was found that all members of the Supervisory Board have the qualifications and expertise required by regulations.

2.2. Work of the Supervisory Board

2.2.1. Overview of the duties of the Supervisory Board

The Supervisory Board exercises permanent control over the management of the Company by the Management Board. At any time of the year, it shall perform the checks and controls it deems appropriate and may be given such documents as it deems necessary for the accomplishment of its mission. The work of the Supervisory Board is governed by the Articles of Association of the Company and by special internal regulations, a new amended version of which was adopted by the Supervisory Board on 25 September 2015.

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

- transfers of immovable assets, total or partial transfers of shareholdings and establishments of security interests;

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

- the strategic plan and the decisions relating in particular to the launching of new activities, acquisitions of companies, entry into any alliance or partnership, transfers of assets (including universal transfers of assets) of a significant amount and, more generally, any significant investment or disinvestment;

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

- decisions relating to financing that may substantially alter the financial structure of the Company and were not considered when the annual financing policy was defined;

- the draft resolutions to be submitted to the Shareholders' Meeting pursuant to Article L. 228-92 of the French Commercial Code relating to the issue of securities, whether or not they grant access to share capital and/or voting rights, and the establishment of terms and conditions for the issue of said securities; and

- proposed dividend distributions and similar transactions.

2.2.2. Meetings of the Supervisory Board

In accordance with its internal regulations, the Supervisory Board meets as often as the interests of the Company so require, and at least once a quarter.

a) Organisation of meetings of the Supervisory Board

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

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

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

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

Requests for information from the members of the Supervisory Board are made by them to the Chairman of the Supervisory Board, who is responsible for ensuring that such requests are met.

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

b) Summary of the activities of the Supervisory Board during 2016

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

- **Debt programmes:**

  - approval of the loan programme and opinion on the setting of a ceiling of €1.1 billion for 2016 issuances within the limit of both the EMTN programme ceiling (€3 billion) and the ST guarantee (€3.5 billion) (this decision was taken at the Supervisory Board meeting of 15 December 2015, for application in 2016);

- approval of the implementation of a multi-currency ECP programme with a ceiling of €1 billion.

Both of these decisions were taken at the Supervisory Board meeting of 15 December 2015, for application in 2016.

- **Budgetary policy and financial and commercial outlooks:**
  - review of outcomes at 31 December 2016;
  - review and approval of the 2017 budget;
  - review and approval of the business plan for 2017-2018.

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

- **Compensation policies:**
  - review of the Agence France Locale compensation policy;
  - establishment of quantitative and/or qualitative annual targets to be taken into account when determining 2016 variable compensation;
  - review of compensation of members of the Management Board;
  - review of the individual and collective performance objectives of the members of the Management Board and its Chairman;
  - breakdown of the total directors' fees allocated by the General Meeting among the members of the Supervisory Board for the financial year ended 31 December 2015 and the principle for allocating directors' fees for the 2016 financial year.

- **Regulated agreements:**
  - approval of the amendments of the terms of the trademark licensing agreement between the Company and Société Territoriale to harmonise the conditions for its renewal with those of the Group's other regulated agreements (excluding exceptions) and to change the term of that agreement from one (1) year with tacit renewal over an indefinite period;

  - approval of supplemental clause No. 2 to Yves Millardet's contract of appointment, which was reviewed favourably by the ARCGC on 7 June 2016, and of the employment contracts of the salaried members of the Management Board, as amended following changes to all of the Company's employment contracts, which was reviewed favourably by the ARCGC on 28 January 2016. The employment contracts of the salaried members of the Management Board and contract of appointment of its Chairman were thus brought into line with the compensation policy as approved by the ARCGC and the Supervisory Board of the Company;

  - more generally, approval of all Guarantees granted by Société Territoriale under the first demand guarantee agreement entered into between the Company and its parent company (the ***ST Guarantee***), in connection with various debt issues.

- **Internal control and risk monitoring:**
  - review of internal control activities and results (at least twice during the financial year) and, where appropriate, making of recommendations in that area;

- review of risk management arrangements and their adequacy;
- control of exposure to risk, approval of aggregate risk limits (at least once during the year), review of exposure to liquidity risk (at least twice during the year);

- **Review and monitoring of periodic control activities**

- **Adjustments made to calculation and payment terms for the initial capital contribution (*ICC*) :**

On 30 September 2016, the Société Territoriale General Meeting of Shareholders approved amendments to its Articles of Association to adjust the calculation and payment terms for the ICC, as the Supervisory Board previously issued a favourable opinion with regard to developments to increase the membership of regional and local authorities with a large ICC.

The Supervisory Board, pursuant to the new Société Territoriale Articles of Association, examined the proposals made by the Management Board concerning:

- the setting of the value of the k and k' coefficients referred to in the new Article 7.3.2. of the new Société Territoriale Articles of Association for calculating the ICC for regional and local authorities affected by the adjustments to the newly established terms of payment for the ICC referred to in Article 7.4.6 of said Articles;

- the setting of the indicators referred to in new Article 7.4.6 of the Société Territoriale Articles of Association to determine the amount for determining the amounts of the First Payment and the Annual Share of the ICC to be paid by the member regional and local authorities of the Groupe Agence France Locale subject to the ICC payment terms referred to in that Article.

- **Composition of the Supervisory Board:**

Following the resignation of Jacky Darne from his duties, on 20 June 2016, the Supervisory Board co-opted Richard Brumm to serve as member and Chairman of the Supervisory Board, pursuant to Article L. 225-78 of the French Commercial Code and Article 15.9.1 of the Company's Articles of Association.

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

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

c) Attendance of members of the Supervisory Board and the Committees under it in 2016

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

Participation in meetings of the members of the Supervisory Board and its specialised committees for 2016

	Conseil de surveillance		**Comité d'audit et des risques**		**CNRGE**		**Comité stratégique**		
	Nombre de séances 2016	Participation effective	Nombre de séances 2016	Participation effective	Nombre de séances 2016	Participation effective	Nombre de séances 2016	Participation effective	***Taux de participation individuel****
R. Mouchel-Blaisot	4	3	-	-	3	3	-	-	***85 ,71 %***
J. Darne	1	1	-	-	-	-	-	-	***100 %***
R. Brumm	2	2	-	-	-	-	-	-	***100 %***
O. Landel	4	2	4	4	-	-	3	2	***72,73 %***
L. Andersson	4	4	-	-	-	-	3	3	***100 %***
V. Aubry-Berrurier	4	4	4	4	-	-	-	-	***100 %***
F. Drouin	4	4	4	4	-	-	-	-	***100 %***
N. Fourt	4	4	4	4	-	-	-	-	***100 %***
D. Lebègue	4	4	-		3	3	-	-	***100 %***
S. Munsch	4	0	4	0	3	0	-	-	***0 %***
D. Schmitt	4	4	-	-	-	-	3	3	***100 %***
	Taux moyen de participation des membres au Conseil	82,05 %	Taux moyen de participation des membres au CAR	80 %	Taux moyen de participation des membres au CNRGE	66,66 %	Taux moyen de participation des membres au Comité stratégique	88,89 %	

3. The specialised committees of the Supervisory Board

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

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

3.1. The Audit and Risk Committee

3.1.1. Composition of the Audit and Risk Committee

The Audit and Risk Committee is chaired by François Drouin.

Its other members are Olivier Landel, Nicolas Fourt, Victoire Aubry and Simon Munsch.

3.1.2. Work of the Audit and Risk Committee

a) Organisation of meetings and overview of the missions of the Audit and Risk Committee

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

The role of the Audit and Risk Committee is to oversee the preparation and dissemination process for accounting and financial information, assess the relevance and permanence of the accounting principles and methods adopted for the preparation of the annual and interim financial statements, verify the effectiveness of the internal control and risk management procedures, ensure by any means the quality of the financial, accounting or risk management information provided to the Supervisory Board, and give the Committee its assessment of the work performed by the Statutory Auditors and its opinion on the renewal of their terms of office.

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

The Audit and Risk Committee reports regularly to the Supervisory Board on the performance of its duties and informs it without delay of any difficulties encountered. Such reports shall be inserted either in the minutes of the relevant meetings of the Supervisory Board, or appear in an annex to the minutes.

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

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

In order to carry out its mission, the Audit and Risk Committee has at its disposal all the resources made available to it under its internal regulations.

The Audit Committee meets at least twice a year.

b) Summary of the activities of the Audit and Risk Committee in 2016

During the 2016 financial year, the Audit and Risk Committee met four times. Its work focused on, in particular:

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

- review of the work of the Statutory Auditors and their independence;
- review of outcomes at 31 December 2016, review of the 2017 budget and the 2017 and 2018 business plan;
- review of financial policies;
- review of risk monitoring, including exposure to liquidity risk;
- review of the Company's internal control activity;
- review of periodic control tasks;
- review of the impact of the audit reform that came into force on 17 June 2016 on the Committee's tasks;
- subsequent approval of a Charter that sets out the rules for the approval, delegation and monitoring of the services that may be entrusted to the Statutory Auditors and their networks (the ***Charter***), specifically with regard to services not related to the certification of the financial statements; and
- pursuant to the Charter, approval of all the Services that will or may be provided by the Statutory Auditors for the 2017 financial year and the related budgets.

3.2. The Appointments, Remuneration and Corporate Governance Committee

3.2.1. Composition of the Appointments, Remuneration and Corporate Governance Committee

The Appointments, Remuneration and Corporate Governance Committee is chaired by Daniel Lebègue. Its other members are Rollon Mouchel-Blaisot and Simon Munsch.

3.2.2. Work of the Appointments, Remuneration and Corporate Governance Committee

a) Organisation of meetings and overview of the missions of the Appointments, Remuneration and Corporate Governance Committee

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

In general, the Appointments, Remuneration and Corporate Governance Committee reviews all applications for membership of the Supervisory Board, makes recommendations on the appointment or succession of executive officers and ensures compliance with corporate governance rules. Each year, it reviews the Company's compensation policy, including compensation and performance targets allocated to corporate officers.

In order to carry out its mission, the Appointments, Remuneration and Corporate Governance Committee has at its disposal all of the resources made available to it under its internal regulations.

Moreover, in accordance with its regulatory obligations, the Appointments, Remunerations and Corporate Governance Committee conducts an annual review of the collective functioning of the Supervisory Board and its Committees and verifies the experience and skills of the members of the Supervisory Board on an individual basis. Under the terms of the skills audit, it was found that all members of the Supervisory Board have the qualifications and expertise required by regulations.

b) Summary of the work of the Appointments, Remuneration and Corporate Governance Committee in 2016

In 2016, the Appointments, Remuneration and Corporate Governance Committee met three times. Its work focused on, in particular:

- approval of the Agence France Locale compensation policy;
- proposed establishment of qualitative and/or quantitative annual targets to be taken into account when determining variable compensation;
- proposed establishment of the amount of total variable compensation;
- opinion on the payment by the Company, following approval of the financial statements for the year ended 31 December 2015 by the General Meeting of Shareholders of the Company, of the variable premium allocated for the year ended 31 December 2014 to the Company's employees and Chairman of the Management Board;
- opinion on the establishment of an incentive or profit-sharing scheme within the Company;
- review of compensation for members of the Management Board;
- review of the individual and collective performance objectives of the members of the Management Board and its Chairman;
- review of the proposed allocation of directors' fees to each member of the Supervisory Board;
- evaluation of the collective work of the Supervisory Board and its Committees, as well as the verification of the experience and skills of the members of the Supervisory Board, on an individual basis;
- review of the nomination of Richard Brumm as a member and Chairman of the Supervisory Board of the Company;
- committee discussions on the upcoming renewal of the Company's corporate bodies due in the spring of 2017, and the implementation thereof.

3.3. The Strategy Committee

3.3.1. Composition of the Strategy Committee

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

3.3.2. Work of the Strategy Committee

a) Organisation of meetings and overview of the missions of the Strategy Committee

The Strategy Committee meets as many times as its members deem necessary.

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

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

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

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

In order to carry out its mission, the Strategy Committee has at its disposal all the resources made available to it under internal regulations.

b) Summary of the activities of the Strategy Committee in 2016

During the 2016 financial year, the Strategy Committee met twice.

Its work focused on, in particular:

- the relationship between Agence France Locale and the French government, in particular following the cabinet reshuffle and the appointment of new ministers in charge of local and regional authorities;
- update on the Company's loan activities and competitive market situation;
- focus on local authority memberships in Société Territoriale (ICC) and development outlook;
- reflections on the situation of French local authorities with regard to borrowing;
- update on the Company's capital market operations;
- update on the commercial development and implementation of the commercial and communication action plan, including a review of the first Journée de l'Agence;
- update on contacts maintained by the Agence France Locale with its peers (annual meeting of LGFAs, plans to join the EAPB);
- update on the Agence France Locale regulatory environment;
- reflection on the positioning to be adopted by Agence France Locale in relation to crowd-funding, following on the conclusion of a partnership with Lendosphère.

4. <u>Compensation of the members of the Supervisory Board and of the specialised committees</u>

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

The Agence France Locale Combined General Meeting of 3 May 2016 fixed the maximum annual total of directors' fees to be distributed among the members of the Supervisory Board at €163,333 (one hundred and sixty three thousand three hundred and thirty three euros) for 2016.

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

As a result, the Chairman of the Supervisory Board now receives special compensation in that capacity.

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

Notwithstanding the foregoing, in light of the laws governing incompatibility applicable to persons elected to a national office as defined in the French Electoral Code, no directors' fees may be allocated to members of the Supervisory Board who also hold national elective offices. Rollon Mouchel-Blaisot and Simon Munsch decided to apply this provision voluntarily.

Olivier Landel, in his capacity as Chief Executive Officer of Société Territoriale, does not receive directors' fees for his duties on the Supervisory Board of the Company.

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

(i) For the Chairman of the Supervisory Board:

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

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

- a fixed portion of an amount of €5,000 p.a., except in the event of excessive absenteeism, to which is added;
- a variable portion capped at €20,000 p.a. (attributed based on attendance).

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

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

5. The Management Board

5.1. Composition of the Management Board

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

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

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

5.2. Compensation of members of the Management Board

In compliance with Article 16.4 of the Agence France Locale Articles of Association, the Supervisory Board determines the method and amount of compensation for each member of the Management Board and reviews it annually. Supervision of these agreements is carried out by the Supervisory Board as well as by the General Meeting of Shareholders. The regulated nature of these agreements requires a strict annual review, with the understanding that the relaxation of the procedures respecting regulated agreements now in force does not apply to them.

Furthermore, Agence France Locale did not grant stock options to members of the Management Board in 2016. Similarly, no performance shares were allocated to members of the Management Board during the past financial year.

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

– Yves Millardet

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

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

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

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

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

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

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

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

The non-competition clause adopted is as follows:

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

– Philippe Rogier

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

The compensation of Philippe Rogier is determined by reference to market practices for the functions of Loan Director. This compensation consists of a fixed portion and a variable portion representing a maximum of 15% of the fixed portion. The acquisition of the variable portion will be linked to the partial or total achievement of one or more qualitative and/or quantitative annual targets, which the Supervisory Board will have to define each year, if necessary, after consulting with the Appointments, Remuneration and Corporate Governance Committee.

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

– Thiébaut Julin

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

The compensation of Thiébaut Julin is determined by reference to market practices for the functions of Chief Financial Officer. This compensation consists of a fixed portion and a variable portion representing a maximum of 15% of the fixed portion. The acquisition of the variable portion will be linked to the partial or total achievement of one or more qualitative and/or quantitative annual targets, which the Supervisory Board will have to define each year, if necessary, after consulting with the Appointments, Remuneration and Corporate Governance Committee.

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

– Ariane Chazel

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

The compensation of Ariane Chazel is determined by reference to market practices for the functions of Director of Risk, Compliance and Internal Control. This compensation consists of a fixed portion and a variable portion representing a maximum of 15% of the fixed portion. The acquisition of the variable portion will be linked to the partial or total achievement of one or more qualitative and/or quantitative annual targets, which the Supervisory Board will have to define each year, if necessary, after consulting with the Appointments, Remuneration and Corporate Governance Committee.

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

6. Terms and conditions for shareholder participation in General Meetings

In addition to the conditions set by applicable laws and regulations, the Company's Articles of Association do not contain any special provisions for the participation of shareholders at general meetings. In general, the rules relating to general meetings are described in Title V of the Company's Articles of Association.

II. Internal control and risk management systems

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

As part of that activity, the Company defines and pursues a number of strategic and operational objectives. In order to prevent the negative impact of certain internal or external risks on the achievement of those objectives, the Company has set up a mechanism to manage and control risks of any kind that affect its activities.

Internal control falls within a strict regulatory framework that is governed by the French Monetary and Financial Code (in particular Articles L. 511-55 and L. 511-56) and the Decree of 3 November 2014 (the Decree) concerning the internal control of the banking sector, payment services and investment services subject to the supervision of the French Prudential Supervision and Resolution Authority (ACPR).

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

The contents of this document requires the following clarifications:

- the information given cannot be considered exhaustive. This information does not cover all risks to which the Company may be exposed, but only the specific risks considered to be the most sensitive. As a result, highly exogenous or general risks or risks that may affect any economic activity are of course not detailed;
- since the company's internal and external environment naturally changes during the course of the year, communication of risks necessarily provides a view of the risks at a given moment;
- in the context of the presentation of this information, the Company naturally endeavours to take account of its legitimate interests in light of the possible consequences of the disclosure of certain elements, all with respect for correct market and investor information. This does not, however, preclude a fair and balanced understanding of developments in the Company's business, performance and circumstances.

2.1 Description of actors and systems

2.1.1 Involvement of Governance

i. Supervisory Board and Management Board

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

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

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

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

- The Audit and Risk Committee ensures overall supervision of the system established and is in charge of:
  - (i) assessment of the quality of internal control, including the coherence of systems for measuring, monitoring and controlling risks, monitoring the findings of periodic control tasks and supervisory authorities, monitoring operational risks and monitoring risks linked to business activities (new products, new business, etc.) and, where necessary, proposing additional actions; and
  - (ii) verifying the clarity of the information provided and assessing the relevance of the accounting methods adopted for the preparation of the individual and, as the case may be, consolidated financial statements.

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

ii. The Risk, Compliance and Control Department

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

In accordance with the Decree:

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

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

iii. The operational departments

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

iv. Committees

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

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

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

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

- the Organisation and Procedures Committee, which meets as necessary and whose purpose is to approve the processes and procedures that describe the activities of the Agence France Locale.

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

2.1.2 Internal control and risk monitoring systems

a. Definition and objectives of internal controls

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

- the quality and compliance of the financial transactions performed;
- the reliability of financial and accounting information; and
- compliance of activities with applicable laws and regulations.

Equipped with resources adapted to the size and nature of Agence France Locale's activities, the internal control and risk management systems are organised in compliance with legal and regulatory requirements and are built around:

- financial policies and risk monitoring indicators defined in relation to the institution's objectives that specify and frame the risks incurred;
- an organisation structured and supervised by a body of documents (operating and other procedures) providing the wherewithal to clearly define the roles and responsibilities of each one;
- systematic, permanent, risk-focused monitoring and regular review of the overall system; and
- the implementation of a control system commensurate with the challenges specific to each process and their estimated level of risk.

Because its objective is to prevent and to control the risk of not meeting the objectives set by Agence France Locale in terms of development, the internal control and risk management systems play a key role in the management and steering of the various activities of Agence France Locale. However, it cannot be, and is not intended to provide, a guarantee that the objectives of the Agence France Locale will be achieved.

b. Functions, scope and associated resources

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

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

i. The Risk function

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

It operates independently of the operational departments.

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

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

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

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

The Agence France Locale risk mapping developed in 2015 provided the wherewithal in 2016 to assess risks to business activities. Adaptations were made to the relative importance of the various risks. Responsibilities were confirmed. The main risk measurement indicators and reporting set up in 2015 evolved in order to keep pace with the development of Agence France Locale. The Global Risk Committee met four times.

In 2016, Agence France Locale revised and amended the financial policies applicable to its activities. In particular, it made a change to its grant policy that should allow it to provide better support for members without degrading the quality of credit in its portfolio. Lastly, the delegation chain for the granting of credit set up at the beginning of 2016 to facilitate the processing of small job files has evolved to adapt to operational constraints without degrading the quality of credit in its portfolio.

ii. The Control function

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

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

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

Permanent controls

The Permanent Control function ensures continuous monitoring of the risk management system within Agence France Locale. It defines and implements the controls necessary for the proper functioning of the various activities of Agence France Locale.

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

The Agence France Locale's permanent control system is organised in two levels to ensure full coverage of risks and comply with the requirements of the Decree:

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

In 2016, the body of documents that governs the activities of Agence France Locale (policies, procedures, operating procedures) was completed. On that basis, the system of first-level controls and the tools for monitoring their implementation was supplemented. Each control was documented in a standardised manner within the framework of a control matrix, thus ensuring a homogeneous performance and audit trail.

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

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

In 2016, in line with 2015, the main pillars of the systems were finalised. In particular, the systems for reporting, analysing and monitoring incidents are in place, and are reported quarterly to the GRC. Agence France Locale has a permanent control plan, which has given rise to reviews for the financial year. The system for monitoring outsourced essential services and IT security frameworks is in place. An IT System Security project that seeks to comply with the best practices of the 27002 standard has been launched.

The Internal Control Committee met twice in 2016.

Periodic controls

The purpose of periodic controls is to check risk control levels and assess the quality and reliability of the internal control system.
In accordance with the Decree of 3 November 2014 respecting the internal controls of companies in the banking sector subject to the supervision of the French Prudential Supervision and Resolution Authority (ACPR), periodic controls are the responsibility of the Director of Risk, Compliance and Control, who is a member of the Management Board.
In order to guarantee its independence with respect to first- and second-level controls through permanent controls, Agence France Locale has outsourced periodic controls to a service provider, PwC, since 2014.
In 2016, periodic controls required 50 man-days per year, including internal responsibilities and the completion of outsourced work.

The multi-year audit plan for financial years 2015, 2016 and 2017 was reviewed by the Audit and Risk Committee on 22 January 2015 and approved by the Supervisory Board on 22 January 2015. Minor adjustments were made to the multi-year audit plan in order to adapt it to the company's business activity. The updated programme for 2017 was approved on 14 December 2016.

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

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

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

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

iii. <u>The Compliance function</u>

Compliance monitoring is one of the major pillars of Agence France Locale's internal control system. Its purpose is to ensure that the risk of non-compliance is mitigated, i.e. that the institution's activities, current and future, comply with all obligations required for Agence France Locale. These obligations are based on a body of documents consisting of:

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

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

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

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

In 2016, the Compliance function continued the consolidation of Agence France Locale's non-compliance risk management system. This has resulted in the updating and maintenance of procedures developed upfront, in particular financial security and personal data protection measures.

At the same time, the measures developed in 2015 were implemented operationally, in particular:

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

The year 2016 was also marked by the launch of compliance projects related to regulatory developments on subjects such as the ICAAP and the BRRD Directive.

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

Organisation of the accounting system

The Accounting Department comes under the Finance Department. In 2016, it had three full-time functions spread over four people. The Accounting Director, an executive accountant in charge of general accounting, and two apprentices, one in charge of registering supplier invoices and the other in charge of strengthening the accounting control system.

In order to help form the permanent accountant, the services of the firm EY were used during the second half of 2016.

Permanent accounting controls (levels 1 and 2)

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

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

On a daily basis:

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

On a monthly basis:

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

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

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

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

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

In 2016, the consolidation of the accounting system was continued. The workforce was increased, in particular through the hiring of an assistant to the Accounting Director. Specific attention was given to defining the roles and responsibilities for accounting controls.

2.2 Description of the main risks and uncertainties

2.2.1 Credit and counterparty risk

i. Nature of risks

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

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

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

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

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

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

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

ii. Mechanism in place

In order to optimise the risk profile of its loan portfolio, Agence France Locale has put in place a strict loan granting policy. It has established an internal rating system for regional and local authorities that allows it to:

- assess the financial position of local and regional authorities applying to invest with Agence France Locale by establishing a so-called "quantitative" or "financial" rating. On a scale ranging from 1 to 7 (1 being the highest rating and 7 the lowest), only local authorities rated between 1 and 5.99 are given the possibility to invest with Agence France Locale - Société Territoriale; and
- the financial positions of the local authorities applying to Agence France Locale for credit using, in addition to the above-mentioned "quantitative" rating, a so-called "socio-economic" rating, possibly supplemented by a so-called "qualitative" rating.

Moreover, the counterparty and concentration risk to which Agence France Locale is exposed is strongly mitigated by its very conservative investment policy and its hedging policy. Agence France Locale collateralises the derivatives it concludes from the first euro and prefers to trade its hedging instruments in clearing houses rather than in a bilateral format, but does not rule out this possibility.

2.2.2 Liquidity risk

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

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

Given the increase in its cash portfolio, Agence France Locale currently has liquidity that is lower than its target requirement, which is to be able to operate for one year without using the market. Agence France Locale is thus exposed to risk in the event that it cannot access the debt market on terms deemed acceptable, or if it suffers an unexpected cash or underlying asset outflow (for example, in collateral from its interest rate or foreign exchange derivatives); its liquidity position could be adversely affected.

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

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

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

2.2.3 Interest rate and currency risks

Interest rate risk includes the risk that Agence France Locale will suffer losses due to unfavourable changes in interest rates due to all of its balance sheet and off-balance sheet transactions, in particular in the event of an imbalance between the interest rates generated by its assets and those arising from its liabilities. Interest rate risk includes the risk of refinancing an asset at a higher interest rate than the original interest rate, or the risk of replacing an asset at a lower rate than the original one. In both cases, in the event of a change in interest rates, there may be a negative impact on the net margin of interest that reduces Agence France Locale's income.
The financial policy implemented by Agence France Locale aims to protect its balance sheet against interest rate risk by using a quasi-systematic micro-hedging of debts and fixed-rate assets using interest rate swaps. It should be noted, however, that this hedging is not intended to be total. More specifically, it will not cover a limited portion of the loan portfolio, the amount of which is capped based on the amount of the AFL's own funds and the sensitivity of AFL's value to interest rate risk. In the case of small loans individually or certain loans whose constant amortisation is not fixed on Agence France Locale's standard refixing dates, the interest rate risk hedge is carried out in the form of macro-hedging by sensitivity when aggregated.

Currency risk includes the risk that Agence France Locale may incur losses on borrowed or loaned assets in currencies other than the euro. Agence France Locale's policy aims to hedge this risk systematically through the implementation of cross currency swaps.

2.2.4 Operational risks

i. Nature of risks

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

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

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

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

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

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

ii. Mechanism in place

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

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

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

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

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

The year 2016 was not marked by a significant occurrence of operational risks.

2.2.5 Strategic risk

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

i. Risks related to the business model

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

ii. Membership risks

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

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

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

iv. Risks related to competition

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

v. Risks related to regulatory developments

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

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We remain at your disposal to provide you with any additional information you may require.

Lyon, 23 March 2017

Richard Brumm
Chairman of the Supervisory Board

APPENDIX 3

SUMMARY TABLE OF THE DELEGATIONS OF AUTHORITY AND POWERS GRANTED BY THE GENERAL MEETING TO THE MANAGEMENT BOARD IN CONNECTION WITH CAPITAL INCREASES (ARTICLE L. 225-100, PARAGRAPH 7 OF THE FRENCH COMMERCIAL CODE)

<table>
<tr><th>Date of the General Meeting that granted the delegation</th><th>Purpose of the delegation granted to the Management Board</th><th>Duration</th><th>Ceiling</th><th>Use during 2016</th></tr>
<tr><td>Combined General Meeting of 3 May 2016 (11th resolution).</td><td>Delegation of authority granted to the Management Board to increase the share capital with preferential subscription rights through the issue of common shares.</td><td>Duration:
26 months
Expiry:
3 July 2018 at midnight</td><td rowspan="2">€150 million (nominal)</td><td>None</td></tr>
<tr><td>Combined General Meeting of 3 May 2016 (12th resolution).</td><td>Delegation of authority granted to the Management Board to increase the share capital without preferential subscription rights for the benefit of Société Territoriale through the issue of common shares.</td><td>Duration:
18 months
Expiry:
3 November 2017 at midnight</td><td>1. Capital increase with cancellation of preferential subscription rights for the benefit of Société Territoriale:
- management Board decisions of 15 June 2016 (decision to increase the share capital);
- management Board decisions of 28 June 2016;
(recognition of definitive completion of the share capital increase)
- amount: €6,000,000.

2. Capital increase with cancellation of preferential subscription rights for the benefit of Société Territoriale:
- management Board decisions of 15 November 2016;
(decision to increase the share capital)
- management Board decisions of 6 December 2016;
(recognition of definitive completion of the share capital increase)
- amount: €500,000.</td></tr>
</table>

APPENDIX 4
DRAFT RESOLUTIONS SUBMITTED TO THE COMBINED GENERAL MEETING OF SHAREHOLDERS OF AGENCE FRANCE LOCALE – SOCIÉTÉ TERRITORIALE OF 5 MAY 2017

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

ORDINARY GENERAL MEETING

First resolution

Approval of the parent company financial statements for the year ended 31 December 2016, prepared in accordance with French GAAP, and the complete discharge for the performance of its mandate to the Management Board for that year

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, having reviewed the report of the Management Board to the General Meeting, the observations of the Supervisory Board and the Statutory Auditors' report on the parent company financial statements for the year ended 31 December 2016, prepared in accordance with French GAAP, approves the parent company financial statements prepared in accordance with French GAAP.

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

It gives the members of the Management Board complete discharge for the performance of its mandate for the year ended 31 December 2016.

Second resolution

Allocation of profit for the year

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, having reviewed the report of the Management Board to the General Meeting, the observations of the Supervisory Board and the Statutory Auditors' report on the parent company financial statements for the year ended 31 December 2016, prepared in accordance with French GAAP, decides to allocate the loss for the year of -€5,642 thousand to retained earnings.

Third resolution

Approval of the parent company financial statements for the year ended 31 December 2016 prepared in accordance with IFRS

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, having reviewed the report of the Management Board to the General Meeting, the observations of the Supervisory Board and the Statutory Auditors' report on the parent company financial statements for the year ended 31 December 2016, prepared in accordance with IFRS, approves the parent company financial statements prepared in accordance with IFRS.

Fourth resolution

Review of the report of the Chairman of the Supervisory Board on corporate governance, internal control and risk management

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, has reviewed the report prepared by the Chairman of the Supervisory Board pursuant to Article L. 225-68 of the French Commercial Code on corporate governance, internal control procedures and risk management and endorses the contents thereof. This report will be annexed to the management report of the Management Board.

Fifth resolution

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

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, having reviewed the special report of the Statutory Auditors described in the third paragraph of Article L. 225-88 of the French Commercial Code on the agreements referred to in Article L. 225-86 of the French Commercial Code, has reviewed the conclusions of that report and approves the agreements described therein.

Sixth resolution

Determination of annual amount of directors' fees

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, sets the annual amount of directors' fees to be distributed among the members of the Supervisory Board at €165,000 for financial year 2016 and subsequent years.

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of all kinds attributable to the members of the Supervisory Board for financial year 2017, as defined in the Internal Regulations of the Supervisory Board of the Company and stated in the report of the Chairman of the Supervisory Board on corporate governance, internal control and risk management for 2016.

Seventh resolution

Approval of the components of compensation and benefits due or allocated for the year ended 31 December 2016 to Yves Millardet, Chairman of the Management Board, and the principles and criteria for determining the components of total compensation and benefits of any kind attributable to Yves Millardet for 2017

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100 of the French Commercial Code, approves the components of compensation due or allocated for the year ended 31 December 2016 to Yves Millardet, Chairman of the Management Board, as contained in the Management Board's Management Report.

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of all kinds attributable to Yves Millardet for financial year 2017, as approved by the Supervisory Board, upon the favourable opinion of the Appointments, Remuneration and Corporate Governance Committee.

Eighth resolution

Approval of the components of compensation and benefits due or allocated for the year ended 31 December 2016 to Philippe Rogier, member of the Management Board and Loan Director of the Company, and the principles and criteria for determining the components of total compensation and benefits of any kind attributable to Philippe Rogier for 2017

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100 of the French Commercial Code, approves the components of compensation due or allocated for the year ended 31 December 2016 to Philippe Rogier, member of the Management Board and Loan Director of the Company, as contained in the Management Board's Management Report.

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of all kinds attributable to Philippe Rogier for financial year 2017, as approved by the Supervisory Board, upon the favourable opinion of the Appointments, Remuneration and Corporate Governance Committee.

Ninth resolution

Approval of the components of compensation and benefits due or allocated for the year ended 31 December 2016 to Thiébaut Julin, member of the Management Board and Chief Financial Officer of the Company, and the principles and criteria for determining the components of total compensation and benefits of any kind attributable to Thiébaut Julin for 2017

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100 of the French Commercial Code, approves the components of compensation due or allocated for the year ended 31 December 2016 to Thiébaut Julin, member of the Management Board and Chief Financial Officer of the Company, as contained in the Management Board's Management Report.

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of all kinds attributable to Thiébaut Julin for financial year 2017, as approved by the Supervisory Board, upon the favourable opinion of the Appointments, Remuneration and Corporate Governance Committee.

Tenth resolution

Approval of the components of compensation and benefits due or allocated for the year ended 31 December 2016 to Ariane Chazel, member of the Management Board and Director of Risk, Compliance and Internal Control of the Company, and the principles and criteria for determining the components of total compensation and benefits of any kind attributable to Ariane Chazel for 2017

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100 of the French Commercial Code, approves the components of compensation due or allocated for the year ended 31 December 2016 to Ariane Chazel, member of the Management Board and Director of Risk, Compliance and Internal Control of the Company, as contained in the Management Board's Management Report.

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of all kinds attributable to Ariane Chazel for financial year 2017, as approved by the Supervisory Board, upon the favourable opinion of the Appointments, Remuneration and Corporate Governance Committee.

Eleventh resolution

Appointment of the members of the Supervisory Board of the Company

As the terms of office of the current members of the Supervisory Board expire at the end of this General Meeting in accordance with Article 15.2.1 of the Company's Articles of Association, the General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-75 of the French Commercial Code, and on the basis of the opinions of the Appointments, Remuneration and Corporate Governance Committee (the ***ARCGC***) of the Company, as well as the ARCGC and Board of Directors of Société Territoriale in accordance with the applicable statutory provisions, appoints to the Supervisory Board:

[TO BE COMPLETED AFTER THE GENERAL MEETING]

In accordance with the legal and statutory provisions in force, the Supervisory Board, in its new composition, shall appoint its Chairman from among its members and determine the composition of its specialised committees in accordance with the provisions of Internal Regulations of the Company's Supervisory Board relating to their composition.

EXTRAORDINARY GENERAL MEETING

Twelfth resolution

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

The General Meeting, deliberating in accordance with the quorum and majority requirements for extraordinary general meetings, having reviewed the report of the Management Board and in accordance with Articles L. 225-129 *et seq.* (in particular Article L. 225-129-2) of the French Commercial Code:

➢ **delegates** to the Management Board its authority to carry out capital increases, on one or more occasions, in the proportions and at the times it determines, by issuing shares with preferential subscription rights for the shareholders, and subscription for such shares may be either paid in cash or offset by liquid and payable debts.

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

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

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

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

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

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

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

capital increases resulting from any issue effected by the use of this delegation, amend the Company's articles of association accordingly and ensure the financial service of the securities in question and the exercise of the rights attached thereto;

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

Thirteenth resolution

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

The General Meeting, deliberating in accordance with the *quorum* and majority requirements for Extraordinary general Meetings, having reviewed the report of the Management Board and the report of the Statutory Auditors, in accordance with Articles L. 225-129 *et seq.* (in particular Article L. 225-129-2) of the French Commercial Code:

➢ **delegates** to the Management Board its authority to carry out capital increases, on one or more occasions, in the proportions and at the times it determines, by issuing shares reserved for shareholders without preferential subscription right for the shareholders for the benefit of persons designated. The Management Board shall, in the event that the delegation is used, decide on the list of beneficiaries and the number of shares allocated to each of them on the basis of objective criteria.

Subscriptions for these shares may be either paid in cash or offset by liquid and payable debts.

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

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

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

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

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

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

- determine the list of beneficiaries within the category of persons defined above and the number of shares to be allocated to each of them,
- determine the dates and terms of the issues and the form and characteristics of the shares to be created,

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

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

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

Fourteenth resolution

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

The General Meeting, deliberating in accordance with the *quorum* and majority requirements for Extraordinary General Meetings, having reviewed the report of the Management Board and the report of the Statutory Auditors, in accordance with Articles L. 225-129-6 and L. 3332 -18 to L. 3332-24 of the French Commercial Code:

➢ **delegates** to the Management Board its authority to carry out , on one or more occasions, in the proportions and at the times it deems appropriate, capital increases performed in accordance with Articles L.3332.18 to L.3332-24 of the French Labour Code relating to the capital increases reserved for employees who are members of a company savings plan.

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

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

➢ **decides** that the subscription will be reserved for employees who are members of a company savings plan or one or more mutual funds to be set up under a company savings plan to be created in accordance with

Article L. 225-138-I of the French Commercial Code. The new shares will give their owners the same rights as the old shares;

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

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

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

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

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

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

Fifteenth resolution

Powers for completion of formalities

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

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AGENCE FRANCE LOCALE

A public limited company (*société anonyme*) with a Management Board and Supervisory Board and capital of €127,500,000

Registered office: Tour Oxygène, 10-12 Boulevard Marius Vivier Merle, 69003 Lyon

799 379 649 RCS Lyon

REPORT OF THE SUPERVISORY BOARD TO THE GENERAL MEETING OF 5 MAY 2017

To the shareholders of Agence France Locale,

We remind you that pursuant to Article L. 225-68 of the French Commercial Code, the Supervisory Board must submit to the General Meeting its observations on the annual financial statements for the year ended on 31 December 2016, as approved by the Executive Board, and on the management report submitted to this Meeting.

We hereby inform you that the annual financial statements for the year ended 31 December 2016, which were prepared in accordance with French GAAP and voluntarily in accordance with IFRS, as well as the management report prepared by the Management Board of the Company, were submitted to the Supervisory Board within the time-frame provided by the laws and regulations in force after they were reviewed favourably by the Company's Audit and Risk Committee.

The financial statements for the year ended 31 December 2016 show the following principal items:

	In French GAAP (in thousands €)	**In IFRS (in thousands euros)**
Total balance sheet	1 362 637	1 385 769
Net banking income	9 127	9 220
Net income	(2 642)	(3 365)

The annual financial statements prepared for the year ended 31 December 2016 in accordance with French GAAP and voluntarily in accordance with IFRS, and the related management report prepared by the Management Board, which contains the report of the Chairman of the Supervisory Board on corporate governance, internal controls and risk management, do not require any specific comment from the Supervisory Board, which examined them on 23 March 2017.

Lyon,
23 March 2017,

The Supervisory Board,
Represented by its Chairman,
Richard Brumm

AGENCE FRANCE LOCALE IFRS GAAP

BALANCE SHEET

Assets as of December 31, 2016

(€ '000s)	Note	31/12/2016	31/12/2015
Cash, central banks	4	57,929	
Financial assets at fair value through profit or loss	1	6,505	
Hedging derivative instruments	2	16,777	2,390
Available-for-sale financial assets	3	354,081	456,497
Loans and receivables due from credit institutions	4	23,412	45,982
Loans and advances to customers	5	892,227	383,527
Revaluation adjustment on interest rate hedged portfolios		1,091	17
Held-to-maturity financial assets			
Current tax assets			
Deferred tax assets	6	5,887	7,264
Accruals and other assets	7	21,308	13,779
Intangible assets	8	6,004	7,505
Property, plant and equipment	8	550	630
Goodwill			
TOTAL ASSETS		**1,385,769**	**917,590**

Liabilities as of December 31, 2016

(€ '000s)	Note	31/12/2016	31/12/2015
Central banks			
Financial liabilities at fair value through profit or loss	1	6,504	
Hedging derivative instruments	2	20,448	12,025
Due to credit institutions			
Due to customers			
Debt securities	9	1,259,073	840,536
Revaluation adjustment on interest rate hedged portfolios			
Current tax liabilities			
Deferred tax liabilities	6	61	1,189
Accruals and other liabilities	10	5,649	1,776
Provisions	11	506	19
Equity		**93,529**	**62,046**
Equity, Group share		**93,529**	**62,046**
Share capital and reserves		111,000	74,300
Consolidated reserves		(14,263)	(6,485)
Reevaluation reserve			
Gains and losses recognised directly in equity		157	2,009
Profit (loss) for the period		(3,365)	(7,777)
Non-controlling interests			
TOTAL LIABILITIES		**1,385,769**	**917,590**

Income statement

(€ '000s)	Note	31/12/2016	31/12/2015
Interest and similar income	12	19,587	5,376
Interest and similar expenses	12	(14,920)	(4,910)
Commissions (income)	13	1	
Commissions (expense)	13	(57)	(24)
Net gains (losses) on financial instruments at fair value through profit or loss	14	(1,177)	(94)
Net gains (losses) on available-for-sale financial assets	15	5,786	14
Income on other activities			
Expenses on other activities			
NET BANKING INCOME		**9,220**	**361**
Operating expenses	16	(9,486)	(10,131)
Net depreciation, amortisation and impairments of tangible and intangible assets	8	(1,855)	(1,226)
GROSS OPERATING INCOME		**(2,121)**	**(10,995)**
Cost of risk			
OPERATING INCOME		**(2,121)**	**(10,995)**
Net gains and losses on other assets	17		(670)
INCOME BEFORE TAX		**(2,121)**	**(11,666)**
Income tax	6	(1,243)	3,888
NET INCOME		**(3,365)**	**(7,777)**
Non-controlling interests			
NET INCOME GROUP SHARE		**(3,365)**	**(7,777)**
Basic earnings per share (in EUR)		(3.03)	(10.47)
Diluted earnings per share (in EUR)		(3.03)	(10.47)

Net income and other comprehensive income

(€ '000s)	31/12/2016	31/12/2015
Net income	**(3,365)**	**(7,777)**
Items will be reclassified subsequently to profit or loss	**157**	**2,099**
Unrealized or deferred gains and losses of financial assets available for sale	157	2,009
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	**-**	**(1)**
Revaluation in respect of defined benefit plans		(1)
Items will not be reclassified subsequently to profit or loss	**157**	**2,008**
NET INCOME AND GAINS AND LOSSES THROUGH EQUITY	**(3,208)**	**(5,769)**

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 31 december 2014	**35,800**	**-**	**-**	**-**	**-**	**(6,484)**	**29,316**		**29,316**
Increase in share capital	38,500						38,500		38,500
Elimination of treasury shares									
Allocation of profit			(6,484)			6,484	-		
Dividends paid									
Sub-total of changes linked to transactions with shareholders	**38,500**	**-**	**(6,484)**	**-**	**-**	**6,484**	**38,500**	**-**	**38,500**
Change in fair value through equity				2,011			2,011		2,011
Change in value of through profit or loss				(2)			(2)		(2)
Changes in actuarial gains on retirement benefits			(1)				(1)		(1)
Changes in gains and losses recognized directly in equity	**-**	**-**	**(1)**	**2,009**	**-**	**-**	**2,008**	**-**	**2,008**
2015 Net income						(7,777)	(7,777)		(7,777)
Sub-total	**-**	**-**	**(1)**	**2,009**	**-**	**(7,777)**	**(5,770)**	**-**	**(5,770)**
Effect of acquisitions and disposals on non-controlling interests									
Shareholders' equity at 31 december 2015	**74,300**	**-**	**(6,485)**	**2,009**	**-**	**(7,777)**	**62,046**	**-**	**62,046**
Impact of changes in accounting policies									
Shareholders' equity at 1 january 2016	**74,300**	**-**	**(6,485)**	**2,009**	**-**	**(7,777)**	**62,046**	**-**	**62,046**
Increase in share capital	36,700 (1)						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**
Changes 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)**
December 31, 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**

(1) The share capital of Agence which amounts on December 31st, 2016 to € 111,000,000 consists of 1,110,000 shares. Agence carried out fourth capital increases in 2016 for the benefit of the Territorial Company, its parent company. The first was subscribed on 4 March 2016 to € 19,200k, the second on 27th April, 2016 for € 16,000k, the third on 28th June 2016 for € 6,000k and the fourth on 6th December 2016 for € 500k.

Cash flow statement

(€ '000s)	31/12/2016	31/12/2015
Net income before taxes	**(2,121)**	**(11,666)**
+/- Net depreciation and amortisation of tangible and intangible non-current assets	1,855	1,226
+/- Net provisions and impairment charges	488	105
+/- Expense/income from investing activities	(9,976)	470
+/- Expense/income from financing activities	142	28
+/- Other non-cash items	4,045	666
= Non-monetary items included in net income before tax and other adjustments	**(3,447)**	**2,494**
+/- Cash from interbank operations		
+/- Cash from customer operations	(503,246)	(384,336)
+/- Cash from financing assets and liabilities	2,967	(5,146)
+/- Cash from not financing assets and liabilities	719	630
- Income tax paid		
= Decrease/(increase) in cash from operating activities	(499,560)	(388,852)
= CASH FLOW FROM OPERATING ACTIVITIES (A)	**(505,128)**	**(398,023)**
+/- Flows linked to financial assets and investments	104,601	(423,105)
+/- Flows linked to investment properties		
+/- Flows linked to tangible and intangible non-current assets	(275)	(4,563)
= CASH FLOW FROM INVESTING ACTIVITIES (B)	**104,326**	**(427,669)**
+/- Cash from or for shareholders	36,700	38,500
+/- Other cash from financing activities	399,461	827,254
= CASH FLOW FROM FINANCING ACTIVITIES (C)	**436,161**	**865,754**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)		
Increase/(decrease) in cash equivalents (A + B+ C + D)	**35,359**	**40,063**
Cash flow from operating activities (A)	(505,128)	(398,023)
Cash flow from investing activities (B)	104,326	(427,669)
Cash flow from financing activities (C)	436,161	865,754
Effect of changes in exchange rates on cash and cash equivalents (D)		
Cash and cash equivalents at the beginning of the period	**45,982**	**5,919**
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	45,982	5,919
Cash and cash equivalents at the end 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
CHANGE IN NET CASH	**35,359**	**40,063**

NOTES TO THE FINANCIAL STATEMENT ACCORDING TO IFRS STANDARDS

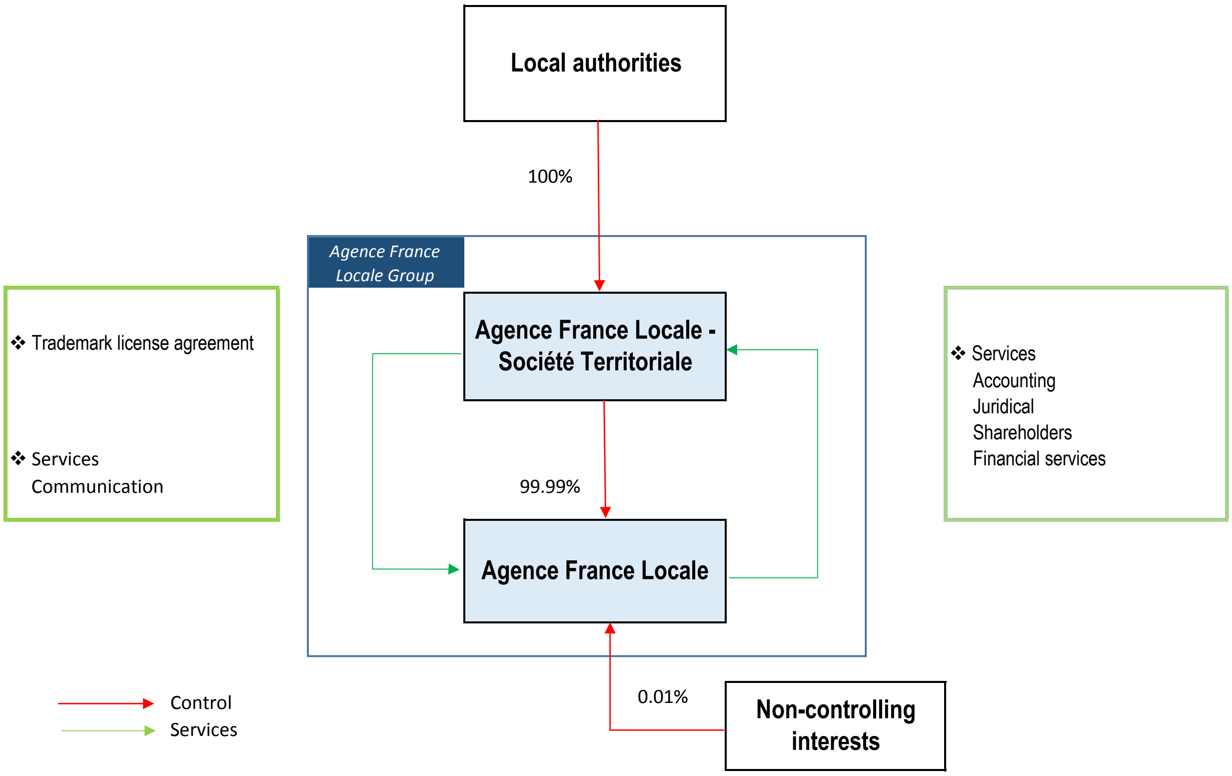
I - General framework

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 2016 financial statements were approved by the Board of Directors as of March 8, 2017.

II - Highlights from 2016 financial year

During the year ending on 31 December 2016, AFL continued to extend credits to member local governments and exceeded EUR 1 billion total production from the very beginning of its activities in April 2015, with a total amount of EUR 1,053 bn.

In 2016, loan production amounted to EUR 554.1 millions. Consequently, as at 31 December 2016, the outstanding loan portfolio presented according to French accounting standards came to EUR 888,6 millions in loans made available and EUR 133,8 millions of signed loans with disbursements scheduled in 2017. In On 11 May 2016, Agence France Locale carried out its second euro-denominated benchmark issue, to the tune of €500 million. The bonds were issued at a yield of 0,307% corresponding to a margin of 31 basis points against the French government bond yield curve (OAT – Obligations Assimilables du Trésor)). This issue was very well received by the market with an order book over €780 million and the participation of highly diversified investors both in terms of the type of investors and their geographical location, as illustrated by the significant number of French and international investors. Following this transaction, AFL did not return to the bond market.

During FY 2016, Agence France Locale saw its capital grow from €74.3m to €111m following four capital increases totalling €36.7m subscribed by its parent, Société Territoriale, who had 173 local authorities in its capital as of 31st December 2016.

At the end of FY 2016 the Net Banking Income generated by business amounted to €9,220k as compared to €361k at 31 December 2015. It mainly corresponds to an interest margin of €4,667k, gains/losses on disposals of available-for-sale securities of €5,786k, and negative net income from hedge accounting of -€1,133k.

The interest margin of €4,667k stems from three items: firstly, income from the progressive establishment of a loan portfolio in the amount of €4,747k, once restated to account for hedging; secondly, income from the management of the cash reserve, which, in a context of significantly negative interest rates, was negative, amounting to -€669k; and lastly, net of interest income from refinancing, which, for the reasons stated above, was a source of income amounting to €590k, after taking income from hedging into account.

Gains on disposals came to €5,786k It comprises two different items:

- Gains on disposals include a one-off gain of €3,146k from the sale of securities initially classified as financial assets held to maturity that were reclassified as available-for-sale financial assets after Agence France Locale decided to use its equity differently in December 2015.

- They also include the gains generated by cash management, which amounted to €2,640k.

Net income from hedge accounting came to: -€1,177k It comprises two items. Firstly, the disposal expenses in relation to the interest rate hedging of available-for-sale financial assets, amounting to €1,133k, which must be set against the gains from the underlying security disposals; and secondly, -€44k 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, €50k relate to valuation differential expenses on instruments classified under macro-hedging and €6k in income relate to the valuation of instruments classified under micro-hedging. This hedge accounting result is mainly explained by Agence France Locale's use of an accounting practice that leads to an asymmetry in the valuation, on the one hand, of hedging instruments collateralised daily, discounted on the basis of an Eonia curve, and, on the other, of hedged items, discounted on the basis of a Euribor curve, which, pursuant to IFRS standards, leads to the recognition of a hedging ineffectiveness that is recorded in the income statement. However, it should be noted that this corresponds to latent income.

At 31 December 2016, general operating expenses came to €9,486k as compared to €10,131k the previous year. They include €4,272k of personnel expenses, up compared to those of the previous year which came to €3,797k, mainly as a consequence of Agence changing tax plans during the year after it launched its business as a credit institution. General operating expenses also include administrative expenses, which were down significantly to €5,462k, compared with €10,964k at 31 December 2015, before transferring expenses to fixed assets. This reduction mainly results from the conclusion of the first stage of the construction and installation of the information systems infrastructure and of the roll-out of the customer portal, leading to a reduction in fixed expenses, which amounted to €120k in FY 2016 compared with €4,439k over the previous year.

After depreciation, amortisation and provisions, amounting to €1,855k compared with €1,226k at 31 December 2015, operating income at the end of the year came to -€2,121k.

Changes in the tax rate and the application of the liability method led to a deferred tax expense of €1,069k relating to previously activated tax losses to which is added a €174k tax expense from other temporary tax differences. The tax losses recognised over the period did not lead to any activation of deferred tax assets.

FY 2016 closed with a negative net income of -€3,365k compared with -€7,777k over the same period the previous year.

Events after the end of the reporting period

The tax authorities opened a review period regarding the financial statements for FY 2014 and FY 2015. An assessment of the risks stemming from this procedure was taken into account by the company in the financial statements for the year.

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

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

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

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

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

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

IV - Accounting principles

Application of IFRS basis

In accordance with IFRS 1 "First-time Adoption of IFRS" and pursuant to European Regulation 1606/2002 of July 19, 2002, the financial statements for 2016 financial year are presented in compliance with the IFRS (International Financial Reporting Standards) published by and as approved by the European Union and in force on that date. The IFRS framework includes IFRS standards and also include International Accounting Standards (IAS) and related interpretations issued by the International Financial Reporting Interpretations Committee) et SIC (Standing Interpretations Committee).

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

New accounting standards and interpretations:

The standards and interpretations published by the IASB but not yet adopted by the European Union were not applied by Agence France Locale at 31 December 2016. The most significant among them are the following:

IFRS 9 - Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. It defines new principles with regard to the recognition and measurement of financial instruments, of amortisation of credit risk and of hedge accounting. IFRS 9 is obligatory for financial years starting on or after 1 January 2018, subject to its adoption by the European Union.

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

Classification and measurement

Financial assets will be classified in three categories (amortised cost, fair value through profit and loss, and fair value through equity) according to the characteristics of their contractual flows and the manner in which the entity manages its financial instruments (business model).
By default, financial assets will be classified in fair value through profit and loss.
It will be possible to recognise debt instruments (loans, receivables or debt securities) at amortised cost on condition that contractual cash flows only represent repayments of the principal and interest on the principal and that the business model involves collecting contractual cash flows.
It will also be possible to recognise debt instruments in fair value through equity with subsequent reclassification in income on condition that contractual cash flows only represent repayments of the principal and that the business model involves both collecting contractual cash flows and reselling the instruments.
The recognition of financial liabilities remains largely unchanged and should not have an impact on Agence France Locale's financial statements.

Impairment

IFRS 9 amends the model to impair credit risk by moving from provisioning for confirmed credit losses to provisioning for expected credit losses (ECL). This new approach aims to anticipate the recognitions of expected credit losses, as soon as possible, without waiting for an objective confirmation of a loss. A broad range of information can be used to estimate ECLs, including historical data on losses observed in the loans-for-local-authorities sector, adjustments of a cyclical and structural nature, as well as loss forecasts prepared on the basis of reasonable scenarios.
Work was carried out over the year to prepare the model to determine expected credit losses. It will continue over 2017.

IFRS 15 - Recognition of Revenue

IFRS 15 - Recognition of Revenue will replace the current standards and interpretations relating to the recognition of profits. It will be retrospectively applicable as of 1 January 2018, subject to its adoption by the European Union.
According to IFRS 15, the recognition of income from ordinary activities must reflect the transfer of goods and services promised to customers for an amount corresponding to the compensation that the entity expects to receive for the said goods and services.

IFRS 16 - Leases

In January 2016, the IASB published IFRS 16 - Leases, which will replace IAS 17 - Leases. In view of the new requirements, lessees will have to recognise the assets and liabilities stemming from finance leases and operating leases in their balance sheets. The provisional date of application is 1 January 2019. The standard has not yet been approved by the European Union.

Accounting principles applied to the financial statements

Financial assets and liabilities

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

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

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

Assets and financial liabilities are classified as below:

Held-to-maturity financial assets

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

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

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

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

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

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

Available-for-sale financial assets

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

- Non-consolidated compagnies
- Placement securities

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

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

Loans and receivables

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

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

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

Impairment of financial assets

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

Impairment of financial assets measured at amortized cost

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

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

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

Available for sale impairment

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are by nature assets bought or generated by the company mainly aim at selling them on the short term outlook or being included in a financial instruments portfolio managed in a mutually way with the aim of making profits based on short term fluctuations of market prices.
AFL Group does not hold financial assets at fair value through profit or loss as such.
They are investment portfolio fair value hedging derivatives in a fixed-rate borrower position which have been neutralised by fixed-rate lender derivatives. Those contracts, concluded in a clearing house, present positions which are rigorously symmetric in terms of rates and maturities. These financial assets and liabilities, although they are the object of a framework netting agreement, are presented as assets and liabilities because future cash flows payable and receivable differ in the amount of the fixed-rate coupon payable and receivable.
As a result these derivatives cannot be classified as either an hedging instrument or being presented for their net amount as allowed by IAS 32.

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

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

Financial information regarding financial instruments

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

Recognition date of securities

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

Fixed assets

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

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

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

If evidence of a loss of value is recorded, the recoverable value of the asset is compared with its net book value. In the event of a loss of value, an impairment charge is recorded in the profit and loss statement. That impairment changes the depreciation schedule of the asset going forwards. The impairment is reversed in the event of a change in the estimated recoverable value or the evidence of impairment disappears.

Tangible assets

Tangible assets are depreciated linearly over their expected useful life.

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

Intangible assets

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

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

Intangible assets are depreciated linearly over their expected useful life.

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

Debt

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

Debt payable to credit institutions

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

Debt represented by a security

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

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

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

Financial derivatives and hedge accounting

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

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

Derivatives held for transaction purposes

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

Hedge accounting

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

- The hedging instrument and the instrument hedged must be eligible;
- There must be formal documentation from inception, primarily including the individual identification and characteristics of the hedged item, the hedging instrument, the nature of the hedging relationship and the nature of the hedged risk;
- The effectiveness of the hedge must be demonstrated, at inception and retrospectively, by testing at each reporting date.

Fair value hedge

Any revaluation of the derivative is recognised in profit and loss in a way that mirrors the revaluation of the item hedged. Gains or losses attributable to the hedged risk are recognised in "Net gains or losses on financial instruments at fair value through profit and loss" in the profit and loss statement. As soon as the hedge relationship becomes effective, movements in the fair value of the hedged item are mirrored by the movements in the fair value of the hedging instrument. Any potential failure in the hedge is directly recognised in profit and loss. The portion relating to the accrued income or expenses of the derivative instrument is recognised in Income and interest expense in the profit and loss statement at the same time as the interest income and expense relating to the hedged item.

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

Cash flow hedges

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

Macro-hedging

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

Determining fair value or market value

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

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

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

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

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

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

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

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

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

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

Level 2 is composed of:

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

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

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

Financial guarantees

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

Provisions

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

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

Interest income and expense

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

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

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

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

Cost of risk

The cost of credit risk includes impairment charges and reversals on fixed-income securities, and customer loans and receivables, as well as charges and reversals of impairment relating to guarantee commitments given, losses on receivables, and the recovery of amortised receivables.

Current tax expense

The current income tax expense is calculated using a 33 1/3% rate which is the effective tax rate for the 31 December 2016 period.

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

Deferred taxes

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

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

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

IAS 12 prohibits discounting of deferred tax assets and liabilities.

Post-employment benefits

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

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

• an estimated date of payment of the benefit,

• a financial discount rate

• an inflation rate

• assumptions on salary increases, staff turnover

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

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

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

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

These two items (finance cost and expected yield on assets) are measured based on the rate used to discount the obligations.

V - Notes to the Balance Sheet

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

	31/12/2016		31/12/2015	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Financial assets held for trading	6,505	6,504		
Financial assets at fair value option through profit or loss				
Total financial assets at fair value through profit or loss	**6,505**	**6,504**	**-**	**-**

Financial assets held for trading

	31/12/2016		31/12/2015	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Equity instruments				
Debt securities				
Loans and advances				
Derivatives	6,505	6,504		
Total Financial assets held for trading	**6,505**	**6,504**	**-**	**-**

	31/12/2016				31/12/2015			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Négative	To receive	To deliver	Positive	Négative
FIRM TRANSACTIONS	**137,471**	**137,471**	**6,505**	**6,504**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**137,471**	**137,471**	**6,505**	**6,504**	**-**	**-**	**-**	**-**
Interest rate contracts	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.

Note 2 - HEDGING DERIVATIVES

Analysis by type of hedge

	31/12/2016		31/12/2015	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Derivatives designated as fair value hedges	15,792	17,889	2,204	11,743
Derivatives designated as cash flow hedges				
Derivatives designated as portfolio hedges	985	2,559	186	282
Total Hedging derivatives	**16,777**	**20,448**	**2,390**	**12,025**

Detail of derivatives designated as fair value hedges

	31/12/2016				31/12/2015			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**1,289,100**	**722,985**	**15,792**	**17,889**	**802,404**	**397,427**	**2,204**	**11,743**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**1,289,100**	**722,985**	**15,792**	**17,889**	**802,404**	**397,427**	**2,204**	**11,743**
Interest rate contracts	1,289,100	722,985	15,792	17,889	755,100	397,427	2,204	10,401
FRA								
Cross Currency Swaps					47,304			1,342
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Detail of derivatives designated as interest rate hedged portfolios

	31/12/2016				31/12/2015			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**-**	**204,300**	**985**	**2,559**	**-**	**65,100**	**186**	**282**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**-**	**204,300**	**985**	**2,559**	**-**	**65,100**	**186**	**282**
Interest rate contracts		204,300	985	2,559		65,100	186	282
FRA								
Cross Currency Swaps								
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

PORTFOLIO

Note 3 - Available-for-sale financial assets

Fixed-income securities - Analysis by nature

(€ '000s)	31/12/2016	31/12/2015
Government paper and similar securities	354,081	406,006
Bonds		50,491
Other fixed income securities		
Net amount in balance sheet	**354,081**	**456,497**
Including depreciation		
Including net unrealised gains and losses	(281)	3,042

Fixed-income securities - Analysis by contreparty

(€ '000s)	31/12/2016	31/12/2015
Local public sector	258,105	187,457
Financial institutions	95,976	269,040
Central banks		
Net amount in balance sheet	**354,081**	**456,497**

Fixed income securities held on Financial institutions include € 95,976k of securities guaranteed by governments.

Changes in Available-for-sale financial assets

(€ '000s)	Total amount as of 31/12/2015	Additions	Disposals	Gains/(losses) in fair value recognised in equity	Change in accrued interest	Prem/Disc Amort.	Impairment recognised in Income statement	Total amount as of 31/12/2016
Government paper and similar securities	406,006	1,244,000	(1,291,279)	(457)	33	(4,223)	-	354,081
Bonds	50,491	35,059	(85,258)	7	(253)	(47)	-	-
Other fixed income securities	-	-	-	-	-	-	-	-
TOTAL	**456,497**	**1,279,059**	**(1,376,537)**	**(450)**	**(219)**	**(4,269)**	**-**	**354,081**

Note 4 - RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	31/12/2016	31/12/2015
Mandatory reserve deposits with central banks	57,929	
Other deposits		
Cash and central banks	**57,929**	

Receivables on credit institutions

(€ '000s)	31/12/2016	31/12/2015
Loans and receivables		
- demand	23,412	45,982
- time		
Securities bought under repurchase agreements		
TOTAL	**23,412**	**45,982**
Impairment		
NET CARRYING AMOUNT	**23,412**	**45,982**

Note 5 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	31/12/2016	31/12/2015
Short-term credit facilities	850	
Other loans	891,377	383,527
Customers transactions before impairment charges	**892,227**	**383,527**
Impairment		
Net carrying amount	**892,227**	**383,527**
Of which individual impairment		
Of which collective impairment		

Note 6 - DEFERRED TAX

The movement on the deferred tax account is as follows:

(€ '000s)	31/12/2016	31/12/2015
Net asset as at 1st of january	**6,076**	**3,242**
Of which deferred tax assets	7,264	3,242
Of which deferred tax liabilities	1,189	
Recognised in income statement	**(1,243)**	**3,888**
Income statement (charge) / credit	(1,243)	3,888
Recognised in equity	**994**	**(1,055)**
Available-for-sale financial assets	994	(1,055)
Cash flow hedges		
Other		
Net asset as at	**5,826**	**6,076**
Of which deferred tax assets	5,887	7,264
Of which deferred tax liabilities	61	1,189

The new market conditions observed over the year, with increased competition and low interest rates, led AFL to review its forecasts with regard to the date when the company would again balance its budget. While not calling into question the likelihood of recovering €22.1 million in tax losses incurred since the Agence was created, the uncertainty regarding the total tax loss absorption horizon led the company not to recognise deferred tax assets on the tax losses for the year. However, the income projections established on the basis of more recent forecasts suggest that Agence's activities should generate sufficient taxable income to continue to absorb all its tax loss carryforwards over a medium-term horizon.
Notwithstanding the likelihood of recovering the losses, AFL applied the liability method to the recognition of its deferred tax assets as the draft Finance Act for 2017 includes a reduction of the corporate tax rate to 28%, the company recognised a €1,069k tax expense.

Deferred tax net assets are attributable to the following items:

(€ '000s)	31/12/2016	31/12/2015
Available-for-sale financial assets		
Cash flow hedges		
Losses carried forward	5,606	7,264
Other temporary differences	281	
TOTAL DEFERRED TAX ASSETS	**5,887**	**7,264**

Deferred tax net liabilities are attributable to the following items:

(€ '000s)	31/12/2016	31/12/2015
Available-for-sale financial assets	61	1,055
Cash flow hedges		
Other temporary differences		134
TOTAL DEFERRED TAX LIABILITIES	**61**	**1,189**

Note 7 - OTHER ASSETS AND ACCRUALS

(€ '000s)	31/12/2016	31/12/2015
Other assets		
Cash collateral paid	20,682	12,985
Other assets	366	655
Impairment		
Net carrying amount	**21,047**	**13,640**
Accruals		
Prepaid charges	199	67
Other deferred income		
Transaction to recieve and settlement accounts		
Other accruals	62	72
Total	**260**	**139**
TOTAL OTHER ASSETS AND ACCRUALS	**21,308**	**13,779**

Note 8 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible fixed assets	31/12/2015	Additions	Transfers	Disposals	Amort.	Other movements	31/12/2016
Intangible fixed assets							
IT development costs	8,224	87	89			147	8,547
Other intangible assets	317	53				23	394
Intangible assets in progress	202		31			(170)	63
Intangible fixed assets gross amount	**8,743**	**140**	**120**	**-**	**-**	**-**	**9,004**
Depreciation and allowances - Intangible fixed assets	(1,238)				(1,762)		(3,000)
Intangible fixed assets net carrying amount	**7,505**	**140**	**120**	**-**	**(1,762)**	**-**	**6,004**

Tangible fixed assets	31/12/2015	Additions	Transfers	Disposals	Amort.	Other movements	31/12/2016
Property, plant & equipment	735	13					748
Tangible fixed assets gross amount	**735**	**13**	**-**	**-**	**-**	**-**	**748**
Depreciation and allowances - Tangible fixed assets	(105)				(93)		(199)
Tangible fixed assets net carrying amount	**630**	**13**	**-**	**-**	**(93)**	**-**	**550**

Note 9 - DEBT SECURITIES

(€ '000s)	31/12/2016	31/12/2015
Negotiable debt securities		
Bonds	1,259,073	840,536
Other debt securities		
TOTAL	**1,259,073**	**840,536**

Note 10 - ACCRUALS AND OTHER LIABILITIES

(€ '000s)	31/12/2016	31/12/2015
Other liabilities		
Cash collateral received	3,990	100
Miscellaneous creditors	1,132	956
Total	**5,122**	**1,056**
Accruals		
Transaction to pay and settlement accounts		
Other accrued expenses	527	720
Unearned income		
Other accruals		
Total	**527**	**720**
TOTAL ACCRUALS AND OTHER LIABILITIES	**5,649**	**1,776**

Note 11 - PROVISIONS

(€ '000s)	Balance as of 31/12/2015	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Amount as of 31/12/2016
Provisions						
Financing commitment execution risks						
Provisions for employee retirement and similar benefits	19					19
Provisions for other liabilities to employees						
Other provisions		488				488
TOTAL	**19**	**488**	**-**	**-**	**-**	**506**

OFF-BALANCE SHEET

(€ '000s)	31/12/2016	31/12/2015
Commitments given	**133,782**	**136,933**
Financing commitments	133,782	121,922
For credit institutions		
For customers	*133,782*	*121,922*
Guarantee commitments		
For credit institutions		
For customers		
Commitments on securities		15,011
Securities to be delivered to the issuance		
Other securities to be delivered		*15,011*
Commitments received	**2,711**	**-**
Financing commitments		
From credit institutions		
Guarantee commitments	2,711	
From credit institutions		
From customers	*2,711*	
Commitments on securities		
Securities receivable		

VI - Notes to the Income Statement

Note 12 - INTEREST INCOME AND EXPENSES

(€ '000s)	31/12/2016	31/12/2015
Interest and similar income	**19,587**	**5,376**
Due from banks	97	3
Due from customers	7,625	1,365
Bonds and other fixed income securities	(281)	343
from Held-for-sale securities	*(281)*	*(388)*
from Held-to-maturity securities		*731*
Income from interest rate instruments	12,146	3,664
Other interest income		
Interest and similar expenses	**(14,920)**	**(4,910)**
Due to banks	(142)	(41)
Due to customers		
Debt securities	(5,006)	(2,574)
Expense from interest rate instruments	(9,772)	(2,296)
Other interest expenses		
Interest margin	**4,667**	**465**

Note 13 - NET FEE AND COMMISSION INCOME

(€ '000s)	31/12/2016	31/12/2015
Commission income	**1**	**-**
Interbank transactions		
Customer transactions		
Securities transactions		
Forward financial instruments transactions		
Currencies transactions		
Financing commitments and guarantee	1	
Other commissions recieved		
Commission expenses	**(57)**	**(24)**
Interbank transactions		
Securities transactions	(12)	(12)
Forward financial instruments transactions	(45)	(12)
Currencies transactions		
Financing commitments and guarantee		
Other commissions paid		
Net fee and commission income	**(56)**	**(24)**

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

(€ '000s)	31/12/2016	31/12/2015
Gains/(losses) on Trading book	1	
Net result of hedge accounting	(1,177)	(94)
Net result of foreign exchange transactions	(1)	
TOTAL	**(1,177)**	**(94)**

Analysis of net result of hedge accounting

(€ '000s)	31/12/2016	31/12/2015
Fair value hedges		
Fair value changes in the hedged item attributable to the hedged risk	(12,434)	3,585
Fair value changes in the hedging derivatives	12,440	(3,640)
Hedging relationship disposal gain	(1,133)	(14)
Cash flow hedges		
Fair value changes in the hedging derivatives – ineffective portion		
Discontinuation of cash flow hedge accounting		
Portfolio hedge		
Fair value changes in the hedged item	1,074	17
Fair value changes in the hedging derivatives	(1,124)	(42)
Net result of hedge accounting	**(1,177)**	**(95)**

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

(€ '000s)	31/12/2016	31/12/2015
Gains from disposal of fixed income securities	6,522	36
Losses from disposal of fixed income securities	(737)	(22)
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	**5,786**	**14**

Note 16 - GENERAL OPERATING EXPENSES

(€ '000s)	31/12/2016	31/12/2015
Employee expenses		
Wages and salaries	2,763	2,594
Post-employment benefit expenses	304	282
Other expenses	1,205	921
Total Employee expenses	**4,272**	**3,797**
Operating expenses		
Taxes and duties	753	273
External services	4,709	10,691
Total Administrative expenses	**5,462**	**10,964**
Charge-backs and reclassification of administrative expenses	(248)	(4,631)
Total General operating expenses	**9,486**	**10,131**

NOTE 17 - +/- NET GAINS (LOSSES) ON FIXED ASSETS

(€ '000s)	31/12/2016	31/12/2015
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		(670)
Losses on sales of tangible or intangible assets		
Charge of impairment		
Total Losses on fixed assets	**-**	**(670)**

Note 18 - External auditor fees

	Caillau Dedouit et Associés		KPMG Audit	
	2016 (€ '000s)	2015 (€ '000s)	2016 (€ '000s)	2015 (€ '000s)
Audit				
Fees related to statutory audit, certification, examination of:				
AFL-Société Opérationelle	56	47	70	49
Sub-total	**56**	**47**	**70**	**49**
Fees related to audit services and related assignments:				
AFL-Société Opérationelle	38	31	35	27
Sub-total	**38**	**31**	**35**	**27**
Other benefits from the network of consolidated subsidiaries:				
Law, tax, social				
Other				
Sub-total				
TOTAL	**94**	**78**	**105**	**76**

Note 19 - Related parties

There are, on 31 December 2016, an agreement of administrative services and a licensing for the use of a mark, which have been concluded between the Agence and the Agence France Locale - Territorial Corporation at normal market conditions.

Remuneration for Board of AFL and the Group's Director:

Neither members of AFL Board nor Group's Director benefited from a payment in actions in conformance with the exercise 2016 and a compensation was settled because of termination of contract of employment. No other long-term advantage was granted to them.

Their Director's remunerations on the exercise 2016 were the following ones :

(€ '000s)	31/12/2016
Fixed remuneration	783
Variable remuneration	107
Payments in kind	8
Total	**897**

In addition, members of the AFL Supervisory Board received € 142k attendance fees.

Fair value of financial instruments

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

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

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

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

Fair value of instruments carried at fair value:

	31/12/2016			
		Measured using		
(€ '000s)	Total	Level 1	Level 2	Level 3
Financial assets				
Derivative financial instruments	**16,777**	-	16,777	-
Government paper and similar securities	354,081	354,081	-	-
Bonds	-	-	-	-
Other fixed income securities	-	-	-	-
Total Available-for-sale financial assets	**354,081**	**354,081**	**-**	**-**
Total Financial assets	**370,858**	**354,081**	**16,777**	**-**
Financial liabilities				
Derivative financial instruments	(20,448)	-	(20,448)	-
Total Financial liabilities	**(20,448)**	**-**	**(20,448)**	**-**

Fair values of instruments carried at amortised cost:

	31/12/2016				
			Measured using		
(€ '000s)	Net Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Loans and receivables due from credit institutions	**23,412**	23,412	-	-	23,412
Loans and advances to customers	**892,227**	892,227	-	-	892,227
Total Held-to-maturity financial assets					
Total Financial assets	**915,639**	**915,639**	**-**	**-**	**915,639**
Financial liabilities					
Debt securities	1,259,073	1,270,460	1,270,460	-	-
Total Financial liabilities	**1,259,073**	**1,270,460**	**1,270,460**	**-**	**-**

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

B - Credit risk exposure

The tables below disclose the maximum exposure to credit risk at 31 December 2016 for financial assets with exposure to credit risk, without taking account of collateral held or other credit risk mitigation.

(€ '000s)	Performing assets	Past due but not impaired	Impairment allowance	Total 31/12/2016
Hedging derivative instruments	57,929			**57,929**
Available-for-sale financial assets	16,777			**16,777**
Loans and receivables due from credit institutions	354,081			**354,081**
Held-to-maturity financial assets	23,412			**23,412**
Loans and advances to customers	892,227			**892,227**
Revaluation adjustment on interest rate hedged portfolios	1,091			**1,091**
Other assets	21,047			**21,047**
Sub-total Assets	**1,366,564**	**-**	**-**	**1,366,564**
Financing commitments given	133,782			**133,782**
TOTAL Credit risk exposure	**1,500,346**	**-**	**-**	**1,500,346**

Analysis by contreparty

(€ '000s)	Total 31/12/2016
Central banks	57,929
Local public sector	1,285,566
Credit institutions guaranteed by the EEA States	95,976
Credit institutions	7,963
Other financial corporations	52,841
Non-financial corporations	70
Total Exposure by contreparty	**1,500,346**

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 contry

(€ '000s)	Total 31/12/2016
France	1,414,390
South Korea	25,992
Switzerland	15,005
China	14,984
Supranational	9,557
Netherlands	5,028
Norway	5,301
Denmark	5,073
Sweden	5,015
Total Exposure by contreparty	**1,500,346**

As credits are solely granted to French local authorities, the largest exposure is to France.
Exposures to other countries (EEA 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 31/12/2016
Cash, central banks	57,929				**57,929**			**57,929**
Hedging derivative instruments		0.4	38	15,264	**15,302**	**1,475**		**16,777**
Available-for-sale financial assets								
Government paper and similar securities	5,300	9,018	301,800	37,222	353,340	1,022	(281)	354,081
Bonds								
Total Available-for-sale financial assets	**5,300**	**9,018**	**301,800**	**37,222**	**353,340**	**1,022**	**(281)**	**354,081**
Loans and receivables due from credit institutions	23,412				**23,412**			**23,412**
Held-to-maturity financial assets								**-**
Loans and advances to customers	14,116	50,128	231,728	591,609	**887,582**	**1016**	**3630**	**892,227**
Revaluation adjustment on interest rate hedged portfolios							**1,091**	**1,091**
Other assets	21,047				**21,047**			**21,047**
TOTAL ASSETS								**1,366,564**
Hedging derivative instruments		12	4,722	14,585	**19,320**	**1,128**		**20,448**
Debt securities				1,244,082	**1,244,082**	**2,985**	**12,006**	**1,259,073**
Accruals and other liabilities	5,649				**5,649**			**5,649**
TOTAL LIABILITIES								**1,285,170**

Agence France Locale has a surplus of long-term liabilities, which reflects its limited transformation goals. The difference in modified duration between assets and liabilities is negative; liabilities are still longer than assets. This situation is related to the business start and should evolve in a balanced situation, which should eventually see liabilities with a slightly shorter average life than assets. On 31st December 2016, assets are composed of short-term securities that will be transformed into medium-to-long-term loans.

D - Interest rate risk: sensitivity to interest rate changes

Exposure to interest rate risk relates to that of the Operational subsidiary, Agence France Locale. The rate risk management policy and its implications on financial year 2016 are described into the financial report as at 31st December 2016.

Maturity	1 Day	30 Days	6 Month	12 Month	5 Year	10 Year	15 Year	20 Year
Gap (M€)	97.6	190.3	37.6	36.9	62.1	72.6	85.5	-5.0

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

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

	31/12/2016	30/06/2016	31/12/2015	Limit
Sc. +100bp	-7.9%	-7.1%	-1.1%	±20%
Sc. -100bp	9.0%	8.3%	1.1%	±20%
Sc. -100bp (floor)	2.2%	1.7%	1.1%	±20%
Sc. +200bp	-11.8%	-17.9%	-2.2%	±20%
Sc. -200bp	15.7%	13.3%	2.2%	/
Sc. -200bp (floor)	2.2%	1.7%	2.1%	±20%

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

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Agence France Locale

Statutory auditor's report on the financial statements in accordance with IFRSs

Year ended December 31, 2016
Agence France Locale
10/12 boulevard Vivier Merle - 69003 LYON
This report contains 29 pages
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This is a free translation into English of the Statutory Auditors' report on the financial statements in accordance with IFRSs issued in French and is provided solely for the convenience of English speaking users.

This report should be read in conjunction with, ad construed in accordance with, French law and professional auditing standards applicable in France

Agence France Locale

Registered office: 10/12 boulevard Vivier Merle - 69003 LYON

Statutory auditor's report on the financial statements in accordance with IFRSs

Year ended December 31, 2016

To the Shareholders,

In our capacity as Statutory Auditors of Agence France Locale S.A. and pursuant to your request, in the context of the communication of financial to investors, we have conducted an audit of the accompanying financial statements of Agence France Locale – S.A. in accordance with IFRSs as adopted by the European Union, for the year ended 31 Decembre 2016.

These financial statements are the responsibility of the Management Board. Our role is to express a conclusion on these financial statements based on our audit.

We conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets and liabilities and of the financial position of the Company as at December 31, 2016 and of the results of its operations for the year then ended, in accordance with IFRSs as adopted by the European Union.

This report is not the legal report relating to the financial statements in accordance with French accounting principles, issued within the requirements of article L.823-9 of the French Commercial Code ("Code de commerce").

This report is addressed to your attention in the context described above and is not to be used, circulated, quoted or otherwise referred to for any other purposes. We accept no liability with regard to any third party to whom this report is distributed or into whose hands it may fall.

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

Paris la Défense and Paris, April 7, 2017

French original signed by

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

AGENCE FRANCE LOCALE

Balance sheet

Assets as of 31st of December 2016

(€ '000s)	Notes	31/12/2016	31/12/2015
Cash and central banks	2	57,929	
Government paper and similar securities	1	354,161	402,894
Receivables on credit institutions	2	23,412	45,982
Loans and advances to customers	4	888,598	384,873
Bonds and other fixed income securities	1		50,491
Equities and other variable income securities	1		
Investments in non-consolidated companies and other long-term investments			
Investments in consolidated companies			
Intangible assets	5	6,833	8,759
Property, plant and equipment	5	550	630
Other assets	6	21,047	13,640
Accruals	6	10,108	6,164
TOTAL ASSETS		**1,362,637**	**913,432**

Liabilities as of 31st of December 2016

(€ '000s)	Notes	31/12/2016	31/12/2015
Central banks			
Due to banks	3		
Customer borrowings and deposits			
Debt securities	7	1,252,985	848,059
Other liabilities	8	5,456	1,584
Accruals	8	15,460	9,599
Provisions	9	505	17
Subordinated debt			
General banking risk fund (GBRF)			
Equity (excluding GBRF)	**10**	**88,231**	**54,173**
Share capital		111,000	74,300
Additional paid-in capital			
Reserves and retained earnings			
Revaluation differences			
Regulated provisions and investment subsidies			
Retained earnings (+/-)		(20,127)	(8,046)
Net income for the period (+/-)		(2,642)	(12,082)
TOTAL LIABILITIES		**1,362,637**	**913,432**

INCOME STATEMENT

(€ '000s)

	Notes	30/06/2016	31/12/2015
+ Interest and similar income	12	19,624	5,376
- Interest and similar expenses	12	(14,956)	(4,910)
+ Income from variable income securities			
+ Fee and commission income	13	1	
- Fee and commission expenses	13	(57)	(1,149)
+/- Net gains (losses) on held for trading portfolio	15	(1,140)	(14)
+/- Net gains (losses) on placement portfolio	15	5,655	(56)
+ Other banking income	14		1,125
- Other banking expense	14		
NET BANKING INCOME		**9,127**	**371**
- General operating expenses	16	(9,487)	(10,130)
+ Other operating income			
- Depreciation and amortization	5	(2,281)	(1,652)
GROSS OPERATING INCOME		**(2,642)**	**(11,411)**
- Cost of risk			
OPERATING INCOME		**(2,642)**	**(11,411)**
+/- Net gains (losses) on fixed assets	17		(670)
PRE-TAX INCOME ON ORDINARY ACTIVITIES		**(2,642)**	**(12,082)**
+/- Net extraordinary items			
- Income tax charge			
+/- Net allocation to FGBR and regulated provisions			
NET INCOME		**(2,642)**	**(12,082)**
Basic earnings per share		(2.38)	(16.26)

OFF-BALANCE SHEET

(€ '000s)

COMMITMENTS GIVEN AND RECEIVED	Notes	30/06/2016	31/12/2015
Commitments given		**133,782**	**136,933**
Financing commitments		133,782	121,922
Guarantee commitments			
Commitments on securities			15,011
Commitments received		**2,711**	**-**
Financing commitments			
Commitments received from credit institutions			
Guarantee commitments		2,711	
Commitments on securities			
Derivatives	11	**2,491,327**	**1,217,627**

NOTES TO THE INDIVIDUAL ACCOUNTS UNDER FRENCH GAAP

I - Publication context

The 2016 financial statements were approved by the Executive Board as of March 8, 2017.

II - Highlights from the 2016 financial year

During the year ending on 31 December 2016, AFL continued to extend credits to member local governments and exceeded EUR 1 billion total production from the very beginning of its activities in April 2015, with a total amount of EUR 1,053 bn.

In 2016, loan production amounted to EUR 554.1 millions. Consequently, as at 31 December 2016, the outstanding loan portfolio presented according to French accounting standards came to EUR 888,6 millions in loans made available and EUR 133,8 millions of signed loans with disbursements scheduled in 2017. In On 11 May 2016, Agence France Locale carried out its second euro-denominated benchmark issue, to the tune of €500 million. The bonds were issued at a yield of 0,307% corresponding to a margin of 31 basis points against the French government bond yield curve (OAT – Obligations Assimilables du Trésor)). This issue was very well received by the market with an order book over €780 million and the participation of highly diversified investors both in terms of the type of investors and their geographical location, as illustrated by the significant number of French and international investors. Following this transaction, AFL did not return to the bond market.

During FY 2016, Agence France Locale saw its capital increasing by EUR 36,7 millions up to €111m following four capital increases its parent, Société Territoriale, who had 173 local authorities in its capital as of 31st December 2016.

At the end of FY 2016 the Net Banking Income generated by business activities amounted to €9,127k as compared to €371k at 31 December 2015. It mainly corresponds to an interest margin of €4,668k, gains/losses on disposals of available-for-sale securities of €5,786k, and negative net income from hedge accounting of -€1,140k and an impairment of available -for-sale securities of -€131K.

The interest margin of €4,668k stems from three items: firstly, income from the progressive establishment of a loan portfolio in the amount of €4,747k, once restated to account for hedging; secondly, income from the management of the cash reserve, which, in a context of significantly negative interest rates, was negative, amounting to -€669k; and lastly, net of interest income from refinancing, which, for the reasons stated above, was a source of income amounting to €590k, after taking income from hedging into account.

Gains on disposals came to €5,786k It comprises two different items:

- Gains on disposals include a one-off gain of €3,146k from the sale of securities initially classified as financial assets held to maturity that were reclassified as available-for-sale financial assets after Agence France Locale decided to use its equity differently in December 2015.

- They also include the gains generated by cash management, which amounted to €2,640k, the disposal expenses in relation to the interest rate hedging of available-for-sale financial assets, amounting to €1,140k. Net gains on disposals (free from hedging) came to €4,646k.

At 31 December 2016, general operating expenses came to €9,487k as compared to €10,130k the previous year. They include €4,239k of personnel expenses, up compared to those of the previous year which came to €3,797k, mainly as a consequence of AFL changing the proportion of VAT during the year after following the launch of its credit institution activities. General operating expenses also include administrative expenses, which were down significantly to €5,911k, compared with €11,554k at 31 December 2015, before transferring expenses to fixed assets. This reduction mainly results from the conclusion of the first stage of the construction and installation of the information systems infrastructure and of the roll-out of the customer portal, leading to a reduction in fixed expenses, which amounted to €120k in FY 2016 compared with €4,439k over the previous year.

After depreciation, amortisation and provisions, amounting to €2,281k compared with €1,652k at 31 December 2015, operating income at the end of the year came to -€2,642k.

FY 2016 closed with a negative net income of -€2,642k compared with -€12,082k over the same period the previous year.

Events after the end of the reporting period

The tax authorities opened a review period regarding the financial statements for FY 2014 and FY 2015. An assessment of the risks stemming from this procedure was taken into account by the company in the financial statements for the year.

III - Accounting principles and valuation methods

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

Presentation format

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

Preparation basis

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

- Ongoing concern principle,
- Segregation of accounting periods,
- Consistency of methods.

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

Accounting principles and methods

Loans and advances to banks and to customers

Loans and advances to banks include all loans connected with banking operations except for those materialized by a security. They are broken down into sight accounts and term accounts.

Loans and advances to customers comprise loans granted to local governments. The undrawn portion of signed loan agreements is recorded as an off-balance sheet item.

Interest on loans is recorded as Interest income prorata temporis for accrued amounts as is interest on past-dues.

Doubtful loans

Loans and receivables to customers are classified as doubtful if they carry an identified credit risk arising from one of the following events:

. The loan or advance is at least nine months in arrears,

. The borrower's financial position is such that an identified risk exists regardless of whether the loan or advance is in arrears,

. The bank and borrower are in legal proceedings.

Compromised non-performing loans are loans to borrowers whose recovery outlook is so downgraded that they are written off. Loans unpaid for more than one year are recorded in this category. Interest on these loans no longer contributes to the interest margin once they have been transferred to the category of compromised nonperforming loans.

Impairment charges are recognized for non-performing and compromised non-performing loans. Risk management determines the percentage of impaired capital in function of expected losses. Interest income is fully impaired. Impairment charges and reversals for credit risk are recognized as Cost of risk as well as the losses on non-recoverable loans and recoveries on amortized loans.

Tangible and intangible fixed assets

Agence applyed CRC 2002-10 of 12 December 2002 relating to the amortization and impairment of assets and CRC 2004-06 on the recognition and measurement of assets, with the exception of costs relating to first establishment of the Local Agency France that have been recognized in balance sheet like intangible assets, as permitted by Article R.123-186 the Code de commerce.

The acquisition cost of fixed assets includes, besides the purchase price, incidental costs which are charges linked directly or indirectly to the acquisition for the use or for the state entry in the assets of the company.

Software acquired are recognized in gross value at acquisition cost.

IT costs are recognized in assets when they meet the conditions required by Regulation N° 2004-06, i.e. whether all the expenses are inccured for the etablishment of the information system.

Tangible and intangible assets are amortized over their estimated useful lives, with the exception of Start-up costs, which are amortized over a maximum period of 5 years, as permitted by the Code de Commerce (Article R.123-187).

At each balance sheet date, or more frequently where events or changes in circumstances dictate, property, plant and equipment is assessed for indications of impairment. If such indications are present, these assets are subject to an impairment review. If impaired, the carrying values of assets are written down by the amount of any impairment and the loss is recognised in the income statement in the period in which it occurs.

Fixed assets are amortised over their estimated useful lives in the following manner:

Fixed asset	Estimated useful life
Start-up costs	5 years
Software	5 years
Website	3 years
Fixtures and fittings	10 years
Computer equipment	3 years
Office furniture	9 years
Software development	5 years

The amortization method is straight-line.

Securities portfolio

Accounting policies for securities transactions are defined by CRB regulation 90-01 as amended by CRC Regulations 2005-01, 2008-07 and 2008-17 endorsed by Regulations 2014-07 and by CRC Regulation 2002-03 for the determination of credit risk and impairment of fixed-income securities, endorsed as well by Regulations 2014-07.

Securities are presented in the financial statements according to their type:

"Government and public securities" for Treasury bills and similar securities,

"Bonds and other fixed income securities" for notes and interbank debt instruments, shares and other income securities variable

"Equities and other variable income securities"

The item "Government and public securities" includes debt securities issued by public sector entities that may be refinanced through the European System of central banks.

They are classified in portfolios defined by regulation (trading, investment securities, placement securities, long term equities investment, medium term portfolio, other long term equity investments and investments in subsidiaries and affiliates), depending on the initial intention for holding the securities at the time they were acquired.

Placement securities

Securities that do not fit in any existing category are recognized as placement securities.

Placement securities are recorded at acquisition cost including fees.

. Bonds and other fixed income securities:

These securities are recognised at acquisition cost excluding interest accrued at the acquisition date. Accrued interest at the date of acquisition is recorded separately as "Accrued interest".The difference between the purchase price and the redemption value is spread over the remaining life of the security on an actuarial basis.

Interests on these securities are recorded in Income statement as "Interest income on bonds and fixed income securities".

At the end of the reporting period, in application of the principle of prudence, placement securities are recorded on the balance sheet at their acquisition cost or selling price at the end of the reporting period, whichever is lower, after accounting, when relevant, for the value of the micro-hedge swap.

Excluding conterparty risk, when the decrease in the value of the security exceeds the unrealized gain on the micro-hedge, the decrease in net value is recorded in Net gains (losses) on placement portfolio as loss or gain on sales.

If the decrease in the value of the security arises from a risk relating specifically to the issuer of the security, impairment is recorded under “Cost of risk”, in accordance with CRC regulation 2002-03 on credit risk.

If appropriate, Impairment intended to take into account counterparty risk and recognised under the cost of risk is booked on fixed income securities as follows:

. in the case of listed securities, impairment is based on market value, which intrinsically reflects credit risk. However, if Agence has specific information on the issuer’s financial position that is not reflected in the market value, a specific impairment loss is recorded;

. in the case of unlisted securities, impairment is recorded in the same way as on loans and receivables to customers based on identified probable losses.

. Equities and other variable-income securities:

Equities are recognised on the balance sheet at their purchase price including transaction expenses. The associated dividends are recorded as income under “Income from variable-income securities”.

Income from mutual funds is recognised when received under the same heading.

At each reporting date, short term investment securities are measured at the lower of acquisition cost and market value. If the current value of an item or a homogeneous set of securities (calculated from market prices at the reporting date, for example)is lower than its carrying amount, an impairment loss is recorded for the unrealised loss without being offset against any gains recognised on other categories of securities.

Investment securities

Investment securities are fixed income securities with a fixed maturity date that have been acquired or transferred to this category with the manifest intention of holding them until maturity.

This category only includes securities for which Agence has the necessary financial ability to continue holding them until maturity and that are not subject to any legal or other restriction that could interfere with its intention to hold them until maturity.

Securities considered as Investment securities are recorded on the date of purchase at acquisition clean price including fees. Accrued interest at the date of acquisition is recorded separatly as "Accrued interest". Interest on these securities is recorded in income as Interest income on bonds and fixed income securities.

The difference between the purchase price and the redemption value is spread over the remaining life of the security on an actuarial basis.

Impairment is not booked for long term investment securities if their market value falls below cost. On the other hand, if the impairment arises from a risk relating specifically to the issuer of the security, impairment is recorded under “Cost of risk”, in accordance with CRC regulation 2002-03 on credit risk.

In the case of the sale or reclassification to another category of long term investment securities and representing a material amount, during the current financial year and the next two financial years, the reporting entity is no longer authorised to classify securities previously bought and to be bought as long term investment securities, in accordance with CRC regulation 2005-01, except in the special cases provided by that regulation and by CRC regulation 2008-17.

Market price

The market price at which the various categories of securities are measured is determined as follows:

. Securities traded on an active market are measured at the latest price;

. If the market on which the security is traded is not or no longer considered active or if the security is unlisted, Agence determines the likely value at which the security concerned would be traded using valuation techniques. Firstly, these techniques take into account recent transactions carried out in normal competition conditions. If required, Agence uses valuation techniques commonly used by market participants to price these securities, when it has been demonstrated that these techniques provide reliable estimates of prices obtained in actual market transactions.

Recording date

Agence records securities classified as investment securities on the settlement date. Other securities, regardless of type or classification, are recognised on the trading date.

Disclosures on Placement securities and Investment securities

The Regulation CRC 2000-03, Appendix III, paragraph 1. 1.2, supplemented by Regulation No. 2004-16 of 23 November 2004 and Regulation CRC No. 2005-04 requires credit institutions to provide:

. A breakdown of Investment portfolio and Placement portfolio, public bills and similar securities, bonds and other fixed-income securities.

. For Placement securities, the amount of unrealized gains corresponding to the difference between the market value and acquisition cost is disclosed. The amount of unrealized gains on Placement securities subject to a provision in the balance sheet as well as investment securities unrealized losses not subject to provision.

Debt due to banks

Debt due to banks is broken down according to the initial maturity (sight or term debt).

Repurchase agreements (represented by certificates or securities) are included under these type according to the initial maturity. Accrued interest on these deposits is recognised under accrued interest and taken to profit and loss.

Debt securities issued

These debt securities are recorded at nominal value. Redemption and issue premiums are amortized on an actuarial basis over the maturity of the securities prorate temporis. They are recorded on the balance sheet in the same categories as the corresponding debt. Amortization of these premiums is recorded in the income statement as "Interest expense on bonds and other fixed income securities".

If bonds are issued above par, amortization of issue premiums is deducted from interest expense on bonds and other fixed income securities. Interest on bonds is recorded as Interest expense for accrued amounts calculated prorata temporis. Bond issue costs and commissions are amortized on an actuarial basis over the maturity of the related loans.

Derivative transactions

Agence engages in derivative transactions to hedge the interest rate and foreign exchange risks to which it is exposed in its activity.

Depending on their purpose, these transactions are assigned to micro-hedge or macro-hedge portfolios in accordance with CRB regulations 88-02 and 90-15 endorsed by ANC Regulations 2014-07. Valuation methods and accounting principles are determined according to the portfolio to which they are assigned.

Micro-hedge transactions

Transactions are booked as micro-hedges when they are designed to hedge against the interest rate risk related to an item or set of homogeneous items identified from the start. They involve swaps used to hedge issues of debt securities, fixed-income secuties recognised as placement securities and loans and advances to customers.

Macro-hedge transactions

This category includes transactions designed to hedge and manage the Company's overall exposure to interest rate risk on assets, liabilities and off-balance sheet items, excluding micro-hedge transactions.

Hedging transactions accounting

Expense and income on these transactions are recorded in the income statement in the same way income and expense on the hedged item or set of homogeneous items are recorded.

Expense and income on these transactions are recorded in the income statement prorata temporis respectively as Interest expense or Interest income.

Unrealised gains and losses on derivatives valuation are not recorded.

Payments at the inception of hedging derivatives are recorded in other assets and other liabilities and amortized over their maturity according to an actuarial method.

In the event of early reimbursement or the sale of the hedged item, or early repayment within the framework of the renegotiation of the hedged item, the termination fee received or paid because of the early interruption of the hedging instrument is recorded in in the income statement if the hedging instrument has been cancelled.

Cost of risk

The cost of credit risk includes impairment charges and reversals on fixed-income securities, and customer loans and receivables, as well as charges and reversals of impairment relating to guarantee commitments given, losses on receivables, and the recovery of amortised receivables.

Provisions

Agence applies CRC regulation 2000-06 on liabilities relating to the recognition and measurement of provisions falling within the scope of this regulation.

Provisions are recorded at present value when the three following conditions are met:

• Agence has a present legal or constructive obligation as a result of past events;

• It is probable that an outflow of resources representing economic benefits will be required to settle the obligation;

• A reliable estimate of the amount of the obligation can be made.

Tax consolidation

Since January 1, 2015, the Agence belongs to the tax group headed up by Agence France Locale - Société Térritoriale. This entity pays the total income tax owed by the group. The Agence records in its accounts the amount of tax for which it would be liable if it were not a member of the tax group. Tax savings realized by the tax group are recorded in the accounts of Agence France Locale - Société Térritoriale.

Post-employment benefits

Agence has applied ANC recommendation 2013-02 of 7 November 2013 relating to the measurement and recognition of retirement and similar benefit obligations.

In accordance with this recommendation, Agence sets aside provisions to cover its retirement and similar benefit obligations falling within the category of defined-benefit plans.

These obligations are stated on the basis of actuarial, financial and demographic assumptions, and in accordance with the projected unit credit method. Under this method, for each year of service, a charge is booked in an amount corresponding to the employee's vested benefits for the period. The charge is calculated based on the discounted future benefit.

The entity has opted for method 2 in recommendation 2013-02 which allows in particular for the recognition of gains or losses arising from changes to defined-benefit plans when the curtailment or settlement occurs.

The entity elected to immediately recognise the actuarial gains or losses in profit or loss over the expected average remaining working lives of the employees participating in the scheme. Accordingly the amount of the provision is equal to:

. the present value of the obligation to provide the defined benefits at the reporting date, calculated in accordance with the actuarial method advised by the recommendation;

. plus any actuarial gains (less any actuarial losses) not recognized,

. less, where applicable, the fair value of plan assets. These may be represented by an eligible insurance policy. In the event that the obligation is fully covered by such a policy, the fair value of the policy is deemed to be the value of the corresponding obligation, i.e. the amount of the corresponding actuarial liability.

The recommendation also allows for the recognition of actuarial gains and losses using the "corridor method" or any other method that results in faster recognition in profit or loss.

Identity of the parent company consolidating the accounts of the Agence as of December 31, 2016

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

IV - Notes to the Balance Sheet

Note 1 - PORTFOLIO

(€ '000s)

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/Discout	7,340			7,340
31/12/2015				
Fixed or variable income securities				
Listed securities	401,968	50,246		452,214
Unlisted securities				-
Accrued interest	988	253		1,240
Impairment	(63)	(8)		(70)
Net carrying amount	**402,894**	**50,491**	**-**	**453,384**
Residual net Premium/Discout	5,055	250		5,305

Government paper and similar securities: analysis by residual maturity

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 31/12/2016	Total 31/12/2015
Government paper and similar securities								
Net amount	5,300	9,009	301,672	37,158	353,139	1,022	354,161	402,894
NET CARRYING AMOUNT	**5,300**	**9,009**	**301,672**	**37,158**	**353,139**	**1,022**	**354,161**	**402,894**
Bonds and other fixed income securities								
Net amount	-	-	-	-	-	-	-	50,491
NET CARRYING AMOUNT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**50,491**

Analysis by type of portfolio

(€ '000s)

Portfolio	Gross amount 31/12/2015	Additions	Disposals	Transfers	Prem/Disc Amort.	Change in accrued interest	Impairment	Total 31/12/2016	Unrealized gains/losses
Transaction									
Held-for-sale	453,384	1,279,060	(1,373,663)		(4,269)	(219)	(131)	354,161	(281)
Investment									
NET CARRYING AMOUNT	**453,384**	**1,279,060**	**(1,373,663)**	**-**	**(4,269)**	**(219)**	**(131)**	**354,161**	**(281)**
Of which Premium/Discount	5,305	28,601	(22,297)		(4,269)			7,340	

Note 2 -RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	31/12/2016	31/12/2015
Mandatory reserve deposits with central banks	57,929	
Other deposits		
Cash and central banks	**57,929**	

Receivables on credit institutions

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 31/12/2016	Total 31/12/2015
Credit institutions								
Loans and receivables								
- demand	23,412						23,412	45,982
- time								
Securities bought under repurchase agreements								
TOTAL	**23,412**	**-**	**-**	**-**	**-**	**-**	**23,412**	**45,982**
Impairment								
NET CARRYING AMOUNT	**23,412**	**-**	**-**	**-**	**-**	**-**	**23,412**	**45,982**

Note 3 - DUE TO CREDIT INSTITUTIONS

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 31/12/2016	Total 31/12/2015
Credit institutions								
Accounts and Overdrafts								
- demand								
- time								
Securities sold under repurchase agreements								
TOTAL	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Note 4 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	31/12/2016	31/12/2015
Short-term credit facilities	850	
Other loans	887,747	384,873
Customers transactions before impairment charges	**888,598**	**384,873**
Impairment		
Net carrying amount	**888,598**	**384,873**
Of which related receivables	1,016	537
Of which gross doubtful receivables		
Of which gross non-performing doubtful receivables		

Analysis by residual maturity excluding accrued interest

(€ '000s)

	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 31/12/2016
Loans and advances to customers	14,116	13,470	36,658	231,728	591,609	**887,582**	**1,016**	**888,598**

Note 5 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible assets	31/12/2015	Additions	Transfers	Disposals	Amort.	Other movements	31/12/2016
Intangible assets	**10,663**	**140**	**89**			**170**	**11,064**
Start-up costs	2,123						2,123
IT development costs	8,224	87	89			147	8,547
Web site	289	53				23	366
Software	28						28
Intangible assets in progress	**202**		**31**			**(170)**	**63**
Intangible assets amortisation	**(2,106)**				**(2,187)**		**(4,294)**
Net carrying amount	**8,759**	**140**	**120**	**-**	**(2,187)**	**-**	**6,833**

Property, plant & equipment	31/12/2015						31/12/2016
Property, plant & equipment	735	13					748
Tangible assets in progress							-
Tangible assets amortization	(105)				(93)		**(199)**
Net carrying amount	**630**	**13**	**-**	**-**	**(93)**	**-**	**550**

Note 6 - OTHER ASSETS AND ACCRUALS

(€ '000s)	31/12/2016	31/12/2015
Other assets		
Cash collateral paid	20,682	12,985
Other assets	366	655
Impairment		
Net carrying amount	**21,047**	**13,640**
Accruals		
Deferred charges on bond issues	5,918	3,781
Deferred charges on hedging transactions	560	94
Prepaid charges	199	67
Accrued interest not yet due on hedging transactions	3,432	2,222
Other deferred income		
Other accruals		
TOTAL	**10,108**	**6,164**

Note 7 - DEBT SECURITIES

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 31/12/2016	Total 31/12/2015
Negotiable debt securities							-	-
Bonds				1,250,000	1,250,000	2,985	1,252,985	848,059
Other debt securities							-	-
TOTAL	**-**	**-**	**-**	**1,250,000**	**1,250,000**	**2,985**	**1,252,985**	**848,059**

Note 8 - OTHER LIABILITIES and ACCRUALS

(€ '000s)	31/12/2016	31/12/2015
Other liabilities		
Cash collateral received	3,990	100
Miscellaneous creditors	1,466	1,484
TOTAL	**5,456**	**1,584**
Comptes de régulation		
Transaction to pay and settlement accounts		
Unrealised gains on hedging instruments	12,182	7,190
Unearned income		
Accrued expenses on hedging instruments	3,085	839
Other accrued expenses		
Other accruals	193	1,570
TOTAL	**15,460**	**9,599**

Note 9 - PROVISIONS

(€ '000s)	Balance as of 31/12/2015	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 31/12/2016
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	**17**	**488**	**-**	**-**	**-**	**505**

Note 10 - CHANGES IN EQUITY

(€ '000s)	Share capital	Legal reserve	Share premiums	Statutory reserve	Translation revaluation	Regulated reserve	Retained earnings	Net income	Total equity
Balance as of 31/12/2014	**35,800**	**-**	**-**	**-**	**-**	**-**	**-**	**(8,046)**	**27,754**
Dividend paid for 2014									
Change in share capital	38,500								38,500
Change in share premium and reserves									
Net income as of 31/12/2015								(12,082)	(12,082)
Allocation of 2014 net profit							(8,046)	8,046	
Other changes									
Balance as of 31/12/2015	**74,300**	**-**	**-**	**-**	**-**	**-**	**(8,046)**	**(12,082)**	**54,173**
Dividend paid for 2015									
Change in share capital	36,700 (1)								36,700
Change in share premium and reserves									
Allocation of 2015 net profit							(12,082)	12,082	
Net income as of 30/06/2016								(2,642)	(2,642)
Other changes									
Balance as of 31/12/2016	**111,000**	**-**	**-**	**-**	**-**	**-**	**(20,127)**	**(2,642)**	**88,231**

(1) The share capital of Agence which amounts on December 31st, 2016 to € 111,000,000 consists of 1,110,000 shares. Agence carried out fourth capital increases in 2016 for the benefit of the Territorial Company, its parent company. The first was subscribed on 4 March 2016 to € 19,200k, the second on 27th April, 2016 for € 16,000k, the third on 28th June 2016 for € 6,000k and the fourth on 6th December 2016 for € 500k.

Note 11 - DERIVATIVES

Outstanding notional and Fair value

(€ '000s)	31/12/2016				31/12/2015			
	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	**2,216,385**	**-**	**274,942**	**-**	**1,264,930**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**2,216,385**	**-**	**274,942**	**-**	**1,264,930**	**-**	**-**	**-**
Interest rate contracts	2,216,385		274,942		1,217,627			
FRA								
Cross Currency Swaps					47,304			
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Exchange rate options								
Other options								
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Caps, floors								
Foreign currency option								
Crédit derivatives								
Other options								

Amount of micro-hedge transaction as of 31/12/2016	2,012,085	(€ '000s)
Amount of macro-hedge transaction as of 31/12/2016	204,300	(€ '000s)
Amount of others than hedge transactions as of 31/12/2016	274,942	(€ '000s)

Notional amount by maturity

(€ '000s)	31/12/2016					
	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	**11,817**	**193,200**	**2,011,368**	**-**	**167,842**	**107,100**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts						
Other contracts						
Over-the-counter markets	**11,817**	**193,200**	**2,011,368**	**-**	**167,842**	**107,100**
Interest rate contracts	11,817	193,200	2,011,368		167,842	107,100
FRA						
Cross Currency Swaps						
Other contracts						
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**
Exchange rate options						
Other options						
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**
Caps, floors						
Foreign currency option						
Crédit derivatives						
Other options						

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

V - Notes to the Income statement

Note 12 - Interest income and expenses

(€ '000s)	31/12/2016	31/12/2015
Interest and similar income	**19,624**	**5,376**
Due from banks	97	3
Due from customers	7,662	1,365
Bonds and other fixed income securities	(281)	343
from Held-for-sale securities	*(281)*	*(388)*
from Investment securities		*731*
Income from interest rate instruments	12,146	3,664
Other interest income		
Interest and similar expenses	**(14,956)**	**(4,910)**
Due to banks	(142)	(41)
Due to customers		
Debt securities	(5,006)	(2,574)
Expense from interest rate instruments	(9,808)	(2,296)
Other interest expenses		
Interest margin	**4,668**	**465**

Note 13 - Net fee and commission income

(€ '000s)	31/12/2016	31/12/2015
Commission income	**1**	**0.01**
Interbank transactions		
Customer transactions	1	0.01
Securities transactions		
Forward financial instruments transactions		
Currencies transactions		
Financing commitments and guarantee		
Other commissions recieved		
Commission expenses	**(57)**	**(1,149)**
Interbank transactions		(0.04)
Securities transactions	(12)	(1,137)
Forward financial instruments transactions	(45)	(12)
Currencies transactions		
Financing commitments and guarantee		
Other commissions paid		
Net fee and commission income	**(56)**	**(1,149)**

Note 14 - Other banking income and expenses

(€ '000s)	31/12/2016	31/12/2015
Other banking income	**-**	**1,125**
Re-invoiced expenses outside the Group		
Expense reclassifications		1,125
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)	31/12/2016	31/12/2015
Gains/(losses) on Trading book		
Gains/(losses) on forward financial instruments	(1,140)	(14)
Gains/(losses) on foreign currency transactions		
Gains or (losses) on trading portfolio	**(1,140)**	**(14)**
Gains/(losses) from disposal of held-for-sale securities	5,786	14
Other income/(expenses) from held-for-sale securities		
Impairment (charges) and reversals on held-for-sale securities	(131)	(70)
Gains or (losses) on held-for-sale portfolio	**5,655**	**(56)**

Note 16 - General operating expenses

(€ '000s)	31/12/2016	31/12/2015
Employee expenses		
Wages and salaries	2,730	2,580
Post-employment benefit expenses	304	282
Other expenses	1,205	935
Total Employee expenses	**4,239**	**3,797**
Operating expenses		
Taxes and duties	753	273
External services	5,158	11,280
Total Administrative expenses	**5,911**	**11,554**
Charge-backs and reclassification of administrative expenses	(663)	(5,220)
Total General operating expenses	**9,487**	**10,130**

Employee expenses relate to a staff of 25 to 31 December 2016.

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

(€ '000s)	31/12/2016	31/12/2015
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		(670)
Losses on sales of tangible or intangible assets		
Charge of impairment		
Total Losses on fixed assets	**-**	**(670)**

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 year end closing were not recognised as deferred tax assets.

Note 19 - Related parties

There are, on 31 December 2016, an agreement of administrative services and a licensing for the use of a mark, which have been concluded between the Agence and the Agence France Locale - Territorial Corporation at normal market conditions.

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Agence France Locale S.A.

Statutory auditor's report on the financial statements

Year ended December 31, 2016
Agence France Locale S.A.
10/12 boulevard Vivier Merle - 69003 LYON
This report contains 19 pages
Référence :

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This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Agence France Locale S.A.

Registered office: 10/12 boulevard Vivier Merle - 69003 LYON

Statutory auditor's report on the financial statements

Year ended December 31, 2016

To the Shareholders,

In compliance with the assignment entrusted to us by the Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying financial statements of Agence France Locale,
- the justification of our assessments,
- the specific verification required by law.

These financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements based on our audit.

1 Opinion on the consolidated financial statements

We conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2016 and of the results of its operations for the year then ended, in accordance with French accounting principles.

2 Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code ("Code de commerce") relating to the justification of our assessments, we bring to your attention the following matters:

Accounting principles

Paragraph III "Accounting Principles" of the Notes to the financial statements discloses the accounting principles relating to the portfolio of bonds held by your Company. We have examined the internal control procedures concerning the classification and the financial parameters used for the valuation of these assets. We have verified the appropriateness of these accounting methods, as well as the information provided in note 1 of paragraph IV of the Notes to the financial statements, and have made sure of their correct application.

The assessments were made in the context of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3 Specific verification and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Management Board and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning information given in accordance with the requirements of article L.225-102-1 of the French Commercial Code (Code de commerce) relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

Paris la Défense and Paris, April 7, 2017

French original signed by

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