AGENCE FRANCE LOCALE

La banque des collectivités

Annual report 2019

Agence France Locale

GLOSSARY

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

Article I. Table des matières

I. The Company's Activity

1. Background and shareholding model structure

The creation of Agence France Locale (the Company) was authorized by Act No. 2013-672 of July 26, 2013 for the separation and regulation of banking activities, after which AFL was effectively created on October 22, 2013, the date on which its constituent act was signed.

The Agence France Locale Group (AFL Group) is organized around a twofold structure consisting of Agence France Locale - Société Territoriale (AFL-ST, the parent company with the status of financial company) and of Agence France Locale (AFL, the subsidiary, a specialized credit institution). The Agence France Locale Group is formed by the combination of these two companies. The purpose of its two-tier governance is to separate the operational management, handled by the specialized credit institution (AFL), from the shareholder representation, the management of guarantees and the definition of strategic guidelines, handled by Société Territoriale (AFL-ST). This separation of responsibilities makes it possible to avoid conflicts of interest in the form of intervention by member local and regional authorities in AFL's day-to-day management activities, ensure stakeholder accountability for their tasks, and have adequate control and monitoring mechanisms.

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

The main tasks of AFL-ST, the Group's parent company, are as follows:

- Representation of shareholders;
- Management of the guarantee mechanism;
- Appointment of the members of the credit institution's Supervisory Board;
- Setting of major strategic guidelines and the risk appetite framework; and
- Promotion of the model among local authorities, jointly with AFL, to increase the number of shareholder members.

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

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

1.1 A robust structure

AFL is an investment financing facility for local authorities in which they are the exclusive shareholders through Société Territoriale (AFL-ST), the majority shareholder and over 99.9% owner of AFL. Like the local authorities financing agencies in Northern Europe,[1] which have existed for several decades, and agencies in New Zealand or Japan, AFL was established to be a long-term player in the financing of local investments. Whilst integrating French law constraints, the AFL model is broadly inspired by the Nordic agencies, and more specifically the Swedish and Finnish agencies, which have been financing local authorities in their respective countries since the end of the 1980s. This model, based on pooling the needs of local authorities and their credit ratings, enables them, by grouping together, to have sufficient size to borrow in the capital markets, through bond issues in particular, in order to grant simple fixed- or floating-rate loans to local authority shareholders.

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

[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.

- On the one hand, the "Member Guarantees" granted by local authorities that are AFL-ST shareholders to any financial creditor of AFL providing the possibility to call on the local authority shareholders directly as guarantors. The amount of this guarantee is intended to be equal to the amount of borrowings of over 364 days contracted by each member local authority with AFL. As a result, a creditor has the option of calling on several regional and local authorities as guarantors. A local authority whose guarantee has been called by a creditor has the obligation to inform AFL-ST, which may, in turn, call all other member guarantees in proportion to the amount of their credits contracted with AFL. This guarantee is organized to create solidarity between the member regional and local authorities in the payment of the amounts due while each of them is limited to its own outstanding medium- to long-term loan. In order to have sufficient liquidity, the amounts borrowed by AFL are intended to be higher than the amounts it lends to members, and the securities issued by AFL are not fully covered by the Member Guarantee mechanism:

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

    - As a result, almost 30% of the total amount of borrowings issued by AFL on the markets are retained, both to ensure AFL's liquidity in accordance with its regulatory obligations and good management practices, and to offer cash loans to members under the conditions and within the limits set by AFL's financial policies;
- On the other hand, the "ST Guarantee" granted by AFL-ST to any financial creditor of AFL, which allows creditor(s) to call on AFL-ST directly as guarantor. The ceiling of the "ST Guarantee" is set by the Board of Directors. It was increased from €5 billion to €10 billion by the Board of Directors on September 28, 2018. It covers all of the commitments of its AFL subsidiary to its beneficiary creditors.

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

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

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

With respect to prudential requirements that are imposed on AFL in respect of banking regulations, AFL is monitored for the use of equity capital at the consolidated level and for liquidity at the lending institution level as well as at the consolidated level.

The AFL Group has set a minimum equity threshold for its solvency ratio (Common Equity Tier One at AFL-ST level) of 12.5%, compared with a regulatory minimum of 11.75% excluding the countercyclical buffer.

As regards the regulatory obligations relating to the leverage ratio, these are now subject to differentiated treatment for public development banks within under CRR2, a status that AFL expects to obtain. The incoming CRR is expected to authorize public development banks such as AFL to exclude certain assets such as promotional loans[3] from their exposures.

1.2 A customer centric model

The AFL Group was designed to better serve its customers on three levels.

Firstly, through AFL's unique status as shareholder borrower, which enables borrowers to ensure that their interests are at the heart of the AFL Group's objectives, through its position as shareholder of ST. ST's responsibility is to pursue the Group's strategy, promote the interests of all borrowers and pool each one's interests for the benefit of all local authorities.

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

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

1.3 Rating of bonds issued by AFL

After its creation and the granting of its banking license, on January 29, 2015, AFL was awarded the long-term rating of Aa2 by Moody's, one slot below that of the French government, in recognition of the robust model that it embodies. Following the reduction

[2] The guarantee models are accessible on the AFL Group's internet site: www.agence-France-locale.fr.
[3] Regulation (EU) 876/2013 Article 429 bis C/Exposures excluded from the total exposure measure

in the State's rating by Moody's on September 18, 2015, AFL's rating was lowered by one slot to Aa3 with a stable outlook. This rating has remained unchanged since.

AFL also received a long-term AA- rating, stable outlook, and a short-term A-1+ rating, stable outlook, from S&P Global Ratings Europe Limited (S&P) on May 20, 2019.

AFL's bond issue program is also rated by Moody's and S&P. The rating of AFL bonds is at the top echelon for quality of credit, namely ("high grade"), with, at the time of this report, an Aa3 rating with a stable outlook from Moody's, and an AA- rating with a stable outlook form S&P.

2. Review of the activities carried out in the 2019 financial year

2.1 Key events of the past financial year

- **Second rating granted by S&P**

As indicated above, on May 20, 2019, S&P Global Ratings Europe Limited (S&P) issued AFL a long-term rating of AA- and a short-term rating of A-1+, stable outlook, basing its decision on the following items:

- The credit institution's high level of capitalization;
- The strong support from local and regional authorities through the guarantee mechanism; and
- The abundant liquidity combined with efficient access to capital markets.

This dual rating, which is a major step in the Group's development, allows AFL to consolidate its credit quality and as such facilitates its access to the fixed income and money markets, thereby helping perpetuate the access of member local and regional authorities to financial resources under the best conditions.

- **Broadening of the AFL-ST shareholder base**

Article 47 of French law 2019-1461 of December 27, 2019, known as the *"Engagement and Proximity Law",* modifies the provisions of Article 1611-3-2 of the French General Local Authorities Code (*Code général des collectivités territoriales* – ***CGCT***), the AFL Group's founding text, and extends the possibility of subscribing for AFL-ST capital beyond the range of local authorities to all groupings of municipal authorities and public sector undertakings. A decree, whose entry into force is pending, will set the financial position and indebtedness criteria allowing new entities to become shareholders of the Group's parent company.

This development opens up additional growth prospects for the AFL Group, which is preparing, subject to the agreement of its governance bodies, to welcome its first groupings of municipal authorities by the end of the current financial year.

- **Changes in prudential requirements applicable to AFL**

With respect to the prudential requirements that are imposed on AFL in respect of banking regulations, AFL is monitored for the use of equity capital at the consolidated level and for liquidity at the lending institution level as well as at the consolidated level. The AFL Group has established an internal minimum solvency ratio of 12.5%, compared with a regulatory minimum of 11.75% excluding the countercyclical buffer. During the first half of 2019, the ACPR notified the AFL Group of its obligation as from June 30, 2019 to hold equity capital that enables it to comply with a total prudential capital requirement of 9.25%, which includes:

- The minimum requirement of 8%; and
- An additional equity capital requirement (Pillar 2) of 1.25%.

In addition, the AFL Group is required to hold:

- 2.5% of equity capital as a capital conservation buffer as of January 1, 2019; and
- 0.25% of equity capital as a countercyclical capital conservation buffer, as of July 1, 2019, applicable to French exposures, following the decision by the Haut Conseil de Stabilité Financière (French Financial Stability Board - HCSF).

AFL Group has had an internal minimum solvency ratio limit of 12.5% since its creation. The actual level was 15.78% as at December 31, 2019.

On June 7, 2019 a large corpus of banking regulations was published in the Official Journal of the EU. More specifically this includes Regulation (EU) 2019/876 of the European Parliament and of the Council of May 20, 2019 amending Regulation (EU) No. 575/2013 (the CRR). This regulation requires the leverage ratio of credit institutions to be higher than 3% and states that public development credit institutions must exclude any exposures resulting from assets that constitute claims on central, regional or local governments from their measurement of total exposures. This provision will enter into force on June 28, 2021.

In the event that AFL is indeed eligible public development credit institution status, authorizing the deduction of promotional development loans from the assets on its balance sheet, Société Territoriale's leverage ratio (IFRS) would amount to 11.98% as at December 31, 2019. Based on the methodology currently applicable to credit institutions, the Group's leverage ratio was 2.78% at that date.

- **Company's financial market operations**

i. Bond issues as part of the EMTN program

AFL's medium- and long-term loan program for 2019, which was approved by the Supervisory Board on December 13, 2018, was capped at €800 million as part of its "EMTN"[4] debt security issuance program; the medium- and long-term borrowing program was increased by €250 million by authorization of the Supervisory Board on September 19, 2019, bringing its maximum total amount to €1,050 billion for 2019. In addition to this medium- and long-term program, there was a drawdown authorization of €200 million for debt securities issued under the ECP program for 2019.

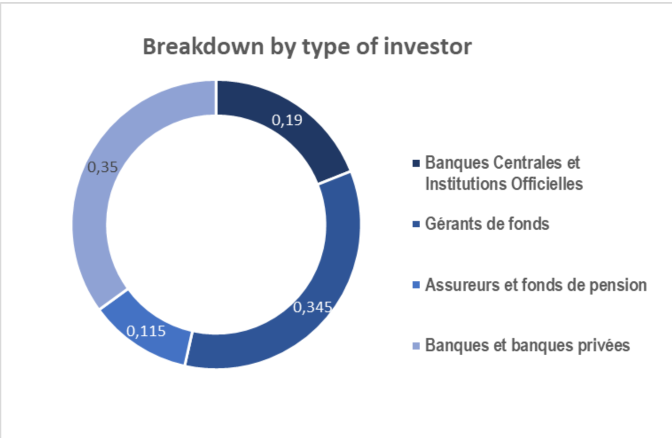
In this context and based on the required authorizations, AFL issued €957 million in bonds via its EMTN program during 2019, at a stable margin of 15 to 30 basis points above the OAT (French Treasury Bond) curve, with as a result, a very attractive average cost for debt issued.

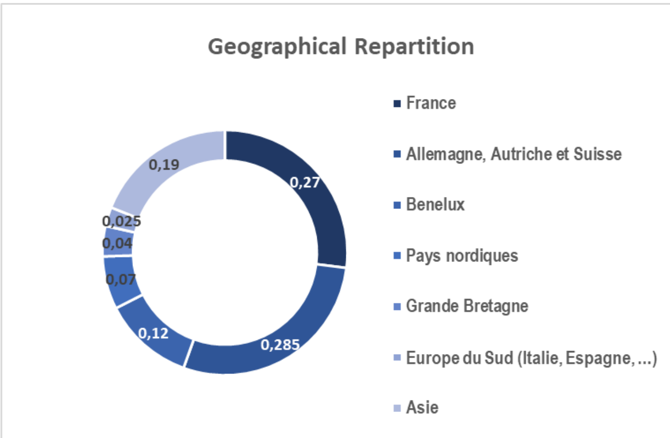
The 2019 borrowing program was marked by the continued extension of the duration of medium- and long-term issues, notably through private placements with maturities of 10 to 15 years, denominated in euros and foreign currencies. As such, two new issue currencies enabled AFL to attract new investors, in part thanks to a second rating, thereby opening up new prospects for the placement of its debt. As it has each year since starting its activities in 2015, AFL issued a euro-denominated benchmark bond in June 2019. A €500 million 7-year bond, it was characterized by an investment with an increased number of investors, but also greater diversity in their typology and geographic origin. In November, to close its 2019 issue program, AFL extended its 2028 bond by €190 million at a margin of more than 32 basis points vs. OAT.

In total, the bonds issued by AFL in 2019 have an average maturity of 8.1 years, thereby contributing to the good matching of sources and uses on the balance sheet, while keeping the cost of financing under control.

The average cost of funds in 2019 was more than 31.5 basis points above OAT, a very stable level over time. This confirms AFL's credit quality in the fixed income market and its good reputation among an increasing number of investors.

The graphs below show the breakdown of the distribution of the €500 million 7-year issue by geographical area and type of investor:





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

In 2019, AFL was more active in the money market, by regularly drawing on dollar-denominated commercial paper as part of its short-term ECP issue program, due to more favorable market conditions in this regard, which concerns euro-dollar basis swaps.

[4] The update to the Base Prospectus for the €7 billion EMTN Debt Issuance Program was submitted to the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) and was given the number 19-196 on May 13, 2019. Two supplements to the Base Prospectus dated May 22 and October 2, 2019 respectively approved by the AMF under numbers 19-219 and 19-469.

- ### Membership

During the 2019 financial year, AFL-ST, in line with its corporate purpose, subscribed to AFL's capital for €8.1 million as part of four capital increases, taking AFL's share capital from €138.7 million at the start of the financial year to €146.8 million at December 31, 2019.

The AFL Group had 352 members at the end of the financial year. Sixty new authorities have joined the AFL Group in the past financial year, including the Occitanie regional authority, the second region in continental France to become a shareholder of the parent company and join its Board of Directors, as well as the La Rochelle Urban Community, the Saumur Urban Community, the Grand Chalon Urban Community, the City of Strasbourg, Rosny sous Bois, Viry Chatillon, Le Pré Saint Gervais, and numerous municipalities and groupings of municipalities.

The arrival of new shareholders in 2019 increased committed capital[5] by €16.45 million, bringing the total to €179.9 million.

To increase knowledge of AFL and continue its development throughout France, Group teams were strengthened in September 2019 with the arrival of a new Development Director, on secondment from the regional civil service.

Information on AFL's capital and shareholder structure is presented in Section VII of the document hereafter and additional information on the new memberships is presented in AFL-ST's consolidated management report.

- ### Production of credits

In December 2019, AFL crossed the symbolic threshold of €3 billion euros in loans to local authorities after five years of activity.

After a first half characterized like each year by very limited demand from borrowers, the production of loans was more dynamic over the rest of the financial year, leading to a production of medium- and long-term loans of €978 million and new overdraft facilities of €98 million. AFL's medium and long-term credit production represents nearly a 40% market share of AFL's members financing requirements for 2019 financial year.

Moreover, AFL carried out a transaction resulting in receivables in a total amount of €16.1 million through the sale of credit agreements concluded with local authorities belonging to the AFL Group to another credit institution.

At the end of the 2019 financial year, the outstanding loans signed by AFL amounted to €3,398 million and mainly include medium- and long-term loans and also, in a more limited proportion, overdraft facilities to local authority members of the AFL Group.

2.2 Results of the past financial year – Key IFRS figures

2019 NBI amounted to €11,066 thousand, compared with €9,705 thousand in 2018. The increase chiefly reflected the increase in revenue generated by the lending activity. 2019 NBI breaks down as a net interest margin of €10,076 thousand, compared with €7,805 thousand the previous financial year, €500 thousand in net gains on the sale of investment securities, compared with €1,636 thousand in 2018, and a gain of €419 thousand from hedge accounting.

General operating expenses amounted to €9,354 thousand over the period, compared with €9,033 thousand the previous financial year. After depreciation and amortization allowances of €2,221 thousand compared to €1,984 thousand at December 31, 2018, the gross operating loss was €508 thousand compared to a loss of €1,311 thousand at December 31, 2018.

The cost of risk relating to ex-ante impairments for expected credit loss on financial assets subject to IFRS 9 was a positive €5 thousand in 2019, reflecting a reversal of the provision. The increase in outstanding loans did not result in an increase in impairment, since they all present low risk. As regards other financial assets, including the liquidity reserve, the fall in the stock of securities, some of which matured and were replaced by term deposits and deposits with the central bank, resulted in a reduction in impairment, which is highly sensitive to asset duration.

The 2019 financial year ended with a net loss of €1,191 thousand compared to a net loss of €1,712 thousand the previous financial year.

3. Significant events since the balance sheet date

3.1 Market operations

AFL's medium- and long-term loan program for 2020, approved by the Supervisory Board at its meeting of December 12, 2019, was set at a maximum of €1.2 billion. As part of the new EMTN program, AFL carried out two issues constituting immediately fungible contributions to existing bonds in January 2020. The Group's first transaction denominated in Australian dollars, sized at €40.2 million, complements an existing bond maturing in 2030. It was carried out with an issue margin 19 basis points above OAT. The

---

[5] Committed capital corresponds to the initial capital contribution that each local community undertakes to release in accordance with the membership rules, and generally on the basis of a multi-year payment schedule

second transaction, in an amount of €100 million, complements an existing bond maturing in 2026, and was carried out with an issue margin 27.3 basis points above OAT.

3.2 Share capital increase

The AFL Group launched its twenty-third capital increase on January 23, 2020; it was closed on March 13, 2020. The new capital increase resulted in the arrival of eight new local authorities among members, bringing the total number of members to 360 and the amount of AFL-ST's share capital to €157,794,800. AFL's share capital amounts to €150,000,000.

3.3 Coronavirus pandemic

The coronavirus pandemic is having a significant impact on the global economic environment, with major disruptions in the financial markets, the closure of certain business segments and a changing pace in output. It is also prompting changes in lifestyles and consumption patterns. At the organizational level, AFL has set up a crisis unit and adopted measures to ensure the company's normal operational functioning, while limiting the risks of contagion for its staff so as to continue to fulfill its purpose in the best possible conditions.

4. Expected situations and future prospects

AFL continues its growth with an increase in the size of the balance sheet following the development of its lending activities with member local authorities and the programming of new capital increases allowing the sustained and regular arrival of new local authority among members. This development will increase AFL's use of the capital markets for refinancing. In view of the results obtained in 2019, AFL believes it is on track to achieve the objectives set in its 2017-2021 strategic plan. It should also be noted that the law of December 27, 2019 on engagement in local life and proximity in public action, which broadens the scope of entities authorized to join the AFL Group, will require the Group to lay down membership conditions for groupings of municipalities as soon as possible during the coming financial year.

Regarding the effects of the pandemic on AFL's operations and development, the postponement of the second round of municipal elections and the ensuing increase in uncertainty could delay the membership of new local authorities and the establishment of new loans. However, it is too early to measure the impact of these events on loan production volumes in 2020, given that most new loans are granted in the latter part of the year.[6]

Consequently, with regard to the current financial crisis related to the Coronavirus pandemic, France's Haut Conseil de stabilité financière (High Council for Financial Stability) decided on March 18, 2020 to suspend until further notice the counter-cyclical equity cushion of 0.25% for France. It was changed to 0% on March 18, 2020.

II. Balance sheet assets as at December 31, 2019 (IFRS)

At December 31, 2019, AFL's assets consisted of a steady increase in loans to member local authorities, as well as assets, mainly in the form of securities, held in the Company's liquidity reserve.

Excerpts of main assets (IFRS)

[6] See page 25 of this report, paragraph on political or macroeconomic risks or risks related to the specific financial circumstances of the State where AFL carries out its activities

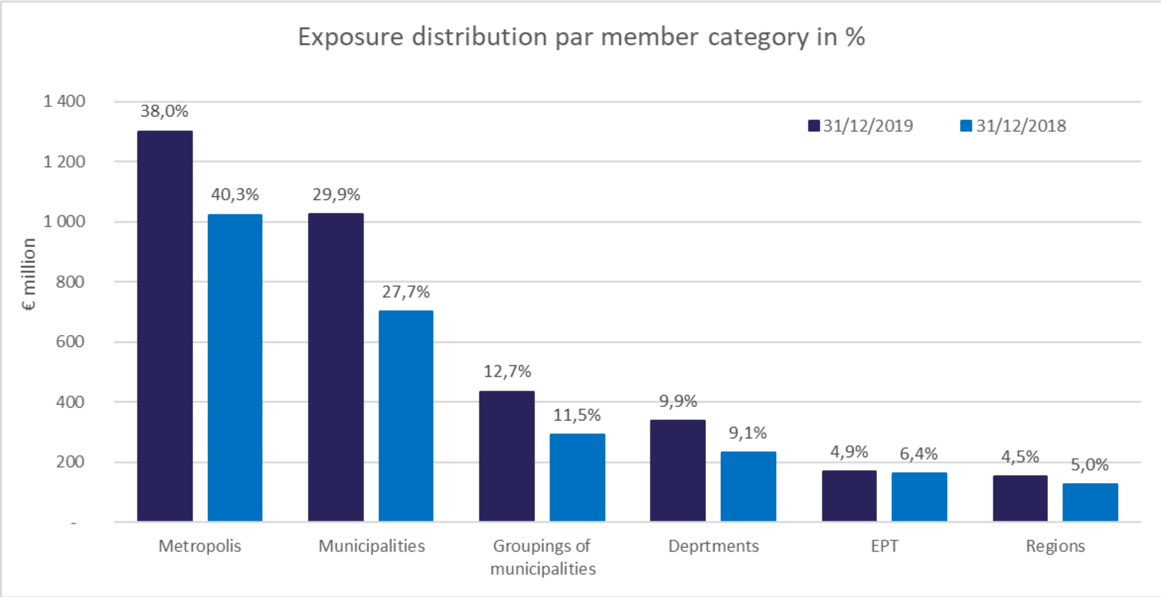
in thousands of euros	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Loans and customer transactions	3,160,500	2,229,911	1,430,829	892,227	383,527
Securities at fair value through other comprehensive income	535,900	502,487	358,964	354,081	456,497
Securities at amortized cost	135,387	175,152	-	-	-
Loans and receivables from credit institutions	110,632	57,101	211,233	23,412	45,982
Margin calls	79,190	52,841	68,376	20,682	12,985
Cash and central banks	165.604	121,650	420,351	57,929	-
Hedging derivative instruments	130,957	44,661	15,629	16,777	-

1. Loans granted to local authorities

The loan portfolio recognized among assets on AFL's balance sheet, recorded at amortized cost, amounted to €3,160.5 million at December 31, 2019, compared with €2,229.9 million at December 31, 2018, after taking into account the impact from changes in interest rates, due to hedge accounting. To have a full view of AFL's outstanding loans, off-balance sheet loans, signed but not yet paid, must be added this. At December 31, 2019, the amount of off-balance sheet financing commitments was €317.7 million, compared with €365.6 million at December 31, 2018. Accordingly, at December 31, 2019, the total loan commitments to local authorities carried by AFL amounted to €3,492.5 million compared to €2,595.6 million at December 31, 2018 and €1,669.6 million at December 31, 2017. This increase in outstanding loans demonstrates the competitiveness of AFL's business model for its members, namely its ability to offer them liquidity under the best conditions and within the framework of the financial policies it imposes on itself.

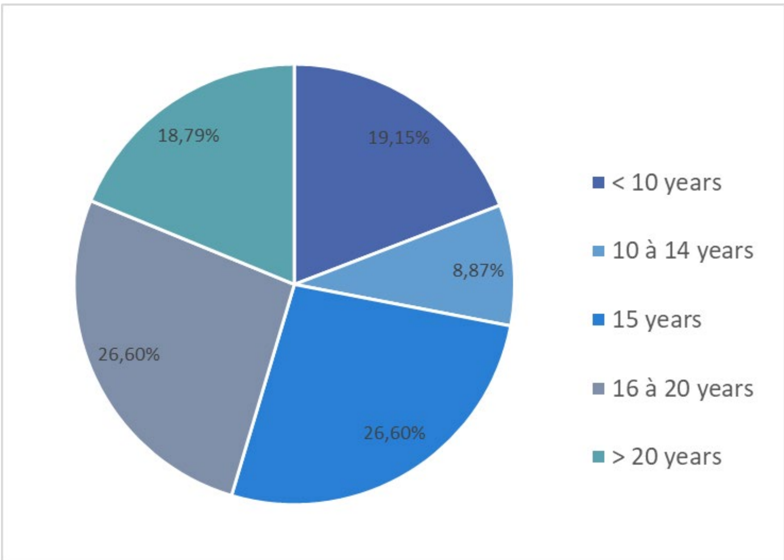
The monthly change in the outstanding principal of the medium- and long-term loan portfolio is shown in the graph below.

AFL exclusively lends to French local authorities that are shareholders of Société Territoriale. 80.6% of direct exposures in the loan portfolio are to the municipal block compared to 79.5% at December 31, 2018, with 38% to metropolitan areas compared to 40.3% at the end of the previous financial year. Exposure to the French departments increased from 9.1% to 9.9% over the period, while exposure to regional authorities narrowed slightly from 5% to 4.5%. That to local public entities (EPT) fell from 6.4% to 4.9%. The chart below shows change in exposure by category of local authorities between 2018 and 2019 in millions of euros and percentage.



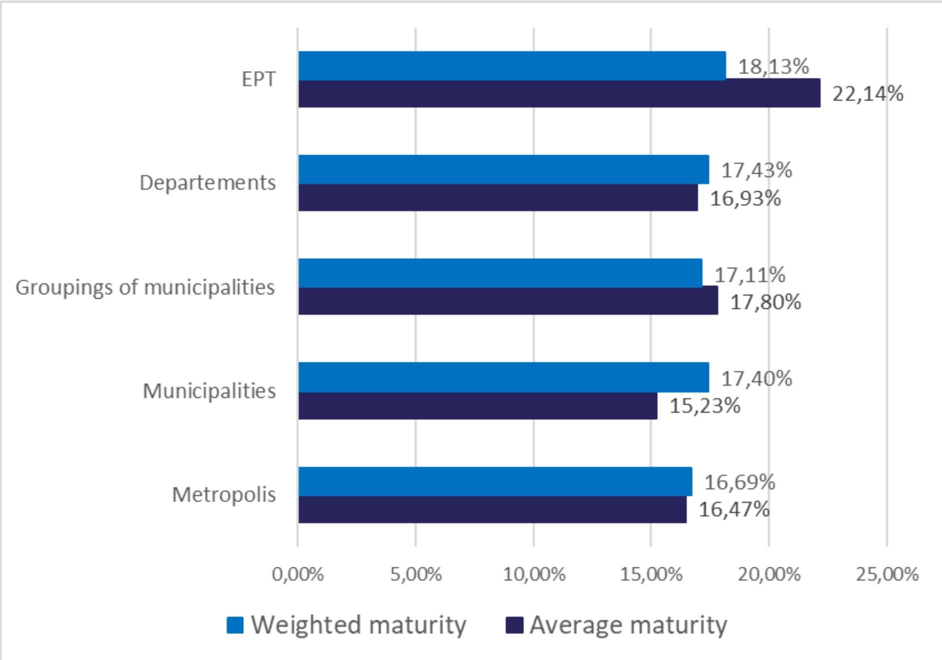
As indicated, 62% of the loans produced by AFL in 2019 have a maturity of between 10 and 20 years, breaking down as 27% of 15 years, 19% of less than 10 years and 19% of more than 20 years.

Breakdown of the production of loans to local authorities by maturity in 2019



The graph below shows, at December 31, 2019, the average maturities and volume weighted maturities by category of local authorities for the entire production of loans by AFL carried out in 2019. There is considerable consistency from one category to another, with the exception of local public entities (EPT), whose average loan maturity, both weighted and non-weighted by volume, is longer than for the other categories.

Average maturity of loans produced in 2019 by segment of local authority at December 31, 2019



As at December 31, 2019, the balance sheet showed a total of €3.8 million in doubtful loans. Loans and advances to customers are classified as doubtful when they have been in arrears for at least 90 days. At the closing date, two communities had failed to honor their respective repayments on one of their loans. In accordance with the contagion principle, all of their outstanding amounts have been classified as doubtful loans. However, AFL aims to recover all loans and the interest attached to them; as such, impairment is confined to the amount calculated on an ex-ante basis using the same statistical model as for the doubtful amounts, i.e. in proportion with the expected credit loss over the residual life of the loan. On these loans, the present value of expected losses is virtually zero at the year-end.

2. Liquidity reserve

Other assets in the balance sheet mainly include the liquidity reserve that corresponds to the portion of the resources not yet distributed in the form of credits and kept for the purpose of liquidity of the credit institution, in accordance with the regulatory requirements, AFL's liquidity policy guidelines and good management practices.

AFL's liquidity reserve primarily covers the institution's cash requirements, with the main aim of providing liquidity for credit activities, debt service and margin calls that AFL may have to face, due to the significant use of interest rate and currency risk hedging instruments in accordance with its financial policies and management objectives. This liquidity has to be available regardless of market circumstances, with the understanding that the only resources that can be mobilized by AFL are funds raised on the capital markets.

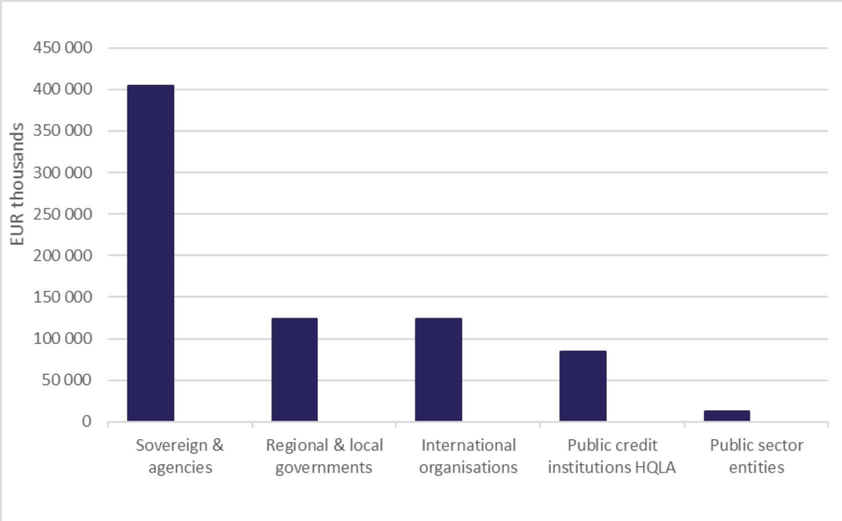
At December 31, 2019, the assets in the liquidity reserve amounted to €947.5 million. This liquidity reserve is divided into two main segments:

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

Due to the investments carried out as part of the liquidity reserve, AFL supports a credit risk on the issuers of assets that it acquires or exposures that it takes. However, this credit risk is limited in view of the quality of the counterparties, which all enjoy the best rating levels from the major rating agencies. At December 31, 2019, 78.9% of the liquidity reserve comprised so-called "HQLA" assets mainly on sovereigns and public agencies issuers as shown in the graph below. The remaining 21.1% consist mainly of nostro accounts and a few exposures in securities on the banking sector. The securities acquired as part of the liquidity reserve include securities issued or guaranteed by the French State, or States of the European Economic Area or third countries with very high credit ratings, or supranational institutions with high ratings, as well as securities issued by financial institutions, some of which are guaranteed by European States.

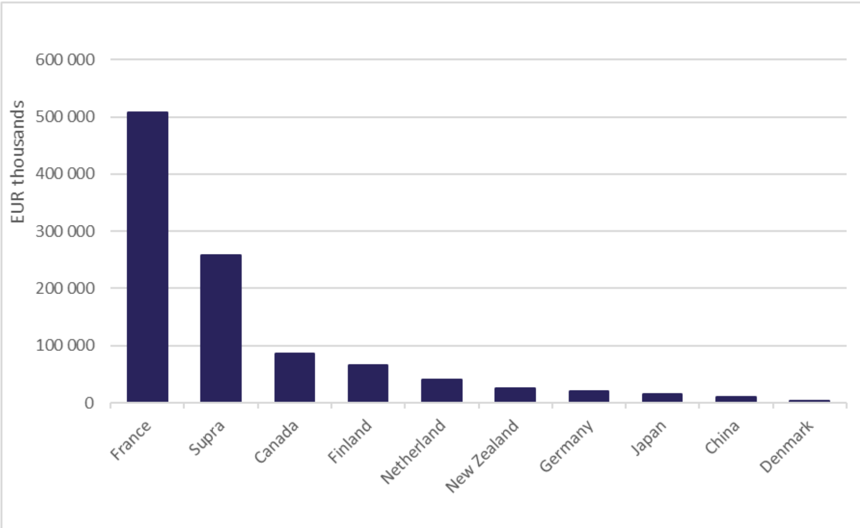
The graphs below show the breakdown of the exposures for the liquidity reserve by type of counterparty, country, rating and risk class.

Breakdown of liquidity reserve exposures by type of counterparty[7]



As shown by the graph below, the assets in the liquidity reserve mainly relate to French issuers, and also European and international issuers, thus contributing to the good resilience of the portfolio in a situation of significant volatility of financial markets.

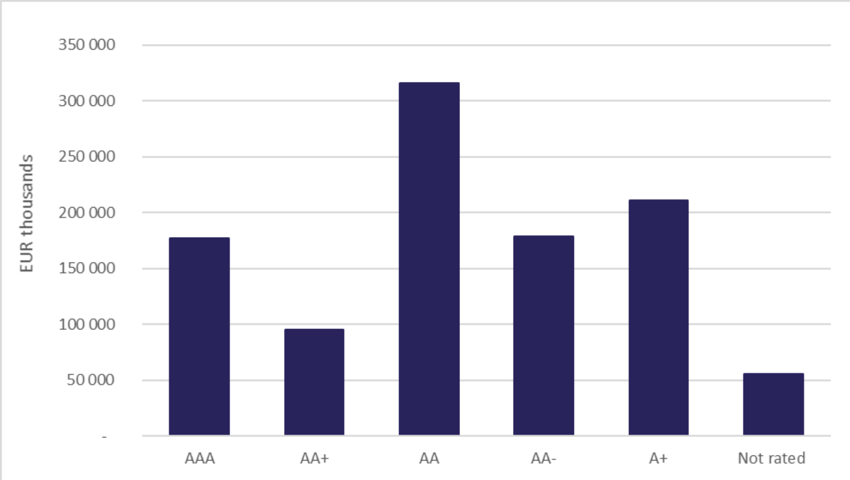
Breakdown of liquidity reserve exposures by country



The exposure carried by AFL in its liquidity reserve has very high ratings. Unrated assets mainly correspond to public sector exposures, which are given a weighting of zero, thereby benefiting from an implicit guarantee or significant support from the central government.

[7]"Promotional" lenders and "public development banks" (see Commission Delegated Regulation (EU) 2015/61 of October 10, 2014 on liquidity coverage and CRR 2 published on June 7, 2019) are categories of financial institutions eligible for the HQLA rules in view of their particular characteristics.

Breakdown of liquidity reserve exposures by country



3. Margin calls

Excluding loans to local authorities and assets in the liquidity reserve, most of the balance of financial assets on AFL's balance sheet consists of margin calls on interest-rate hedging activities, which are paid (net of margin calls received) to the LCH Clearnet clearing house, bearing in mind that AFL clears virtually all of its production of interest rate derivatives. These margin calls also include guarantee deposits (IMR[8]) with the clearing house amounting to €79.19 million at December 31, 2019. This amount is low when compared with the total stock of hedging swaps carried by AFL because of the netting resulting from payer and receiver interest rate hedging swaps. AFL pursues an objective of desensitizing its balance sheet by interest rate swaps in instruments carried as both assets and liabilities. However, the amount of margin calls paid increased by €26.35 million year on year. This increase is attributable to the increase in the volume of swaps and to AFL's balance sheet position, which was structurally a receiver of fixed interest rates in 2019, in a context of falling interest rates.

4. Subsidiaries and shareholdings

4.1. Activities of Company subsidiaries and companies under its control

AFL has no subsidiaries or shareholdings in other companies.

4.2. Equity investments and takeovers

AFL had no shareholdings in companies with registered offices in France or abroad during the financial year ended December 31, 2019.

AFL did not control any company as at December 31, 2019, as defined by Article L. 233-3 of the French Commercial Code. Therefore, no treasury shares are held by a controlled company.

4.3 Cross-shareholdings

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

5. Returns on assets

AFL's net profit/loss at December 31, 2019 is negative under French standards, as under IFRS, with a negative return on assets as a result. Despite an improvement in AFL's banking activities, outstanding loans to local authorities, up significantly year on year, are not yet at a size sufficient to generate revenue to cover all of AFL's operating expenses.

[8] Initial margin requirement

III. Balance sheet liabilities and debt management (IFRS)

AFL's liabilities consist mainly of debts incurred in connection with bond issues that have been made since the beginning of AFL's activities and have not yet matured. At the end of 2019, outstanding debt recorded at amortized cost amounted to €4,037 million, compared with €2,997 million at December 31, 2018, after taking into account the consequences of the changes in interest rates since the day of issue, under the rules of hedge accounting.

After the four capital increases carried out during 2019, subscribed capital stood at €146.8 million at December 31, 2018, compared with €138.7 million at December 31, 2018, and equity capital under IFRS amounted to €123.9 million, compared with €117.3 million at December 31, 2018.

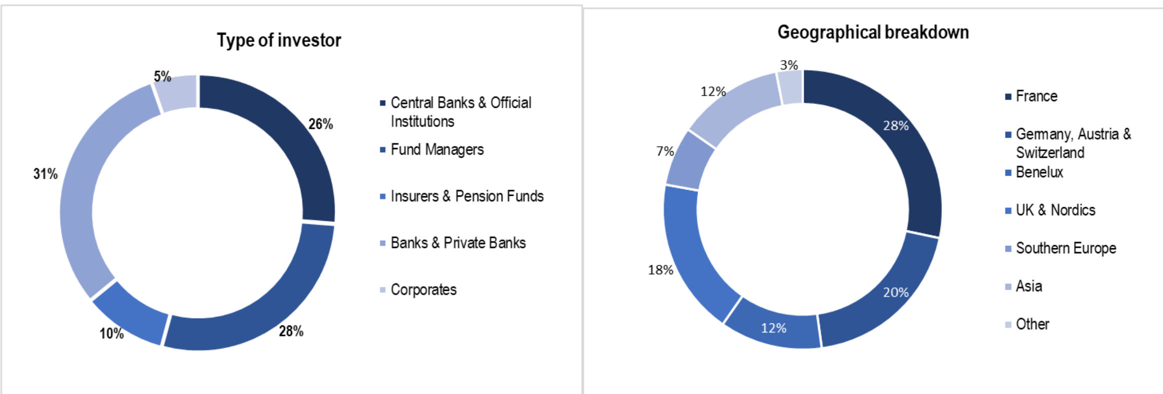
Excerpts of the main liabilities (IFRS)

In thousands of euros	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015
Debt securities	4,036,974	2,996,909	2,335,802	1,259,073	840,536
Equity	123,854	117,309	114,856	93,529	62,046

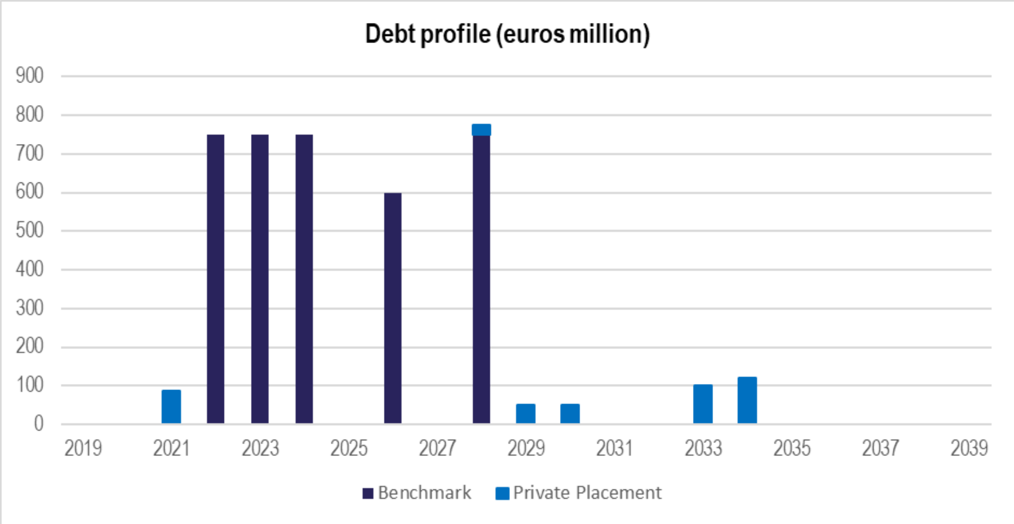
1. Financial debt of AFL

The debt portfolio in AFL's balance sheet liabilities represented an outstanding amount of €4,037 million at December 31, 2019 compared to €2,996.9 million at December 31, 2018. At December 31, 2019, it comprised bonds issued by AFL to finance its loan activities and liquidity reserve. The portfolio contains 12 bonds, including 5 benchmark-sized bonds denominated in euros, and 7 private placements, of which 4 denominated in euros, 1 in US dollars, 1 in Swedish kroner and 1 in Australian dollars. This mix reflects AFL's issue strategy, which consists of favoring public benchmark-sized issues denominated in euros to establish AFL's name in the markets and as such to ensure sustainable access the resources necessary for its development, while making private placements denominated in euros or foreign currencies when demand allows. Private placements are resources that offer a very valuable supplement to public issues by further diversifying the placement of AFL debt, and generally on optimized cost and maturity terms. The breakdown of the portfolio of public issues denominated in euros is shown in the charts below.

Breakdown of AFL's euro issues by region and type of investor



At December 31, 2019, the average maturity of AFL's debt was 5.35 years, compared with 5.48 years at December 31, 2018. The debt maturity profile is shown in the graph below:



2. Breakdown of accounts payable

The figures presented below concern the breakdown at the closing date of the financial year ended December 31, 2019 of the balance of debts payable to AFL's suppliers, pursuant to Articles L. 444-6-1 and D. 441-4 of the French Commercial Code. Accounts payable are characterized by a settlement period of less than thirty days.

It should be noted that given the nature of AFL's activities, the figures presented in the table only represent accounts payable, as AFL's accounts receivable result exclusively from the loan contracts described in paragraph II.1 above.

Breakdown of AFL's accounts payable (amounts including tax)

Total amount of accounts payable (including tax in euros)				
Dec 31, 2019	**Dec 31, 2018**	**Dec 31, 2017**	**Dec 31, 2016**	**Dec 31, 2015**
€1,101,026	€490,869	€449,140	€747,054	€707,874

The table below shows the number and amounts excluding tax of supplier invoices received and not yet paid at the closing date of the financial year. Information on late payments is provided by late payment tranches as a percentage of the total amount of purchases and revenue during the financial year. The benchmark terms of payment used to prepare this table are the contractual terms of payment.

Invoices received but not paid at December 31, 2019 for which the term has expired (excluding tax in euros)						
	Article D. 441-4 I, 1°: Invoices received but not paid at the closing date of the financial year for which the term has expired					
	0 days (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and over	Total of invoices (1 day and over)
(A) Late payment tranches						

Number of invoices concerned	43	-	-	-	-	-
Total amount of invoices concerned (excl. tax)	243,224	-	-	-	-	-
Percentage of the total amount of purchases in the financial year (excl. tax)	4.50%	-	-	-	-	-
Percentage of sales in the financial year (excl. tax)	2.28%	-	-	-	-	-
(B) Invoices excluded from (A) as relating to disputed or unrecognized payables						
Number of invoices excluded	-	-	-	-	-	-
Total amount of invoices excluded	-	-	-	-	-	-
(C) Reference payment terms used (contractual or legal terms – Article L. 441-6 or Article L. 443-1 of the French Commercial Code)						
Terms of payment used to calculate late payments	Contractual					

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

Invoices that have had a late payment during the financial year						
	Article D. 441-4 II: Invoices received that have had a late payment during the financial year					
	0 days (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and over	Total (1 day or more)
(A) Late payment tranches						
Number of invoices concerned	791	18	5	1	2	26
Total amount of invoices concerned (excl. tax)	€5,332,494	€49,446	€23,406	€3,966	€1,470	€78,288
Percentage of the total amount of purchases in the financial year (excl. tax)	98.55%	0.91%	0.43%	0.07%	0.03%	1.45%
Percentage of sales in the financial year (excl. tax)	50.09%	0.46%	0.22%	0.04%	0.01%	0.74%
(B) Invoices excluded from (A) as relating to disputed or unrecognized payables						

Number of invoices excluded						
Total amount of invoices excluded						
(C) Reference payment terms used (contractual or legal terms – Article L. 441-6 or Article L. 443-1 of the French Commercial Code)						
Terms of payment used to calculate late payments	Contractual					

6. Margin calls

Excluding debt instruments, financial liabilities on AFL's balance sheet consist of margin calls on interest rate and currency hedging activities received from banks counterparty to hedging transactions (from which margin calls paid to those counterparties should be subtracted). Margin calls received amounted to €4.23 million in 2019.

IV. Results of the financial year ended December 31,2019

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 financial year, and in accordance with the provisions of the general accounting plan for credit institutions. AFL also prepared IFRS financial statements, on a voluntary basis, for the financial year ended December 31, 2019, which are discussed in this report.

Additional explanations are provided in the notes to the annual financial statements.

2019 was AFL's the fifth financial year; it closes five years of operations focused primarily on the production of loans for local authorities.

1. French GAAP financial statements

2019 marks a new significant increase in the results related to the loan activity, which follows the Company's development trajectory, in line with its 2017-2021 strategic plan. Earnings growth excluding non-recurring items is reflected in revenue generation momentum coming from credit production since 2015, when AFL's lending activity began, and is proven especially by the regular and constant increase in the value of the portfolio of loans granted to AFL Group shareholders.

In 2019, NBI generated by the activity amounted to €10,647 thousand, compared with €9,542 thousand in 2018 (which included non-recurring gains from the disposal of securities in the amount of €1,636 thousand).

2019 NBI breaks down as a net interest margin of €10,047 thousand, an increase of 28% on the €7,828 thousand achieved in the previous financial year, and €500 thousand in gains on the sale of investment securities purchased for the management of the liquidity reserve, compared with €1,636 thousand in 2018.

The interest margin of €10,047 thousand originates from three items:

- First, revenue on the loan portfolio amounted to €8,128 thousand, which, adjusted for hedging, was up 6% on the level of €7,667 thousand reported for 2018. Although up due to an increase in the size of outstanding loans, the increase was limited by the further decline in interest rates that characterized 2019;
- Second, the negative revenue of €2,816 thousand resulting from the management of the liquidity reserve, compared with negative €3,357 thousand at December 31, 2018, reflects the cost of carrying liquidity in a negative interest rate environment. However, the fall in the carrying cost reflects better profitability of the securities in the liquidity reserve, a decline in the average balance of bank deposits over the full year and an improvement in the terms of compensation of deposit accounts with the establishment of term deposits;
- The debt interest and collateral cost component represents a source of revenue of €4,735 thousand after hedging, compared with €3,518 thousand at December 31, 2018. This very significant increase reflects the increase in the stock of AFL's debt during the financial year and the fall in Euribor, against which all of AFL's debt is swapped. The figure takes into account an increase in interest on margin calls from negative €296 thousand at December

31, 2018 to negative €397 thousand at December 31, 2019 and interest on short-term debt, notably with the reactivation of the ECP sub-program of negotiable debt securities denominated in foreign currencies.

At December 31, 2019, general operating expenses were €10,101 thousand against €9,032 thousand the previous financial year. They include €4,732 thousand in personnel expenses, compared with €4,558 thousand in 2018. General operating expenses also include administrative expenses, which amounted to €5,369 thousand versus €4,474 thousand as of December 31, 2018. The increase is attributable chiefly to non-recurring items in the amount of €505 thousand, corresponding to a provision for exceptional expenses arising from AFL's relocation from the premises in Tour Oxygène, planned for the first quarter of 2020. Excluding this exceptional item, administrative expenses edged up slightly year on year.

Depreciation and amortization for the financial year amounted to €2,259 thousand, compared with €2,388 thousand at December 31, 2018. The decline is attributable to the end of amortization of establishment costs at the end of 2018 and the full amortization of a first tranche of the information system in the fourth quarter of 2019. Depreciation and amortization expenses also include a non-recurring item in the amount of €271 thousand for the depreciation and impairment of property, plant and equipment related to the relocation of AFL's headquarters.

The year ended December 31, 2019 saw gross operating income and net income of -€1,713 thousand, compared with -€1,878 thousand at December 31, 2018. This result underlines the fact that despite growth in AFL's banking activities, outstanding loans to local authorities, up significantly year on year, are not yet sufficient to generate revenue covering all of AFL's operating expenses. However, in the second half of 2019, operating expenses excluding non-recurring items relating to AFL's relocation only represented 104.7% of the net interest margin, thereby highlighting the prospect of the company's imminent achievement of breakeven.

In accordance with the reporting practices of financial institutions, earnings for the financial year are presented in the paragraph below in accordance with IFRS. The main differences between the two standards (French GAAP and IFRS) bear on deferred tax assets, which are not recognized in French GAAP, hedge accounting and IFRS 16 adjustments on leases.

Transition from French GAAP to IFRS

Transition from French GAAP - IFRS	Dec 31, 19
Net profit – French GAAP	**-1,713**
IFRS restatements	
Cancellation of provisions on unrealized losses on investment securities	-27
Debt micro-hedging inefficiency	405
Ineffective hedging of covered loans	-332
Ineffective macro-hedging of loans	431
Ineffective hedging of repurchases of covered loans	-83
Transition of term deposits to effective interest rate	38
IFRS 9 restatements (joint venture securities through OCI, loans and bank accounts)	5
IFRS 16 restatements	312
Restatements of deferred taxes	-227
Net profit under IFRS	**-1,191**

2. IFRS financial statements

2.1 Key events of the past financial year

2019 marked a further significant increase in net banking income related to the lending activity, which is in line with the development path set out in the company's 2017-2021 strategic plan. Earnings growth excluding non-recurring items is reflected in revenue generation momentum coming from credit production since 2015, when AFL's lending activity began, and is proven especially by the regular and constant increase in the value of the portfolio of loans granted to AFL Group shareholders.

In 2019, NBI generated by the activity amounted to €11,066 thousand, compared with €9,705 thousand in 2018 (which included non-recurring gains from the disposal of securities in the amount of €1,636 thousand).

2019 NBI breaks down as a net interest margin of €10,076 thousand, an increase of 29% on that generated the previous financial year and which amounted to €7,805 thousand at December 31, 2018, €500 thousand in gains on the sale of investment securities and a revaluation gain of €419 thousand on hedging relationships.

The interest margin of €10,076 thousand originates from three items:

- First, revenue on the loan portfolio amounted to €8,127 thousand, which, adjusted for hedging, was up 6% on the level of €7,667 thousand reported at December 31, 2018. Although up due to an increase in the size of outstanding loans, the increase was limited by the further decline in interest rates that characterized 2019;
- Second, the negative revenue of €2,778 thousand resulting from the management of the liquidity reserve, compared with negative €3,380 thousand at December 31, 2018, reflects the cost of carrying liquidity in a negative interest rate environment. However, the fall in the carrying cost reflects better profitability of the securities in the liquidity reserve, a decline in the average balance of bank deposits over the full year and an improvement in the terms of compensation of deposit accounts with the establishment of term deposits;
- The long-term debt interest and collateral cost component represents a source of revenue of €4,727 thousand after hedging, compared with €3,518 thousand at December 31, 2018. This very significant increase reflects the increase in the stock of AFL's debt during the financial year and the fall in Euribor, against which all of AFL's debt is swapped. The figure takes into account an increase in interest on margin calls from negative €296 thousand at December 31, 2018 to negative €397 thousand at December 31, 2019 and interest on short-term debt, notably with the reactivation of the ECP sub-program of negotiable debt securities denominated in foreign currencies.

Capital gains on securities at fair value through other comprehensive income, for €3,363 thousand, relate to the management of the liquidity reserve portfolio over the period. These sales led concurrently to the cancellation of interest rate hedges for -€2,862 thousand, generating net overall capital gains of €500 thousand for the period.

Net income from hedge accounting was -€419 thousand. This represents the sum of the fair-value differences of hedged items and their hedging. Among these differences, €431 thousand relate to valuation differential charges on instruments classified as macro-hedges and -€12 thousand of products relate to valuations of instruments classified as micro-hedges. There are still unrealized differences in valuations between the hedged items and the hedging instruments, one of whose components comes from a market practice that results in the admission of a valuation mismatch between hedging instruments collateralized daily and discounted on an Eonia curve and instruments discounted on a Euribor curve. According to IFRS, this causes a hedge ineffectiveness to be recognized in the income statement. However, it should be noted that this corresponds to unrealized income.

At December 31, 2019, general operating expenses were €9,354 thousand against €9,033 thousand the previous financial year. These expenses include €4,732 thousand in personnel expenses, compared with €4,558 thousand in 2018. General operating expenses, also including administrative charges, amounted to €4,622 thousand, compared with €4,475 thousand net of rebillings at December 31, 2018. Note however that administrative expenses for 2019 take into account (i) the impact of the cancellation of the rent paid by AFL with the first-time application of IFRS 16 on leases, which reduced general operating expenses by €311 thousand, and (ii) a provision of €71 thousand for repair costs, following AFL's relocation from the offices in Tour Oxygène.

Depreciation and amortization for the financial year amounted to €2,221 thousand, compared with €1,984 thousand at December 31, 2018, an increase of €237 thousand attributable chiefly to the first-time application of IFRS 16, with the inclusion of €233 thousand in additional allowances for the depreciation the right-of-use asset representing the premises occupied by AFL. After the end of the amortization of a first tranche of the information system in 2019, AFL continued its investments on information system infrastructure, setting up management systems and carrying out development work on the data store.

2019 saw a gross operating loss of €508 thousand, compared with a loss of €1,311 thousand at December 31, 2018, which included non-recurring gains from the disposal of securities in the amount of €1,636 thousand. This result underlines the fact that despite growth in AFL's banking activities, outstanding loans to local authorities, up significantly year on year, are not yet sufficient to generate revenue covering all of AFL's operating expenses. However, in the second half of 2019, operating expenses excluding non-recurring items relating to AFL's relocation only represented 103.3% of the net interest margin, thereby highlighting the prospect of the company's imminent achievement of breakeven.

The cost of risk relating to ex-ante impairments for expected losses on financial assets subject to IFRS 9 was a positive €5 thousand in 2019, reflecting a reversal of impairments, although this masks an increase in the provisioning rate. The increase in outstanding loans did not result in an increase in impairment, since they all present low risk. As regards the liquidity reserve, the fall in the stock of securities, some of which matured and were replaced by term deposits and deposits with the central bank, resulted in a reduction in impairment, which is highly sensitive to asset duration. Consequently, despite a tightening of the weightings linked to AFL's expectation of a weakening of the economic environment, the less risky nature of the assets carried on the balance sheet result in a small reversal of impairment as at December 31, 2019.

The "net gains or losses on other assets" line, which represents a loss of €461 thousand, reflects the cost of AFL's removal from Tour Oxygène and the readjustment of the lease term in accordance with IFRS 16.

The tax losses recorded over the period did not give rise to any deferred tax assets. Deferred tax assets, which AFL has stopped activating on its tax losses for the year ended December 31, 2015, amounted to €5,051 thousand. However, 2019 was characterized by deferred tax charges resulting exclusively from IFRS restatements over the period, corresponding to temporary differences between the tax value of the assets and their carrying amount, which was negative €227 thousand.

After taking into account the deferred tax expense of €227 thousand, the financial year ended December 31, 2019 saw a net loss of €1,191 thousand, compared with a loss of €1,712 thousand the previous financial year.

2.2 First application of IFRS 16

2.2.1 IFRS 16

Adopted by the European Union on October 31, 2017 and applicable from January 1, 2019, IFRS 16 replaces IAS 17 and the interpretations relating to accounting for leases.

Under IFRS 16, the definition of leases implies the identification of an asset on the one hand and the lessee's control of the right to use that asset on the other. From the point of view of the lessor, the treatments remain substantially unchanged from the current IAS 17 standard.

On the lessee side, operating leases and finance leases are accounted for in a single model, with recognition:

- An asset representing the right-of-use the leased property during the term of the contract;
- In exchange for a liability for the lease obligation to pay;
- Straight-line depreciation and amortization of assets and declining interest expenses in the income statement.

2.2.2 Options taken for AFL's first-time application of IFRS 16

AFL has opted for the simplified retrospective application in accounting for the cumulative effect of the first-time application on January 1, 2019, in accordance with the following transition arrangements:

- Application of the new definition of a lease to all contracts in progress;
- Option for the exemptions proposed by IFRS 16 with the exclusion of leases with a remaining term of less than 12 months at the date of first-time application as well as low value (fixed at € 5,000).

AFL has only capitalized its real estate lease, taking for the first-time application a remaining term of just over 4.5 years and the related incremental interest rate applied to lease liabilities including non-recoverable VAT.

2.2.3 Accounting impacts of first-time application of IFRS 16

As of January 1, 2019, the amount recognized as right-of-use assets was €1,082 thousand; it is classified in other property, plant and equipment.

The amount recognized as lease liabilities was €1,396 thousand, and is classified in other liabilities.

The net deferred tax impact on equity linked to the transition to IFRS 16 was negative €199 thousand as of January 1, 2019.

The impact of the first-time application of IFRS 16 on the income statement at December 31, 2019 is as follows:

(€ '000s)	Dec 31, 19
Cancellation of rents (for contracts capitalized under IFRS 16)	311
Depreciation and amortization of rights-of-use	-233
Interest expense on lease liabilities	-8
Total IFRS 16 impact on income	**70**

3. Proposed allocation of profit

It is proposed that the total net loss for the financial year ended December 31, 2019 (annual financial statements prepared under French standards) which amounts to -€1,713,304 be allocated to retained earnings.

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

No dividends are distributed in respect of the financial year ending December 31, 2019 and none were distributed over the previous three financial years.

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

During the financial year ended December 31, 2019, AFL incurred no expenses as defined by Articles 39-4 and 39-5 of the French General Tax Code.

V. Risk management

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

1.1 Strategic risk

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

- **Risks related to the business model**

Pursuant to Article L. 1611-3-2 of the French General Local and Regional Authorities Code, AFL carries out its activities for the exclusive benefit of members, which excludes any prospect of diversification. AFL 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, AFL may encounter difficulties in achieving its profitability goals.

- **Membership risks**

Although the creation of AFL 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 local and regional 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 AFL capital, which is fueled by the initial capital contribution that they pay upon joining AFL-ST, and thus the volume of activity planned by AFL.

- **Political or macroeconomic risks or risks related to the specific financial circumstances of the State where AFL carries out its activities**

Since AFL 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 AFL at risk of losses arising from possible unfavorable developments in the political, economic and legal situations in France or in Europe, including social instability, changes in public policies, local or national, or the policies of central banks. In addition, a deterioration in market confidence in France could lead to unrealized losses in the liquidity portfolio, which has significant exposures to French sovereign risk as a result of spread margins. Finally, a deterioration in the situation in France would not be without consequences on AFL's conditions of access to capital markets. This risk is heightened in the context of the current pandemic.

- **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 AFL to achieve its anticipated success, to reduced margins on future commitments that reduce the net banking income generated by AFL, to limited production of new loans for AFL, or to production that adversely affects the activity, financial conditions, cash flows and results of operations in some way.

- **Risks related to regulatory developments**

AFL was approved by the French Prudential Supervision and Resolution Authority (ACPR) on January 12, 2015 as a specialized credit institution. This approval is essential to AFL's activity. It makes AFL 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 AFL as part of its business plan, strengthen some of its obligations and therefore impact its results.

1.2 Credit and counterparty risk

- **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 AFL has granted a loan or of other debtors of AFL 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.

i. Credit and concentration risk related to borrowers

AFL carries out its activities for the exclusive benefit of local and regional authorities,[9] public institutions for inter-municipal co-operation with their own taxation, and local public entities that are shareholders of the parent company of AFL. While default by a local or regional authority cannot be ruled out, such counterparties are considered to have a limited risk profile; as a result, the credit transactions carried out have this same profile.

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

ii. Counterparty and concentration risk related to hedging contracts and cash investments

Due to the cash investments carried out, AFL supports a credit risk on the issuers of securities that it holds in its cash portfolio. AFL 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, AFL covers substantially all of its variable rate balance sheet and hedges its foreign currency positions by entering into currency hedging agreements. AFL clears all the interest rate derivatives it establishes in a clearing house, and holds bilateral currency derivatives with its market counterparties. AFL is exposed to the risk that its counterparties under hedging agreements (banking institutions or clearing houses) will not meet their financial obligations.

- **Portfolio quality**

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

As at December 31, 2019, the breakdown of AFL's risk-weighted allocation of credit exposures revealed a very high quality portfolio, with an average weighting of 17%.

Exposure distribution of credit and counterparty risk by asset classes in EUR	31/12/2019 Agence France Locale Social - French gaap		31/12/2018 Agence France Locale Social - French gaap	
Central government administration and central banks	269 615 644	6%	298 270 824	9%
Regional and local administrations	3 610 971 911	81%	2 668 029 645	77%
Public sector entities	13 078 620	0%	7 446 282	0%
Multilaterla development banks	134 472 965	3%	105 780 198	3%
International organisations	123 538 099	3%	95 498 683	3%
Credit institutions	171 891 787	4%	295 407 170	8%
Exposures in default	3 853 245	0%	-	0%
Garanteed bonds				
Claims on credit institutions and corporates with short term ratings	127 095 334	3%	10 011 041	0%
Other items	92 173	0%	772 544	0%
Securitization				
Total exposures to credit and counterparty risk	4 454 609 779	100%	3 481 216 387	100%

- **Local government loan portfolio**

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

- To evaluate the financial positions of local authorities, public inter-municipal co-operation institutions and local public entities for membership in the AFL Group through the establishment of a so-called "quantitative" or "financial" rating. On a scale of 1 to 7 (1 being the best score and 7 the worst), only local and regional authorities scoring between 1 and 5.99 will be given the option to become members of the AFL Group. This rating system is

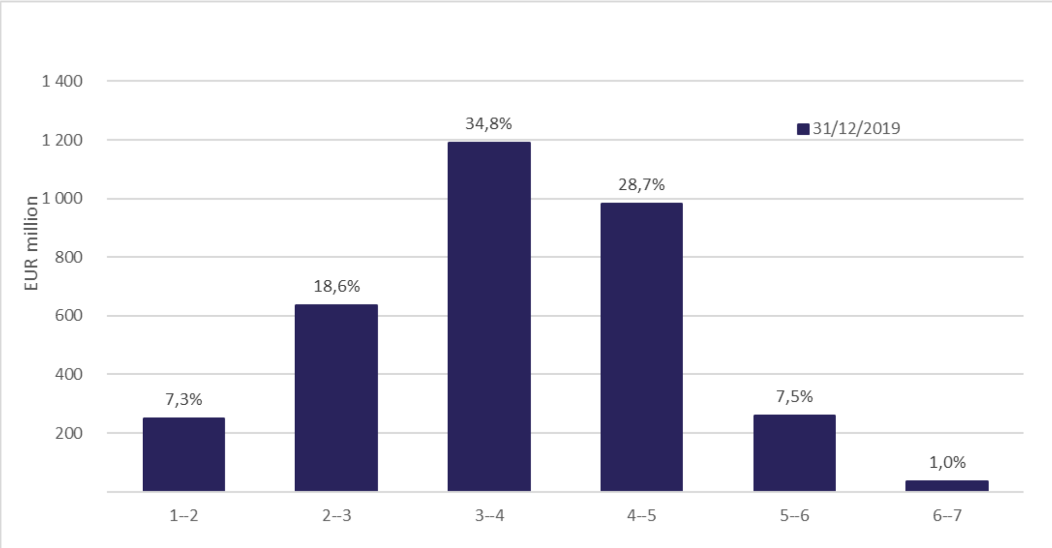
[9] Including overseas local authorities and local authorities with a specific status as indicated in Article 72 of the French Constitution.

automated and fed by the economic and financial data published once a year by the General Directorate of Public Finance (the French Ministry of Finance); and

- To assess 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, which can be 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 shows a granular and good quality portfolio. As at December 31, 2019, this portfolio was more than 25% exposed to local authorities with ratings ranging from 1 to 2.99. The five largest exposures accounted for 20.1% of assets. The largest exposure accounted for 4.1% of assets and the fifth-largest for 4%. As at December 31, 2019, the average rating of loans made by AFL to its members, weighted by volumes outstanding, amounted to 3.64.[10] This rating is stable over one year.

Breakdown of the loan portfolio by local authority rating[11] as at December 31, 2019



- **Credit risk related to other exposures**

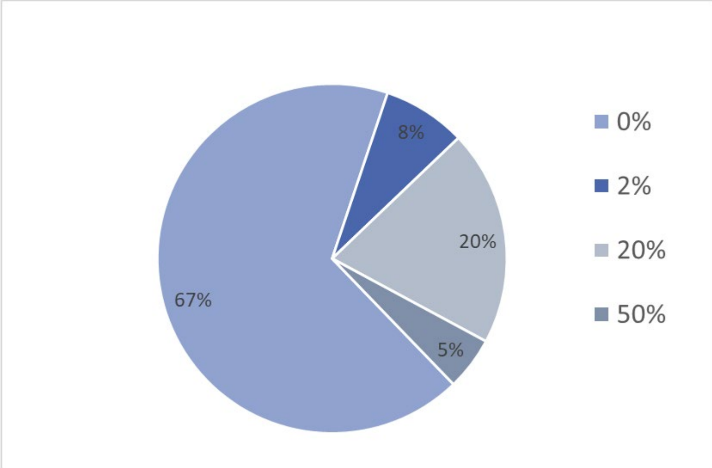
AFL has three other types of exposures:

- Securities acquired in connection with the management of its liquidity reserve, in compliance with a prudent investment policy. These are mainly issued or guaranteed by member States of the European Union or supranational institutions;
- The balance of its euro accounts with French banks or Banque de France; and
- Its derivative exposures entered into 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 56% of exposures rated equal to or greater than Aa2 on Moody's scale. The weighted average risk of this portfolio is 6.6%. The graph below highlights the strong concentration of exposure for AFL's liquidity reserve in very low risk classes, 67% of the portfolio being invested in risk classes weighted at 0%, 8% in risk classes weighted at 2%, 20% in risk classes weighted at 20% and 5% in risk classes weighted at 50%.

[10] Rating calculated based on accounting data from local authority members for 2018.
[11] Rating based on the 2018 rating year.

Breakdown of bank exposures excluding loans to local authorities by class of risk[12]



In order to optimize the management of counterparty risk and the collateral associated with a significant use of hedging instruments, AFL has decided to negotiate 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.

As at December 31, 2019, interest rate swaps were cleared in the proportion of more than 99.5% in clearing houses, and less than 0.5%[13] on a bilateral basis, with daily collateralization for all instruments from the first euro. Currency hedging swaps remain processed on a bilateral basis.

- ## Doubtful receivables, disputed claims, provisions

As at December 31, 2019, the amount of doubtful or disputed loans was €3.8 million, or 0.1% of the AFL's loan portfolio, which demonstrates its very good quality. Under French GAAP, no collective impairment or specific impairment was recorded as at December 31, 2019 on loans granted to local authorities or on other assets.

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

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

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

Category 3 covers credit-impaired assets and commitments.

Impairment is calculated on these three categories on the basis of 12-month expected credit loss (category 1) or at maturity of the asset (categories 2 and 3). Impairments are based on future economic scenarios, with a probability of occurrence.

The carrying amounts of such assets and liabilities and the impairment calculated are as follows.

	31/12/2019				31/12/2018			
	Agence France Locale -ST Consolidated - IFRS				Agence France Locale -ST Consolidated - IFRS			
IFRS 9 stages distribution	Gross exposures in EUR		Provisions in EUR		Gross exposures in EUR		Provisions in EUR	
Stage 1	4 451 564 103	99,7%	420 478	98,4%	3 479 479 396	99,9%	429 933	99,6%
Srage 2	8 131 880	0,2%	5 547	1,3%	2 168 810	0,1%	1 885	0,4%
Stage 3	3 854 365	0,1%	1 120	0,3%	-	0,0%	-	0,0%
Total	4 463 550 348	100%	427 145	100%	3 481 648 205	100%	431 818	100%

This variation in the stock of impairment is explained by the transfer of part of the liquidity reserve to less risky assets with shorter maturities, while the provision on loans to local authorities increases in proportion to the size of the outstanding amount.

[12] The graph on the breakdown by asset class includes exposure related to hedging swaps in clearing houses, which is weighted at 2%.

[13] Calculation based on swap market valuations.

1.3 Liquidity risk

- **Nature of risks**

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

AFL is exposed to three dimensions of liquidity risk:

- Illiquidity risk: this is the risk of a disruption in short-term cash-flow, meaning in particular the risk that AFL will be unable to sell assets easily at a reasonable cost in the market;
- Financing risk: this is 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.

- **Implemented strategy**

AFL has adopted a very strict liquidity policy with three objectives:

- The construction of a sufficient liquidity reserve comprising liquid assets that can be mobilized for the regulatory liquidity coverage ratio (LCR) to maintain operational activities, and in particular lending activities, for 12 months;
- A financing strategy that encourages a diversity of debt instruments (including benchmark issues in euros traded in regulated markets, public issues potentially in foreign currencies, private placements, etc.) as well as the diversity of the investor base, both by type and geographical area;
- In order to reduce its liquidity mismatch risk, AFL strictly monitors the maturity gaps. Its purpose is to limit mismatches in average maturities between its assets and its liabilities to 1.5 years until 2022, the year of repayment of its first benchmark issue, and to 1 year thereafter, and to respect the net stable funding ratio (NSFR).

As at December 31, 2019, the 30-day LCR was 428%, and AFL held a liquidity reserve allowing it to meet slightly over 12 months of its cash flow requirements.[14]

As at December 31, 2019, the ALT variance was 1.37 years and the NSFR ratio was 186%.

As at December 31, 2019, the 30-day LCR was 428%, and AFL held a liquidity reserve allowing it to meet slightly over 12 months of its cash flow requirements.[15]

1.4 Interest rate and currency risks

Interest rate risk includes the risk that AFL will suffer losses due to unfavorable changes in interest rates due to all of its balance sheet and off-balance sheet transactions, in particular in the event of a mismatch between the interest rates generated by its assets and those arising from its liabilities. Interest rate risk includes the risk of refinancing an asset at a higher interest rate than the original interest rate, or the risk of replacing an asset at a lower rate than the original one. In both cases, in the event of a change in interest rates, there may be a negative impact on the net margin of interest that reduces AFL's income.

In order to maintain its financial base for the development of its lending activities, AFL has also set up a hedging policy for interest rate risks in order to limit the exposure of its balance sheet and the volatility of its revenues to unwanted market movements.

AFL's interest rate hedging policy consists of:

- A systematic micro-hedging of fixed-rate debt to be converted into floating-rate debt mainly indexed to the three-month Euribor reference using interest rate swaps;
- Micro-hedging of loans contracted at a fixed or floating Euribor six-month or twelve-month rate to convert them into floating-rate loans indexed to the Euribor three-month reference, except for fixed-rate loans corresponding to a limited portion of the balance sheet at most equal to the re-use of prudential capital. The resulting exposure to

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

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

interest rate risk is influenced by the sensitivity to AFL's net present value rate, which measures the impact of a predefined rate shock on the variation in discounted cash flows of all assets and liabilities on the AFL balance sheet; and

- A macro-hedging of fixed-rate loans that are small or whose depreciation profile is not linear.

The hedging strategy for interest rate risk translated into a notional outstanding amount of swaps of €8.6 billion at December 31, 2019.

At 31 December 2019, the sensitivity of the net present value (NPV) of AFL's equity was -3.2% assuming a parallel shift of more than 100 basis points and -5.8% assuming a shift of more than 200 basis points in the yield curve.

In 2019, AFL implemented scenarios for calculating the sensitivity of the net present value (NPV) of its equity capital to assumptions of interest rate risk in the banking book (IRRBB).

	31/12/2019	30/06/2019	31/12/2018	31/12/2017	31/12/2016	Limit
Sc. +100bp	-3,2%	-3,1%	-3,8%	-3,7%	-7,9%	±15%
Sc. -100bp	4,0%	3,9%	4,6%	4,4%	9,0%	±15%
Sc. -100bp (floor)	2,0%	0,5%	2,4%	2,3%	2,2%	±15%
Sc. +200bp	-5,8%	-5,7%	-7,1%	-6,7%	-11,8%	±15%
Sc. -200bp	8,9%	8,6%	10,0%	9,7%	15,7%	/
Sc. -200bp (floor)	2,0%	0,5%	2,6%	2,5%	2,2%	±15%

	31/12/2019	30/06/2019
+ 200 bps parallel translation	-5,8%	-5,7%
-200 bps parallel translation	8,9%	8,6%
Short term interest rate increase	2,4%	-8,4%
Short term interest rate decrease	-2,5%	9,0%
Steepening	-5,4%	-8,2%
Flattening	4,8%	8,9%

Throughout 2019, the sensitivity of AFL's NPV to the various interest rate variation scenarios was below 15% of equity.

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

1.5 Financial risk due to the effects of climate change

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

1.1. Operational risks

▪ 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, AFL includes legal risk and non-compliance risk.

i. Process risks

These risks consist of failures of processes that can cause losses. All of AFL's activities are subject to this risk.

ii. Risks related to human resources

Because of its model and in the context of the start-up of its activities, AFL 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. This risk is heightened in an environment of pandemic.

iii. Risks related to IT systems

Information systems are essential for AFL's activities and operations. They rely heavily on outsourcing. AFL 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. AFL is also exposed to the risk of cybercrime.

iv. 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 AFL. AFL has a range of simple products, in particular fixed- and variable-rate loans, with simple and understandable characteristics. Nevertheless, AFL cannot rule out the fact that a dispute may arise from a distorted understanding with a counterparty. In the normal course of its business, as an operating company, AFL may nevertheless be involved in certain civil, administrative, criminal or arbitration proceedings. Their respective nature makes it hard to predict the outcome of such disputes, or their precise financial consequences.

v. Non-compliance risk

Non-compliance risk covers the risk of judicial, administrative or disciplinary penalties, significant financial loss or reputational damage resulting from non-compliance with the provisions governing banking and financial activities, whether of a legislative or regulatory nature, both domestic and European, whether they are professional or ethical standards or instructions of effective officers given pursuant to the guidelines of the AFL Supervisory Board. AFL is required to comply with such standards and is therefore exposed to the risk of penalties for non-compliance.

- **Mechanism in place**

To prevent the materialization of these risks as far as possible and limit the consequences of their possible occurrence, which are both high in view of the entity's youth, AFL has an internal control and risk management system. These systems aim to ensure the identification, measurement and early treatment of operational risks.

These systems, which were built in compliance with best market practices, involve regular assessment of risks and the effectiveness of controls to minimize those risks and the implementation of an improvement/remediation action plan where necessary. The systems are based on the four lines of defense of internal controls (business lines – operational risk monitoring function – second-level permanent control – periodic control). In addition, as mentioned above, AFL 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 consistent manner the main areas of risk for AFL as a whole. It focuses on the main risks, using size of potential impact and frequency of occurrence as criteria. The exercise thus makes it possible to prioritize risks on an objective basis and to ensure coherence of evaluation between the various departments and functions involved;
- Operational risk measurement is based on the collection and analysis of incidents, which measures the impact and frequency of occurrence of identified risks. The process requires the systematic reporting of incidents within AFL beyond predefined thresholds.

Risk analysis

In 2019, no significant operating loss was incurred. With regard to legal risks, AFL was not involved in any disputes during the 2019 financial year.

The amount of equity capital requirements for operational risk amounted to €2.3 million as at December 31, 2019.[16]

2. Prudential ratios and equity

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

[16]At December 31, 2018, the equity capital requirement was €1.5 million.

Since October 2017, AFL defers regulatory equity capital to the ACPR on a consolidated basis only, in accordance with IFRS, for its parent company, AFL-ST.

As at December 31, 2019, the prudential capital amounted to €123.8 million, in accordance with IFRS, for Société Territoriale. Given the quality of credit of the assets carried by AFL, the solvency ratio reached 15.78% on a consolidated basis. In addition, the leverage ratio stood at 2.78% on that same date.

The table below provides a statement of the prudential and capital adequacy ratios[17] per quarter for 2019.

The fall in capital ratios is largely attributable to the gradual increase in outstanding loans in the ramp-up phase of the business.

Solvency				
	31/12/2019	31/12/2018	31/12/2017	31/12/2016
CET1 (KEUR)	123 768	121 010	115 642	114 232
Solvency ratio	15,78%	17,74%	18,89%	24,00%
Leverage				
	31/12/2019	31/12/2018	31/12/2017	31/12/2016
Leverage ratio (CRR2)	1,98%	7,88%	11,69%	10,41%
Leverage ratio (CRR)	2,78%	2,83%	3,28%	4,17%

In the event that AFL is eligible for public development credit institution status allowing the deduction of promotional loans from the assets on its balance sheet, Société Territoriale's leverage ratio (IFRS) would amount to 11.98% as at December 31, 2019.

3. Internal control and risk management procedures

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

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

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

It should be remembered that, even though AFL 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, AFL 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.

3.1. Governance

- **Supervisory Board and Management Board**

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

The Management Board is in charge of the consistency and effectiveness of the overall internal control and risk management systems. It defines 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 for its work on an Audit and Risk Committee that reports to it.

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

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

- 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

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

- 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; in particular, it seeks to ensure compliance with the rules of corporate governance, and each year issues an opinion on the compensation policy.**

  - **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 her duties, she relies on various managers who come under the line management.

In accordance with the Decree:

- As the person responsible for periodic control, the Director of Risk, Compliance and Control reports the findings of her work to the Management Board and the Supervisory Board; she may also inform the Supervisory Board and, where appropriate, the Audit and Risk Committee, directly and at her 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 Management Board.

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

  - **The operational departments**

All of AFL's operational departments contribute to the internal control and risk management system, including departments responsible for taking risks and ensuring that permanent first-level controls are properly carried out, the IT systems department, which is in charge of the operational management of IT systems, and the legal department, whose role is to ensure the security and legality of operations.

  - **Committees**

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

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

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

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

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 she exercise it, the decision is either adjourned to a subsequent Committee meeting or is subject to a Management Board decision.

3.2. Internal control and risk monitoring systems

▪ Definition and objectives of internal controls

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

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

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

- Financial policies and risk monitoring indicators defined in relation to the institution's objectives that specify and frame the risks incurred;
- An organization structured and supervised by a body of documents (operating and other procedures) providing the wherewithal to clearly define the roles and responsibilities of everyone involved;
- 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 control the risk of not meeting the objectives set by AFL in terms of development, profitability and risk management, the internal control and risk management systems play a key role in the management and steering of AFL's various activities. However, it cannot be, and is not intended to provide, a guarantee that AFL's objectives will be achieved.

▪ Functions, scope and associated resources

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

- Risk management ensures the implementation of risk measurement systems and monitoring and control procedures;
- The control of operations is based on a continuous and permanent monitoring of risk management within AFL (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 AFL comply with the standards and regulations in force.

▪ The Risk function

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

It operates independently of the operational teams.

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

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

- The financial and risk management policies drawn up by the business lines and the Risk, Compliance and Control Department, which set the appetite for risk and the rules and limits adapted to the activities; these policies are reviewed annually by the Global Risk Committee, submitted to the Audit and Risk Committee and approved by the Supervisory Board;
- Risk indicators that give rise to regular reporting that enables the Management Board to have a reliable view of the risks incurred;

- An organizational chart of operational risk management that identifies the responsibilities of operational departments for the management of these risks and takes into account the requirements for separation of responsibilities where necessary; and
- A risk management system monitored by the Global Risk Committee. It is based on a summary of the risks taken by AFL and it allows the Management Board to have an aggregated, reliable, up-to-date and prospective view of the risks incurred. This system is based on risk mapping that identifies and categorizes the risks incurred by AFL over all of its activities (impact, occurrence, degree of control).

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

In 2019, AFL revised and amended the financial policies applicable to its activities. Adaptations were made to the relative importance of the various risks as part of the quarterly GRCs. Responsibilities were confirmed. The main risk measurement indicators and reporting systems set up have changed to follow AFL's growth. The Global Risk Committee met four times.

▪ The Control function

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

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

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

i. Permanent controls

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

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

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

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

In 2019, the body of documents that governs the activities of AFL (policies, procedures, operating procedures) was reinforced. At the same time, the system of first-level controls and the tools for monitoring their implementation was enriched. The principle adopted is that all controls must be documented in a standardized manner within the framework of a control matrix, thereby ensuring a standardized performance and audit trail, and allowing the production of reporting.

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

- The definition of an annual permanent control plan that covers the most significant areas of risk and is based on particular on the results of the first- and second-level controls, lessons learned from the use of risk mapping and the risk management system;

- The reporting of operational and IT incidents and compliance malfunctions issued by the departments and centralized in the "incident" database;
- The reproduction of these analyses in the form of regular recommendation reports to strengthen the control systems and therefore the risk controls;
- The establishment of an emergency plan and continuation of activity updated and tested on a regular basis in light of changes in the risks incurred;
- Verification of the quality of IT and communication systems, both internal and external;
- The guarantee, reliability, integrity and availability of financial information through controls performed on the accounting systems.

The Internal Control Committee met twice in 2019.

ii. Periodic controls

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

In accordance with the Decree of November 3, 2014 on 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, AFL has outsourced the periodic controls to a service provider since 2014.

In 2019, 54 person days (including internal supervision and outsourced work) were devoted to the work of the periodic control function. 2019 was the second year of the three-year multi-year audit cycle started in 2018. A call for tender was launched in November 2017 to select the service provider to support AFL for 2018-2019-2020, in which PwC was selected.

Internal audit missions are carried out on the spot and onsite and their purpose is to ensure compliance with regulatory requirements, internal rules and risk controls, and are performed in particular on the evaluation of the permanent control system.

For each internal audit mission, an overall rating reflecting the level of risk control was allocated according to the following methodology:

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

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

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

- **The Compliance function**

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

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

The compliance function, which reports to the Director of Risks, Compliance and Control, performs these activities independently of all operational functions.

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

- The process for authorizing new products or activities;
- The implementation of measures to combat money laundering and the financing of terrorism and to ensure respect for embargoes;
- The implementation of personal data protection measures;
- Monitoring of professional ethics procedures;

- Regulatory monitoring for the institution and playing a role of informant for various major regulatory changes/communication.

In 2019, the Compliance function continued to consolidate AFL's non-compliance risk management system.

With this in mind, the main measures developed were subject to compliance maintenance and operational implementation, in particular:

- The approval system for new products and activities;
- Measures to combat money laundering and the financing of terrorism and to ensure respect for embargoes;
- The personal data protection system;
- The ethics procedures;
- The Market Abuse system.

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

i. Organization of the accounting system

The Accounting Department comes under the Finance Department. In 2019, it had 2.5 full-time functions spread over three people. They are the Accounting Director, an executive accountant in charge of general accounting, and an apprentice in charge of general expense accounting.

ii. Permanent accounting controls (levels 1 and 2)

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

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

On a daily basis:

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

On a monthly basis:

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

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

- Verification of third-party payer databases (SIRET, name, address and IBAN);
- Verification and control of accounting system authorizations;
- Review of accounting schemes;
- Control, carried out by the Chief Financial Officer, with the analytical review of the quarterly consolidated and parent company financial statements.

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 provided by a service provider reporting to the Director of Risk, Internal Control and Compliance on a semi-annual basis.

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 half-yearly accounting control file analyzing and documenting the balances of the general balance (documentary reviews, variance and likelihood checks);
- Development of reconciliations between accounting and management (reconciliation of outstanding loans, outstanding swaps, portfolio performance).

VI. AFL Research and Development activity

Given its corporate purpose, AFL does not, by principle, undertake research and development operations.

VII. Data on share capital and shares

1. Shareholding structure and changes thereto during the financial year

At December 31, 2019, AFL's share capital totaled €146,800,000, divided into 1,468,000 shares with a par value of €100 each, of the same category, fully subscribed and paid up. AFL's share capital consists entirely of registered shares. Each share held entitles the holder to a vote at the General Meetings. AFL neither issued nor authorized the issue of any preferred shares during the financial year ended December 31, 2019.

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

Almost all of the share capital and voting rights in AFL are held by AFL-ST (99.99%). The balance, i.e. one share, is held by the Lyon Metropolitan Area in the region in which AFL's registered office is located, in order to meet the requirements of Article L. 225-1 of the French Commercial Code.

AFL-ST has the exclusive control of AFL, and was the only organization to subscribe to AFL's share capital increases during the 2019 financial year, thus continuing to accomplish its corporate purpose which consists in being a shareholder of AFL.

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

	December 31, 2018			December 31, 2019		
	Amount of subscribed capital (in euros)	Number of voting rights / shares held	%	Amount of subscribed capital (in euros)	Number of voting rights / shares held	%
AFL-ST	138,699,900	1,386,999	99.99%	146,799,900	1,467,999	99.9999%
Lyon Metropolitan Area	100	1	0.01%	100	1	0.0001%
Total	**138,700,000**	**1,387,000**	**100%**	**146,800,000**	**1,468,000**	**100%**

2. Employee share ownership

No shares in the companies comprising the AFL Group are owned by its employees, as the shareholder structure imposed by the legislator does not allow employees to own shares in the capital of AFL-ST or AFL.

Consequently:

- No operations were carried out during the financial year ended December 31, 2019 in respect of share purchase or subscription options in the Company reserved for employees;

- No operations were carried out during the financial year ended December 31, 2019 in respect of share purchase or subscription options in Group companies reserved for employees as stipulated in Articles L. 225-177 to L. 225-186 and L. 225-197-1 to L. 225-197-3 of the French Commercial Code.

No operations to enable Company employees to enter into AFL's share capital are planned.

3. Company share buybacks

During the financial year ended December 31, 2019, AFL made no transactions in its own shares. Furthermore, the Company did not hold any of its own shares as at December 31, 2019.

4. Transactions on AFL securities by its officers

AFL was not informed of any acquisition, sale, subscription or exchange of AFL shares by Board directors or persons having close personal ties with any of them during the financial year ended December 31, 2019.

5. Stock market situation of AFL

As at December 31, 2019, the 1,468,000 shares with a par value of €100 each were not tradable on a regulated market.

VIII. Environmental, social and societal information

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

March 26, 2020,

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

APPENDIX 1
TABLE OF RESULTS FOR THE PAST FIVE FINANCIAL YEARS

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

Parent company financial statements at December 31:

TYPE OF INDICATIONS	2019	2018	2017	2016	2015
I. - Financial position at year-end:					
a) Share capital (in thousands of euros)	146,800	138,700	132,500	111,000	74,300
b) Number of shares issued.	1,468,000	1,387,000	1,325,000	1,110,000	743,000
c) Number of bonds convertible into shares.					
II. - Overall profit from transactions (in thousands of euros):					
a) Revenues excluding tax.	10,647	9,542	11,102	9,127	371
b) Earnings before tax, amortization and provisions.	822	699	1,856	258	(10,345)
c) Corporate income tax.					
d) Earnings after tax, amortization and provisions.	(1,713)	(1,878)	146	(2,642)	(12,082)
e) Amount of dividends distributed					
III. - Profit from transactions reduced to a single share:					
a) Earnings after tax, but before amortization and provisions.	0.56	0.50	1.40	0.23	(13.92)
b) Earnings after tax, amortization and provisions.	(1.17)	(1.35)	0.11	(2.38)	(16.26)
c) Dividend paid for each share.					
IV. - Personnel:					
a) Number of employees.	27	27	25	25	22
v) Amount of payroll (in thousands of euros).	2,991	2,970	2,980	2,730	2,580
c) Amount paid for social benefits (social security, works, etc.) (In thousands of euros	1,741	1,588	1,612	1,508	1,217

APPENDIX 2
SUPERVISORY BOARD'S REPORT ON CORPORATE GOVERNANCE

Dear Shareholders,

In accordance with the combined provisions of Articles L. 225-68, paragraph 6, L. 225-37-3 to L. 225-37-5, and L. 225-82-2 of the French Commercial Code, and Article L. 511-100 of the French Monetary and Financial Code, and in compliance with the AFEP-MEDEF Corporate Governance Code, which Agence France Locale (AFL) voluntarily upholds, it is my honor, in my capacity as Chairman of the Supervisory Board, to present to you, on behalf of the Supervisory Board, **this report on corporate governance for the 2019 financial year, the terms of which were approved by the Supervisory Board at its meeting on March 26, 2020**.

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

This report includes the following:

- information on corporate governance, primarily on the composition and functioning of the Supervisory Board and the Management Board of Agence France Locale, and, more specifically, the conditions for the preparation and organization of the work of the Supervisory Board and its committees;

- information on the components of compensation paid to the Company's Board directors;

- information on regulated agreements signed within the Company;

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

- any observations issued by the Supervisory Board regarding the statements for the financial year ended December 31, 2019 and the management report prepared by the Management Board for that same financial year.

This report was prepared with the support of the Management Board and the Legal Department of Agence France Locale, and was given a favorable review by the Company's Appointments, Remuneration and Corporate Governance Committee (the ARCGC) on November 21, 2019, which on February 26, 2020 also reviewed the compensation paid to the Board directors for the past financial year.

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

Article II. Table des matières

1. **Declaration of compliance with the Code of Corporate Governance**

In compliance with the provisions of Articles L. 225-37-4, paragraph 8, of the French Commercial Code and 27.1 of the AFEP MEDEF Corporate Governance Code (the ***AFEP-MEDEF Code***), the Company declares that it adheres to, applies, and adopts the recommendations issued by the Association Française des Entreprises Privées and the Mouvement des Entreprises de France contained in their code of corporate governance, revised in June 2018, and then in January 2020, as a reference framework for corporate governance.

The Internal Regulations adopted by the Company's Supervisory Board incorporate the main provisions of said code.

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

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

- Shares held by the Board directors and the members of the Supervisory Board (Articles 19 and 22 of the AFEP-MEDEF Code).

AFL has decided to exclude the provisions of Articles 20 and 23 of the AFEP-MEDEF Code. Consequently, the members Board directors and Supervisory Board members hold no shares in AFL or AFL-ST. This principle stems from the structure of the AFL Group: The shareholders of both companies are meant to be composed, directly or indirectly, solely of local and regional authorities, pursuant to Article 1611-3-2 of the French General Local and Regional Authorities Code.

The Company's shareholding structure is itemized in Point 7 below.

- Representation of the Company's employees on the Supervisory Board (Article 8.1 of the AFEP-MEDEF Code)

AFL has decided to exclude the provisions of Article 8.1 of the AFEP-MEDEF Code. Given its light economic model, which is reflected in its limited workforce, comprising around thirty permanent employees, two of whom are employee members of the Management Board, its Articles of Association do not provide for the possibility of appointing representatives of employees to the Supervisory Board. The Company does not fall within the scope of application of Article L. 225-27-1 of the French Commercial Code.

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

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

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

and to report it to the Board (***Board's assessment***).

As of the 2019 financial year, in view of the stage of maturity of its governance and under the impetus of the Company's ARCGC, the evaluation method implemented has evolved to make it more inclusive. The members of the Supervisory Board were therefore invited to participate actively in the assessment of the collective working of the Board and the individual contribution of the members *via* a self-assessment questionnaire and individual interviews with the Chairman and Vice-Chairman of the Board as well as with the Chairmen of specialized committees.

In addition, as part of the preparatory work for the renewal of the Supervisory Board members, which will take place in May 2020, the members of the Board were invited to identify the key skills and experiences essential for the proper working of AFL's Supervisory Board with regard to the challenges facing the Company.

The reproduction of the results of the aforementioned questionnaire and interviews as well as the proposals from the Board members interviewed, were analyzed by the ARCGC on November 21, 2019, which, based on this, defined the areas of development in order to:

- Change the way the Board works and holds meetings;
- Initiate the identification of target profiles to prepare for the renewal of the Supervisory Board members.

The findings, conclusions and areas of development discussed and adopted by the ARCGC and the Supervisory Board are presented in the corresponding sections in the context of the report.

In general, the ARCGC and the Supervisory Board noted the very satisfactory functioning of the Board and its committees, and set the strengthening of the Board's involvement in defining and monitoring the deployment of the Company's strategy, which enters, after a phase of consolidation of the model, in its phase of development as a main area of development. The Board’s assessment also highlighted its willingness to consolidate the lines of common trajectory with the parent company and its directors through shared seminars.

3. Composition and functioning of the management bodies

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

3.1. The Supervisory Board

3.1.1. Composition

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

(a) Chairman of the Board of Directors of AFL-ST;
(b) Vice-Chairman of the Board of Directors of AFL-ST;
(c) Chief Executive Officer of AFL-ST;
(d) one expert with in-depth knowledge of the problems related to the finances of local and regional 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. It is up to AFL-ST's Board of Directors acting on the recommendation of the Company's ARCGC to propose the appointment of these.

The independence of the members of the Supervisory Board of AFL is a key element in guaranteeing the managerial autonomy of the Management Board with respect to AFL-ST. In this context, the Articles of Association of AFL state that the number of independent members of the Supervisory Board must always be greater than the number of representatives of AFL-ST and of local public authorities. In practice, the minimum composition of the Supervisory Board required by Article 2.2 of the Company’s Articles of Association automatically means that independent members make up half of the Supervisory Board, a higher threshold than the one stated in Article 9.3 of the AFEP-MEDEF Code (one third), even though it is not expressly referred to in the Company’s Articles of Association.

All independent members of the Supervisory Board meet the independence criteria set forth in the AFEP-MEDEF Code. The analysis conducted in this regard by the Company's ARCGC is further described in Section 3.1.4 of this report.

- **Composition of the Supervisory Board as at December 31, 2019:**

The Supervisory Board consisted of the following persons at December 31, 2019:

First name, Last name Date and place of birth, Nationality	Duties performed and, where applicable, participation in committees Professional address	Date of first appointment and date of expiration of term	Number of shares held in the capital of the Company	Offices and positions held within the Group since its incorporation	Offices and positions held outside the Group		Areas of expertise /Experience
					Offices currently held	Offices whose terms have expired in the last five years	
Richard Brumm born October 20, 1946 in Lyon (69006) French nationality	Chairman of the Supervisory Board Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Co-opted by the Supervisory Board on June 20, 2016 Renewal of term of office by the General Meeting of May 5, 2017 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the financial year ended December 31, 2020	None – see Point 1 of this report	Vice-Chairman of the Board of Directors of ST	Representative of the City of Lyon to: – Opéra National de Lyon (a Declared Association) (SIREN No. 339 391 021) – Crédit Municipal de Lyon (SIREN No. 266 900 299) (Member of the Orientation and Supervisory Board) Representative of the Lyon Metropolitan Area to:		Since January 1, 2015: Avocat honoraire (emeritus attorney) 1970-2014: Attorney with the Bar of Lyon April 2014 - Present: Deputy Mayor in charge of Finances and Public Procurement (Third Deputy) – City of Lyon March 2014 - Present: Elected community official - Vice-President in charge of Finance - Lyon Metropolitan Area March 2008 - March 2014: Elected city official - Deputy Mayor in charge of Finance and General Administration - City of Lyon

First name, Last name Date and place of birth, Nationality	Duties performed and, where applicable, participation in committees Professional address	Date of first appointment and date of expiration of term	Number of shares held in the capital of the Company	Offices and positions held within the Group since its incorporation	Offices and positions held outside the Group		Areas of expertise /Experience
					Offices currently held	Offices whose terms have expired in the last five years	
					– SEM Patrimoniale du Grand Lyon SEM (518 422 704 RCS Lyon) (Director) – Société Anonyme Immobilière d'Économie Mixte de Vaulx-en-Velin (404 997 868 RCS Lyon) (Chairman and CEO) – 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)		
Jacques Pélissard born March 20, 1946 in Lyon (69) French nationality	Vice-Chairman of the Supervisory Board Member of the ARCGC Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Appointed by the General Meeting of June 22, 2017 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the financial year ended December 31, 2020	None – see Point 1 of this report	Chairman of the Board of Directors of ST		Member of the Local Finance Committee Member of the Board of Directors of Le Groupe La Poste	Professional activity: 1971-1974: Professor at the Ecole Supérieure de Commerce de Lyon (Lyon Business School) Until July 1, 1993: Attorney Public and political office: Since 2014, Honorary President of the French Mayors' Association Since 1989: Mayor of Lons-le-Saunier (Jura Prefecture)

First name, Last name Date and place of birth, Nationality	Duties performed and, where applicable, participation in committees Professional address	Date of first appointment and date of expiration of term	Number of shares held in the capital of the Company	Offices and positions held within the Group since its incorporation	Offices and positions held outside the Group		Areas of expertise /Experience
					Offices currently held	Offices whose terms have expired in the last five years	
							1993-2017: Representative of Jura, member of the Finance Committee of the Assemblée Nationale (French National Assembly) 2000-2017: President of the Suburban Community of Lons "ECLA" 2004-2014: President of the French Mayors' Association
Rollon Mouchel-Blaisot born June 19, 1959 in Carteret (50270) French nationality	Member of the Supervisory Board Member of the ARCGC Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Appointed in the Articles of Incorporation of December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the year ended December 31, 2020	None – see Point 1 of this report	End of term of office on May 24, 2017: Chairman of the Board of Directors of AFL-ST	Ministry of Territorial Cohesion – Director of the *Action Coeur de Ville* Program	Director General of Services of the French Mayors' Association	2010-2017: Director General of Services of the French Mayors' Association 2008-2010: Prefect, Senior Director of French Southern and Antarctic Territories 2005-2008: Sub-Prefect of the Saint-Germain-en-Laye district 2003-2005: Secretary General for regional affairs at the Prefecture of the Limousin region 2001-2003: Sub-Prefect of the Libourne district 1997-2000: Consul General of France to Melbourne 1995-1997: Chief of Staff to the Minister of Foreign Affairs 1994-1995: Secretary General of the Prefecture of Jura Sub-Prefect, Director of Staff to the Prefect of Hautes-Alpes, the Prefect of Maine-et- Loire, then to the Prefect of Rhône-Alpes, assigned to the Southeast Defense Zone

First name, Last name Date and place of birth, Nationality	Duties performed and, where applicable, participation in committees Professional address	Date of first appointment and date of expiration of term	Number of shares held in the capital of the Company	Offices and positions held within the Group since its incorporation	Offices and positions held outside the Group		Areas of expertise /Experience
					Offices currently held	Offices whose terms have expired in the last five years	
							1986-1988: Parliamentary relations adviser to the Office of the Secretary of State, Youth and Sports
Olivier Landel born January 9, 1963 in Paramé (Saint-Malo 35400) French nationality	Member of the Supervisory Board Member of the Audit and Risk Committee Member of the Strategy Committee. Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Appointed in the Articles of Incorporation of December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the financial year ended December 31, 2020	None – see Point 1 of this report	Chief Executive Officer of AFL-ST	Delegate General of France Urbaine		Since 2013: Chief Executive Officer of Agence France Locale – Société Territoriale Since 2002: Delegate General of the French Association of Urban Communities, renamed France Urbaine in 2016 2010-2015: Delegate General of the Study Association for the Local Government Funding Agency 2009-2013: Guest speaker, Master's Program in Territorial Development and Urban Strategies (STU), Sciences-Po Formation 2009-2013: President of the Association of Auditors of IHEDATE 2001-2002: Senior Manager, Intercommunality, Management, Finance, Business Intelligence, Ernst & Young 1996-2001: Organizational, finance and local authorities management consulting, Puyo Consultants/Objectif M+ 1994-1996: Accounting, finance, local authorities and IT consulting, Olivier Landel Conseil/Objectif M14 1991-1994: Deployment of financial management software for local

First name, Last name Date and place of birth, Nationality	Duties performed and, where applicable, participation in committees Professional address	Date of first appointment and date of expiration of term	Number of shares held in the capital of the Company	Offices and positions held within the Group since its incorporation	Offices and positions held outside the Group		Areas of expertise /Experience
					Offices currently held	Offices whose terms have expired in the last five years	
							authorities, GFI solution (formerly SINORG) 1986-1991: Foreign Services of the Treasury, Accounting for local authorities, Trésor Public (French public revenue office)
Lars Andersson born March 27, 1952 in Sweden Swedish nationality ***Independent member***	Member of the Supervisory Board Member of the Strategy Committee. Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Appointed in the Articles of Incorporation of December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the financial year ended December 31, 2020	None – see Point 1 of this report	-	City Finance Lab: Committee member Global Fund for City Development (Fond mondial pour le développement des villes, FMDV): Director AB Marten Andersson Productions (AB MA Productions): Founder and Chairman		Since 2009: Founder and Chairman of AB Marten Andersson Productions 2007-2009: Chairman & CEO of Bankhälsan i Stockholm AB, Hälsostrategen I Stockholm AB, and Galleriva AB 2001-2007: Communications officer, Strategic adviser to the Chairman, and financing expert for local and regional authorities, Svensk Exportkredit (Swedish export credit company) 1986-2001: Chairman & CEO of the Kommuninvest Group 1986-1986: Administrative Director of the Örebro Regional Theater 1984-1986: Chief Accountant and Financial Officer for the City of Karlstad 1976-1984: Chief Financial Officer for the City of Laxa

First name, Last name Date and place of birth, Nationality	Duties performed and, where applicable, participation in committees Professional address	Date of first appointment and date of expiration of term	Number of shares held in the capital of the Company	Offices and positions held within the Group since its incorporation	Offices and positions held outside the Group		Areas of expertise /Experience
					Offices currently held	Offices whose terms have expired in the last five years	
Victoire Aubry-Berrurier born June 5, 1966 in La Roche-sur-Yon (85000) French nationality ***Independent member***	Member of the Supervisory Board Member of the Audit and Risk Committee Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Appointed in the Articles of Incorporation of December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the year ended December 31, 2020	None – see Point 1 of this report	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 BPI Participations and BPI Investissements and Member of the Audit Committee (representing Caisse des Dépôts et Consignations) – Member of the Board of Directors of OPPCI ICADE HEALTHCARE EUROPE		– Finance, Legal, Audit, Internal Control, Risks, Project Management – 2012-2016: Member of the Executive Committee in charge of Finance, Legal Affairs and IT, Compagnie des Alpes – 2006-2012: Director of Steering and Performance, CNP Assurances – 2002-2006: Head of Strategic Monitoring of Competing Financial Activities, Caisse des Dépôts et Consignations – 1990-2001: Trader on the credit market, then supervisor of risks and earnings on complex products, management supervisor of US investment banking activities, CDC IXIS

First name, Last name Date and place of birth, Nationality	Duties performed and, where applicable, participation in committees Professional address	Date of first appointment and date of expiration of term	Number of shares held in the capital of the Company	Offices and positions held within the Group since its incorporation	Offices and positions held outside the Group		Areas of expertise /Experience
					Offices currently held	Offices whose terms have expired in the last five years	
François Drouin born August 7, 1951 in Quierschied (Germany) French nationality ***Independent member***	Member of the Supervisory Board Member of the Audit and Risk Committee Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Appointed in the Articles of Incorporation of December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the financial year ended December 31, 2020	None – see Point 1 of this report	-	– Chairman of ETI Finance (SAS) (797 802 568 RCS Paris); – Chairman of the Supervisory Board of Gagéo SAS (831 604 491 RCS Paris); – Chairman of ICF SAS (RCS Paris); – Chairman of IFIMM SAS (830 662 102 RCS Paris); – Director of WeLikeStartup Partners SAS (832 404 206 RCS Paris); – Treasurer of the French Institute of International Relations (IFRI); – Director of the IFRI Endowment Fund	– Chairman of Autoroutes et Tunnel du Mont Blanc SA (582 056 511 RCS Paris); – Chairman of the Supervisory Board of GEIE du Tunnel du Mont Blanc (European EIG - 433 092 517 RCS Annecy); – Chairman of the Board of Directors of Société Française du Tunnel Routier du Fréjus (SEM) (962 504 049 RCS Chambéry) – Vice-Chairman of the Board of Directors of BPI France (SA) (320 252 489 RCS Créteil)	Since 2013: Chairman of ETIFINANCE 2013-2017: President, Autoroutes et Tunnel du Mont Blanc (ATMB) 2007-2013: Chairman & CEO, Oséo 2003-2007: Chairman of the Management Board, Crédit foncier de France 1991-2003: Chairman of the Management Board, Caisse d'épargne de Midi-Pyrénées 1989-1992: Chairman of the Management Board, Société régionale de financement (Sorefi), Caisses d'épargne de Midi- Pyrénées 1986-1989: Regional Director, CDC et Crédit local de France pour la Bourgogne 1985-1986: Regional Director, CDC pour la Haute-Normandie 1980-1985: Head of the territorial district of Valenciennes for the departmental office of infrastructure for the North, and the regional navigation division of the Nord-Pas-de- Calais region

Nicolas Fourt born September 22, 1958 in Nancy (54000) French nationality ***Independent member***	Member of the Supervisory Board Member of the Strategy Committee. Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Appointed in the Articles of Incorporation of December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the financial year ended December 31, 2020	None – see Point 1 of this report	-	– Deputy Chief Executive Officer and Director of Acofi Gestion (SA) (415 084 433 RCS Paris) – Deputy Chief Executive Officer, Member of the Management Board, 2A SAS – Director of Acofi (SAS) (510 571 995 RCS Paris) – Director of Denis Friedman Productions (SA) (409 756 350 RCS Paris) – Manager of NF Conseil (SARL) (519 411 441 RCS Nanterre) – Member of the Supervisory Board of Qivalio (formerly Spread Research) – Director of CDC Croissance SA RCS Paris 438 136 244		2019 Director of de CDC Croissance (AMF- regulated SGP) 2017-2019: Member of the Supervisory Board of Qivalio, formerly Spread Research (ESMA-regulated Rating Agency) 2014-2019: Deputy Chief Executive Officer of Acofi Gestion (AMF-regulated SGP) 2009-2015: Chief Executive Officer of Alfafinance (CIF) 2006-2008: Global Head of all non-CDO market activities, Member of the Executive Committee, Natixis 1996-2006: Head of Fixed-Income Markets, then member of the comprehensive joint management board on market operations, CDC-Marchés, then CDC-Ixis, then Ixis 1988-1996: Head of Franc/ECU bond markets, then joint head of money and bond markets, CDC 1986-1988: Deputy Head, then Head of Currency Treasury, Caisse des dépôts et consignations (CDC) 1984-1986: Bond manager, TGF Paris (Groupe Caisse des dépôts) 1982-1984: OECD Paris

First name, Last name Date and place of birth, Nationality	Duties performed and, where applicable, participation in committees Professional address	Date of first appointment and date of expiration of term	Number of shares held in the capital of the Company	Offices and positions held within the Group since its incorporation	Offices and positions held outside the Group		Areas of expertise /Experience
					Offices currently held	Offices whose terms have expired in the last five years	
Daniel Lebègue born May 4, 1943 in Lyon (69004) French nationality ***Independent member***	Member of the Supervisory Board Member of the Appointments, Remuneration and Corporate Governance Committee. Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Appointed in the Articles of Incorporation of December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the financial year ended December 31, 2020	None – see Point 1 of this report	-	Since June 2018: President of the Observatoire sur la Responsabilité Sociétale des Entreprises (ORSE)	Until June 2018: President of the Observatoire sur la Responsabilité Sociétale des Entreprises (ORSE)	Since 2008: President of the Observatoire sur la Responsabilité Sociétale des Entreprises (ORSE) 2003-2014: - President of the French institute of administrators (IFA), a professional association of company administrators doing business in France - Director of Alcatel, Crédit Agricole SA, Technip, and Scor - President of the French institute for sustainable development and international relations (IDDRI) - President of the French section of Transparency International - Co-President of Eurofi - President of Epargne sans frontières ("savings without borders") 1998-2002: Chief Executive Officer, Caisse des dépôts et consignations 1996-1998: Vice-Chairman, Banque nationale de Paris 1987-1996: Director, then Chief Executive Officer, Banque nationale de Paris 1984-1987: Director of the Treasury, Trésor Public 1983-1984: Deputy Director, Treasury Department

First name, Last name Date and place of birth, Nationality	*Duties performed and, where applicable, participation in committees Professional address*	*Date of first appointment and date of expiration of term*	*Number of shares held in the capital of the Company*	*Offices and positions held within the Group since its incorporation*	*Offices and positions held outside the Group*		*Areas of expertise /Experience*
					Offices currently held	*Offices whose terms have expired in the last five years*	
							1981-1983: Technical Adviser to the Office of Prime Minister Pierre Mauroy, Economic and Financial Affairs Officer 1976-1981: Head of the Office of the balance of payments and exchanges, then Head of the Office of the Treasury, and Deputy Director in charge of the Savings and Financial Market Division, Treasury Department 1974-1976: Financial Attaché, French Embassy in Japan 1969-1974: Civil administrator of the Treasury Department, Ministry of the Economy and Finance
Mélanie Lamant born August 23, 1975 in Croix (59170) French nationality	Member of the Supervisory Board Member of the Strategy Committee. Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Co-opted by the Supervisory Board on March 23, 2017 Renewal of term of office by the General Meeting of May 5, 2017 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the financial year ended December 31, 2020	None – see Point 1 of this report	-			Since April 2014: Director General of Services - EPT Plaine Commune (93) June 2011 - April 2014: Deputy Director General – EPT Plaine Commune (93) September 2005 - June 2011: Director of Finance - EPT Plaine Commune (93) March 2004 - August 2005: Director of Finance and Markets - creation of the Department - Suburban Communities of Hauts-de-Bièvre (92) January 2002 - March 2004: Director of Finance - City of Aulnay-sous-Bois (93)

First name, Last name *Date and place of birth, Nationality*	*Duties performed and, where applicable, participation in committees* *Professional address*	*Date of first appointment and date of expiration of term*	*Number of shares held in the capital of the Company*	*Offices and positions held within the Group since its incorporation*	*Offices and positions held outside the Group*		*Areas of expertise /Experience*
					Offices currently held	*Offices whose terms have expired in the last five years*	
Carol Sirou born March 27, 1968 in Algiers 3rd arrondissement (Algeria) French nationality ***Independent member***	Member of the Supervisory Board Member of the Audit and Risk Committee Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Coopted by the Supervisory Board on September 27, 2018 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the financial year ended December 31, 2021	None – see Point 1 of this report	-	President of Safineia Advisors LLC (a US company) Member of the Board and the Audit and Risk Committee of Exane (SA) (342 040 268 RCS Paris)	Director of Standard & Poor's Global Ratings France, Paris, France President of Standard & Poor's Ratings (CMS France), Paris, France	Terms of office: Standard & Poor's Global Ratings France, Paris, France: January 2015 – May 2018: Director Standard & Poor's Ratings (CMS France), Paris, France: January 2009 – January 2015: President Professional career: Standard & Poor's Global, New York: June 2016 – December 2017: Chief Compliance Officer, New York January 2016 – June 2016: Chief Risk Officer, New York

First name, Last name Date and place of birth, Nationality	***Duties performed and, where applicable, participation in committees Professional address***	***Date of first appointment and date of expiration of term***	***Number of shares held in the capital of the Company***	***Offices and positions held within the Group since its incorporation***	***Offices and positions held outside the Group***		***Areas of expertise /Experience***
					Offices currently held	***Offices whose terms have expired in the last five years***	
							Standard & Poor's Ratings, Paris/New York: 2014–2016: Head of the Risk Program Management Office – New York 2013–2014: Head of European offices of S&P Ratings - Paris 2009–2013: President of S & P France and head of the French-speaking Europe and Africa area - Paris Standard & Poor's Ratings, Paris: 2005–2009: Head of "Sovereign & Public Sector" analytical teams in Europe, Africa and the Middle East 2002–2005: Head of ratings for European Local Authorities 1990–2000: Various analyst positions, Banking Sector & Public Sector

- **Changes in the composition of the Supervisory Board and the specialized committees during the 2019 financial year:**

There was no change in the composition of AFL's Supervisory Board and its specialized committees during the 2019 financial year.

In accordance with the provisions of Article L.225-78 of the French Commercial Code, the co-optation of Carol Sirou as a member of the AFL Supervisory Board took place on September 27, 2018 to replace a resigning Board member was ratified by the Annual General Meeting of May 3, 2019.

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

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

Pursuant to Article L. 225-78 of the French Commercial Code, the Company's Articles of Association further stipulate that if one or more members vacates their seat due to death or resignation, the Supervisory Board has the option to co-opt a new member in order to temporarily replace those members, and the appointment must be ratified by the next General Meeting following the appointment.

This procedure is also applicable in the event that the number of members on the Supervisory Board falls below the statutory minimum (eight [8] members), for the purpose of adding new members within three months of the date of the vacancy.

All applications for memberships on the Supervisory Board are reviewed, prior to their submission to the General Meeting of Shareholders, by the ARCGC of the Company, on the one hand, and by the ARCGC of Société Territoriale, on the other hand, pursuant to Article 15.2.1 of the Company's Articles of Association, so as to ensure compliance of the actual composition of the Supervisory Board with the statutory principles included in paragraph 3.1.1.

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

- Evaluation of the individual contribution of the Members of the Supervisory Board

At its session on November 21, 2019, during which a skills audit was conducted, the Company's ARCGC found that in terms of the various backgrounds and careers detailed in the table above, all of the Supervisory Board members have key expertise with regard to the Company's activity, enabling the Company and the Agence France Locale Group to develop under the aegis of a quality Board.

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

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

In general, all the Board members noted:

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

which has also been noted by the ARCGC.

A number of skills, expertise and experiences, in addition to these, have also been identified. In view of the renewal of the Board members to take place in May 2021, the ARCGC has recommended promoting the recruitment of HR profiles, change management, and marketing.

- Training of Board members

When the Supervisory Board was first constituted, specific internal training to present the activities of the Company and the Agence France Locale Group, the regulatory and strategic issues it faces, and the corporate governance principles of the Agence France Locale Group and the Company was provided to the members of the Supervisory Board in June 2015.

In this context, the Supervisory Board members were also reminded of the rights and obligations pertaining to their positions.

Individual interviews with each of the Supervisory Board members who had been appointed in such capacity since the constitution of the Company were conducted before their appointment, for the purpose of raising their awareness of the special features and issues of the Agence France Locale Group, as well as the duties incumbent on the Supervisory Board collectively and its members individually.

This training is updated as changes are made both in governance and in the rights and obligations of the Board's members. It will be provided, in all cases, to any new member of the Board.

As part of the Supervisory Board's assessment, the ARCGC confirmed the imperative organization of a training session for new directors. Workshops or training sessions on the financial and institutional environments in which AFL operates can also be usefully deployed.

- Situations of conflicts of interests:

The Code of Ethics for the members of the Supervisory Board approved by the Supervisory Board on September 21, 2017 and annexed to the Supervisory Board's Internal Regulations details all of the rights and obligations incumbent upon the members of the Supervisory Board, both collectively and individually, particularly with regard to the management of conflicts of interest and the duty to warn.

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

Since 2017, a member of the Supervisory Board, potentially affected by a possible conflict of interest situation, already organized the appropriate measures to deal with the situation, if necessary, and submitted a written commitment to that effect to the Chairman of the ARCGC describing the organizational measures taken within his company. These measures were still in effect in the 2019 financial year.

During the 2019 financial year, no member of the Supervisory Board raised the occurrence of a potential situation of conflict of interests with the exercise of their term of office in the AFL, which was noted by the Company's ARCGC on November 21, 2019.

3.1.4. Independence of the members of the Supervisory Board

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

Generally speaking, on the AFL Supervisory Board, the members representing AFL-ST and local authorities pursuant to Article 15.1.2 of the Articles of Association of the Company are not classified as independent with regard to their involvement in the governance of the parent company and the capital ties between the local authority from which they come and the AFL Group.

The ARCGC has noted that all members classified as independent upon their appointment to the Supervisory Board meet the independence criteria set out in the AFEP-MEDEF Code.

In accordance with Article 15.1.4 of AFL’s Articles of Association, the number of independent members of the Supervisory Board is strictly greater than the number of Supervisory Board members designated to represent local authorities.

Independence criteria	Richard Brumm	Jacques Pélissard	Rollon Mouchel-Blaisot	Olivier Landel	Mélanie Lamant
Independent member?	**No**	**No**	**No**	**No**	**No**
Criterion 1 – *Salaried Board director/Executive officer/director of the company or its parent company or the consolidated company in the past five years*	**X** Mr. Brumm also serves as Vice-Chairman of the Board of Directors of AFL-ST	**X** Mr. Pélissard also serves as Chairman of the Board of Directors of AFL-ST	**X** Until May 24, 2017, Mr. Mouchel-Blaisot held the position of Chairman of the Board of Directors of AFL-ST	**X** Olivier Landel holds the position of Chief Executive Officer of AFL-ST	✓
Criterion 2 – *Cross-directorships*	**X** See above	**X** See above	✓	**X** See above	✓
Criterion 3 – *Significant business relationships*	✓	✓	✓	✓	✓
Criterion 4 – *Family ties*	✓	✓	✓	✓	✓
Criterion 5 – *Statutory Auditors*	✓	✓	✓	✓	✓
Criterion 6 – *Term of office exceeding 12 years*	✓	✓	✓	✓	✓
Criterion 7 – *Non-executive officer status*	✓	✓	✓	✓	✓
Criterion 8 – *Status of major shareholder*	**X** Mr. Brumm holds the position of Vice-Chairman of the Lyon Metropolitan Area, a shareholder of AFL and AFL-ST	**X** Mr. Pélissard serves as Mayor of the municipality of Lons-le-Saunier, a shareholder of AFL-ST	✓	✓	**X** Mélanie Lamant serves as Director General of Services - EPT Plaine Commune, a shareholder of AFL-ST

<u>Independence criteria</u>[1][2]	Lars Andersson	Victoire Aubry	François Drouin	Nicolas Fourt	Daniel Lebègue	Carol Sirou
Independent member?	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Criterion 1 – *Salaried Board director/Executive officer/director of the company or its parent company or the consolidated company in the past five years*	✓	✓	✓	✓	✓	✓
Criterion 2 – *Cross-directorships*	✓	✓	✓	✓	✓	✓
Criterion 3 – *Significant business relationships*	✓	✓	✓	✓	✓	✓
Criterion 4 – *Family ties*	✓	✓	✓	✓	✓	✓
Criterion 5 – *Statutory Auditors*	✓	✓	✓	✓	✓	✓
Criterion 6 – *Term of office exceeding 12 years*	✓	✓	✓	✓	✓	✓
Criterion 7 – *Non-executive officer status*	✓	✓	✓	✓	✓	✓
Criterion 8 – *Status of major shareholder*	✓	✓	✓	✓	✓	✓

[1] In the table above, ✓ represents an independence criterion that was met and **X** represents an independence criterion that was not met.

[2]The independence criteria for directors set forth in Article 9.5 of the AFEP-MEDEF Code, on the basis of which the ARCGC analyzed it, are attached to this report.

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

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

Although the Company does not strictly fall within the scope of application of this text, since its shares are not eligible for trading on a regulated market, the Company's ARCGC has reaffirmed the target representation of 40% of Supervisory Board members, while recognizing the fact that the Company enjoys certain flexibility in reaching this target, specifically in the implementation timetable. Gender parity, and diversity more generally, is an important aspect of the values promoted by the Company and the Group.

At the end of the 2019 financial year, the Supervisory Board comprised three women and eight men, i.e. a ratio of 27%/73%, which was the same as the one observed at the end of the financial year 2018.

At the end of the 2018 financial year, the ARCGC of the Company as well as the Supervisory Board reiterated the position adopted in 2017, along with the following principles, to achieving balanced representation of men and women on the Supervisory Board:

(i) Provide the opportunity to increase the number of Supervisory Board members to 12 to promote the incorporation of women onto the Board;

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

It should be noted that this last principle has already been implemented twice since the 2017 financial year, when Simon Munsch, who resigned as of January 31, 2017, and Dominique Schmitt, who resigned as of December 14, 2017, were replaced respectively by Mélanie Lamant and Carol Sirou, whose appointments contribute to the increased presence of women on the Supervisory Board and provide the Board with in-depth knowledge and experience in the areas of public finance and risk management.

This objective and the principles that make it possible to reach it were confirmed by the ARCGC on November 21, 2019.

In addition, as part of the evaluation of the functioning of the Supervisory Board, the ARCGC and the Supervisory Board have set the objective of losing the status of independent director after 12 years in office, without however, including this provision in the Company's Articles of Association.

This objective, combined with the rule of age limit and the objective of parity, which together constitute the Board's renewal strategy, should naturally and de facto allow the renewal and staggering of the terms of office recommended by the AFEP-MEDEF Code.

The AFEP-MEDEF Code, to which the Company voluntarily subjects itself, was amended in January 2020. This revision notably includes a new Article 7 on the men/women diversity policy within the governance bodies, the effects of which were reviewed in the ARCGC meeting of February 26, 2020 to convey the recommendations to the Supervisory Board of March 26, 2020. If the new recommendations are applicable as of the date of the Annual General Meetings called to approve the financial statements starting January 1, 2020, it is recommended that the Boards make their best efforts to publish the targets in terms of feminization from 2020. This work will be reported in the Supervisory Board's report on corporate governance for the 2020 financial year.

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

- Overview of the duties of the Supervisory Board:

The Supervisory Board exercises permanent control over the management of the Company by the Management Board. At any time of the year, it shall perform the checks and controls it deems appropriate and may be given such documents as it deems necessary for the accomplishment of its mission. The work of the Supervisory Board is governed by the Articles of Association of the Company and by special internal regulations, a new amended version of which was adopted by the Supervisory Board on September 21, 2017.

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

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

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

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

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

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

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

- proposed dividend distributions and similar transactions.

- Organization of the meetings:

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

The Supervisory Board meets at least once a quarter. It deliberates on the agenda covering all of the subjects that must be brought before it legally, statutorily and by regulation.

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

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

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

As of the fourth quarter of the 2019 financial year, the AFL Group has adopted a new method of communication with the members of its bodies. In order to further secure the circulation of documents supporting the agendas containing sensitive information, these are made available to the members of the body concerned on a dedicated storage space, kept on AFL Group's own secure internal site. Notice of meetings continue to be sent to the committees and boards with their agenda by email and include a link to access this storage space, equipped with a secure authentication system and to which members of the body have exclusive access.

This development has a triple advantage:

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

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

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

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

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

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

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

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

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

In addition to the points and decisions pertaining to its legal prerogatives, especially as regards the review of the annual and half-yearly financial statements, the Supervisory Board discussed all of the major actions undertaken in 2019, both internally (organization, compensation, objectives, etc.) and externally (bond issues, financial policy, etc.). The Supervisory Board, which met four times, adopted the following points:

- **Debt programs:**
  - Authorization to upgrade the Company's 2019 medium and long-term borrowing program;
  - Validation of the Company's 2020 borrowing program;

- **Budgetary policy and financial and commercial outlooks:**
  - Review of the prospective outcomes as of December 31, 2019;

- Validation of the provisional budget drawn up for Agence France Locale for the 2020 financial year;
- Review of the primary elements of the development strategy;

▪ **Financial policies:**
  - Validation of the liquidity policy;
  - Validation of the interest rate and currency risk hedging policy;
  - Validation of the investment policy and credit risk management related to market activities;
  - Validation of the Company's loan granting policy;
  - Validation of the loan granting policy;

▪ **Compensation policies:**
  - Validation of the Agence France Locale compensation policy for the 2019 financial year;
  - Review of the compensation packages allocated for the 2018 financial year to Agence France Locale's employees, specifically those qualified as "*risk-takers*";
  - Establishment of quantitative and/or qualitative annual targets to be taken into account when determining 2019 variable compensation;
  - Validation of the compensation of the members of the Management Board:
  - Breakdown of the total directors' fees allocated by the General Meeting among the members of the Supervisory Board for the financial year ended December 31, 2018 and the principle for allocating directors' fees for the 2019 financial year;

▪ **Regulated agreements:**
  - As part of the closing of the financial year ended December 31, 2018, an annual review of previously closed regulated agreements still in force in 2018, prior to their submission for review by the General Meeting of Shareholders, it being specified that the agreements exclusively entered into between the Company and Société Territoriale pursuant to Article L. 225-87 of the French Commercial Code are excluded from the scope of the control system;

▪ **Internal control and risk monitoring:**
  - Review of internal control, management, and risk monitoring activities and results (at least twice during the financial year);
  - Review of the liquidity situation (twice during the financial year);
  - Review of the Annual Internal Control Report and the ICAAP process;

▪ **Periodic control activities:**
  - Semi-annually, the Supervisory Board was informed of the activity of periodic control (recommendations, implementation of corrective measures and monitoring of the deployment of these measures, in particular);

▪ **Governance:**
  - A change in the Supervisory Board's Internal Regulations aimed at authorizing participation by telecommunication or proxy reviewing the half-yearly financial statements, has been validated by the Supervisory Board, participation by telecommunication or proxy being prohibited by law only with regard to the review of the annual financial statements.

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

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

3.2. The Specialized committees of the Supervisory Board

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

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

3.2.1. The Audit and Risk Committee

a) Composition of the Audit and Risk Committee

The Audit and Risk Committee is chaired by François Drouin.

As of December 31, 2019, the other members were Victoire Aubry, Olivier Landel and Carol Sirou.

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

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

The main mission of the Audit and Risk Committee is:

(i) to oversee the preparation and dissemination process for accounting and financial information, assess the relevance and permanence of the accounting principles and methods adopted for the preparation of the annual and interim financial statements;
(ii) to verify the effectiveness of the internal control and risk management procedures;
(iii) to ensure by any means the quality of the financial, accounting or risk management information provided to the Supervisory Board; and
(iv) to give the committee its assessment of the work performed by the Statutory Auditors and its opinion on the renewal of their terms of office.

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

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

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

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

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

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

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

During the 2019 financial year, the Audit and Risk Committee met four times. Its work focused on:

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

- Review of the work of the Statutory Auditors and their independence;

- Notice regarding the upgrade of the Company's 2019 medium and long-term borrowing program;

- Opinion on the Company's 2020 borrowing program;

- Review of prospective outcomes for 2019 and the provisional budget for 2020;

- Review of financial policies;
- Review of risk monitoring;
- Review of liquidity situation monitoring;
- Review of the Company's internal control activity;
- Review of periodic control tasks;
- Review of the Annual Internal Control Report and the ICAAP process.

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

a) Composition

The ARCGC is chaired by Daniel Lebègue. Its other members are Rollon Mouchel-Blaisot and Jacques Pélissard. The composition of the ARCGC did not change during the 2019 financial year.

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

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

The ARCGC's primary mission is:

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

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

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

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

In 2019, the Appointments, Compensation and Corporate Governance Committee met twice. Its work focused on, in particular:

- Approval of the Agence France Locale compensation policy for the 2019 financial year;

- Review of the quantitative and/or qualitative annual targets to be taken into account when determining the variable compensation for the Management Board for the 2019 financial year;

- Review of the fixed and variable compensation of the members of the Management Board;

- Review of the compensation packages allocated for the 2018 financial year to Agence France Locale's employees, specifically those qualified as "*risk-takers*";

- Review of the proposed allocation of directors' fees to each member of the Supervisory Board for the 2018 financial year;

- Review of the collective functioning of the Supervisory Board and its committees, as well as the experience, skills and independence of individual Board members.

In light of the Company's development, the Board's assessment encouraged further study of the ARCGC's review of the company's human resources policy in the forthcoming financial years.

3.2.3. The Strategy Committee

a) Composition

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

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

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

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

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

- The Company's major strategic outlines (including the medium-term business plan);
- The Company's development policy;
- The major projects or financing and refinancing programs 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 Strategy Committee, who in making his decision, relies in particular on the amount of commitments linked to the project in question.

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

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

- <u>Summary of the Committee's activities during the past financial year</u>

During the 2019 financial year, the Strategy Committee met four times. The Strategy Committee chose to focus its reflections on certain recurring themes, including changes in the regulatory environment governing the Agence France Locale's activity, changes in the situation of French local authorities with regard to borrowing and the situation of the Agence France Locale's peers. During the previous financial year, the Strategy Committee also studied the choice of a second AFL rating, the effects of negative rates and the strategies for increasing equity as part of the financial strategy, and AFL Group's membership and credit development strategy, its responsibility and CSR approach, and its strategic investments, particularly in terms of information systems as part of the Group's commercial and strategic development.

As of September 2019 and following the decision of the Strategy Committee in this sense, the feedback from the discussions of the Strategy Committee has evolved: in addition to the oral feedback from the work in meetings, a semi-annual activity report of the Strategy Committee is made available to members of the Supervisory Board and identifies, for each subject studied, the general content of the discussions of the Strategy Committee, the findings established (advantages and opportunities, possible difficulties), the development plans adopted and their follow-up, as well as the recommendations issued by the Committee.

The conclusions of the Board's evaluation indicated a strong demand from Board members to reinforce their involvement in defining the company's strategy, and gave rise to a debate on positioning and the role of the Strategy Committee, as well as the articulation of its work with that of the Supervisory Board. The Strategy Committee will come up with reflections and proposals during the financial year, with the aim of reporting its work to the Board strongly.

3.2.4. Members' attendance at Supervisory Board and Specialized committee meetings: participation in meetings of the members of the Supervisory Board and its specialized committees in the course of the 2019 financial year

All the Supervisory Board and Committee meetings met the conditions required by the articles of association in terms of quorum and majority, upon first notice.

The table below presents attendance of the members of the Board and Specialized Committees at meetings, based on the attendance sheets signed at the meeting entrance.

	Supervisory Board		**Audit and Risk Committee**		**ARCGC**		**Strategy Committee**		
	Number of meetings in 2019	Actual attendance	Number of meetings in 2019	Actual attendance	Number of meetings in 2019	Actual attendance	Number of meetings in 2019	Actual attendance	***Individual attendance rate***
R. Brumm	4	3	N/A	N/A	N/A	N/A	N/A	N/A	***75%***
J. Pélissard	4	3	N/A	N/A	2	2	N/A	N/A	***83%***
R. Mouchel-Blaisot	4	4	N/A	N/A	2	2	N/A	N/A	***100%***
O. Landel	4	3	4	4	N/A	N/A	4	3	***83%***
L. Andersson	4	4	N/A	N/A	N/A	N/A	4	4	***100%***
V. Aubry-Berrurier	4	4	4	3	N/A	N/A	N/A	N/A	***87%***
F. Drouin	4	4	4	4	N/A	N/A	N/A	N/A	***100%***
N. Fourt	4	4	N/A	N/A	N/A	N/A	4	4	***100%***
M. Lamant	4	3	N/A	N/A	N/A	N/A	4	2	***62%***
D. Lebègue	4	4	N/A	N/A	2	2	N/A	N/A	***100%***
C. Sirou	4	4	4	4	N/A	N/A	N/A	N/A	***100%***
	Average member attendance rate at Board meetings	**91%**	**Average member attendance rate at ARC meetings**	**94%**	**Average member attendance rate at ARCGC meetings**	**100%**	**Average member attendance rate at Strategy Committee meetings**	**81%**	

3.3. The Management Board

a) Composition

The composition of the members of the Management Board remained unchanged during the financial year ended December 31, 2019.

The Management Board of the AFL is composed of the following persons:

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

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

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

b) Powers of the Management Board

The members of the Management Board collectively manage the Company.

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

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

4. Compensation of management body members

The components of compensation and the criteria by which they are set are presented to the Company's ARCGC and Supervisory Board in accordance with the applicable provisions of the French Monetary and Financial Code.

In the extension of its reform stemming from the PACTE Law effective May 23, 2019 as well as the ordinance and decree of November 27, 2019, the "Say on Pay" legal requirement no longer applies to AFL in that it now pertains only to companies whose stock is traded on a regulated market.

Following the recommendations of the AFEP-MEDEF Code to which the Company adheres, the shareholders are nonetheless consulted in the form of a binding vote regarding the individual compensation of executive officers.

4.1. Members of the Supervisory Board and the Specialized committees

4.1.1. Compensation payment principles and terms

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

The AFL Combined General Meeting of Friday, May 3, 2019 fixed the maximum annual total of directors' fees to be distributed among the members of the Supervisory Board at €175,000 (one hundred and seventy-five thousand euros) for 2019.

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

In consideration of the specific nature of their functions on the Supervisory Board, the following members of the Board receive different compensation:

- The Chairman of the Supervisory Board;
- The Chairmen of the specialized committees of the Supervisory Board;
- The members of the Board who are also members of a Specialized committee.

As noted in Point 3.1.6 in this report, the members of the Supervisory Board may arrange to be represented no more than the following number of times annually:

- At two meetings of the Supervisory Board; **or**
- At two Committee meetings; **or**
- At one Supervisory Board meeting and one Committee meeting,

With the exception of the sessions regarding the review of the annual financial statements.

Beyond that, the representation of Supervisory Board members, while still legally valid for calculation of the quorum and majority, is not factored into the allocation of directors' fees.

Notwithstanding the foregoing, in light of the laws governing incompatibility applicable to persons elected to a national office as defined in the French Electoral Code, no directors' fees may be allocated to the members of the Supervisory Board who also hold national elective offices. Accordingly, Richard Brumm and Jacques Pélissard receive no compensation for their service on the AFL Supervisory Board.

With regard to the position of Director General of Services that she holds in her local authority, an AFL Group member, Mélanie Lamant decided to voluntarily apply this provision.

Since Olivier Landel, in his capacity as Chief Executive Officer of AFL-ST, receives a gross annual compensation of €50,000 pursuant to his contract of appointment, he does not receive compensation for his duties on the Supervisory Board of the Company.

No variable compensation or benefits in kind were paid to Olivier Landel for his duties at AFL Group during the 2019 financial year.

Following the end of the exercise of his functions with the French Mayors' Association, the Company's ARCGC said on November 27, 2017 that it approved of the compensation of Rollon Mouchel-Blaisot with directors' fees as from the date of said meeting, under the conditions set by the Supervisory Board's Internal Regulations. As this decision will hold for subsequent years, Rollon Mouchel-Blaisot received compensation for his service as a member of the Supervisory Board of the Company during 2019.

The allocation of the total annual amount of the compensation allocated to members of the Supervisory Board shall be set in accordance with the following procedures:

(i) For the Chairman of the Supervisory Board:

  - A fixed portion of an amount of €10,000 p.a., except in the event of excessive absenteeism, to which is added;

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

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

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

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

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

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

- A variable portion capped at €10,000 p.a., except in the event of excessive absenteeism, to which is added;

- An additional maximum of €5,000 p.a. for the members of the specialized committees, based on their actual participation.

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

4.1.2. Amount of compensation allocated

On March 26, 2020, pursuant to Article L. 225-83 of the French Commercial Code, the Supervisory Board approved the following distribution of the compensation allocated to members of the Supervisory Board within the limit of the overall package of €175,000 decided by the General Meeting of Shareholders of May 3, 2019.

	Amount (€)			
Members of the Supervisory Board	2019 Fixed (in €)	2019 variable (in €)	**2019 total** (in €)	**2018 total – paid in 2019** (in €)
R. Brumm - Chairman of the Supervisory Board	-	-	-	-
J. Pélissard - Vice-Chairman of the Supervisory Board - Member of ARCGC	-	-	-	-
L. Andersson - Chairman of the Strategy Committee	5,000	20,000	25,000	25,000
V. Aubry - Member of the Audit and Risk Committee	5,000	10,000+ 3,750 for membership in a Specialized committee	18,750	18,750
F. Drouin - Chairman of the Audit and Risk Committee	5,000	20,000	25,000	25,000
N. Fourt - Member of the Strategy Committee	5,000	10,000+ 5,000 for membership in a Specialized committee	20,000	18,750
M. Lamant - Member of the Strategy Committee	-	-	-	-
O. Landel - Member of the Audit and Risk Committee and the Strategy Committee	-	-	-	-
D. Lebègue - Chairman of the ARCGC	5,000	20,000	25,000	25,000
R. Mouchel Blaisot - Member of the ARCGC	5,000	10,000+ 5,000 for membership in a Specialized committee	20,000	20,000
C. Sirou - Member of the Audit and Risk Committee	5,000	10,000+ 5,000 for membership in a Specialized committee	20,000	7,500[18]
Total	**35,000**	**118,750**	**153,750**	**140,000**

[18] 2018 compensation calculated *prorata temporis*, since Carol Sirou was appointed a member of the Supervisory Board on September 27, 2018.

4.2. Management Board

Summary table – Procedures for exercising the functions of member of the Management Board and components of compensation

	Yves Millardet, Chairman of the Management Board Date of start of term: January 6, 2014 Date of end of term: 2020 General Meeting called to approve the financial statements for the 2019 financial year	
Employment contract	No	Yves Millardet performs his duties under a contract of mandate whose terms were approved by the ARCGC and the Supervisory Board of the Company.
Supplementary pension plan	Yes	Yves Millardet's retirement plan is modeled on the plan applicable to the Company's employees (see discussion below).
Compensation or benefits that are or may be due as a result of termination or change of duties	No	Yves Millardet's contract of mandate does not provide for such compensation.
Compensation relating to a non-compete clause	Yes	Yves Millardet's contract of mandate contains a non-compete clause applicable for a period of 12 months from the effective termination of duties (see discussion below).

	Thiébaut Julin, Member of the Management Board – Chief Financial Officer Date of start of term: March 25, 2014 Date of end of term: 2020 General Meeting called to approve the financial statements for the 2019 financial year	
Employment contract	Yes	Thiébaut Julin holds the position of Chief Financial Officer, in accordance with the terms of an employment contract entered into with the Company. Thiébaut Julin serves as an unpaid member of the Management Board. Thiébaut Julin's position as a member of the Management Board is governed by the sections of the Articles of Association relating to the functioning and powers of the Management Board.
Supplementary pension plan	No	As an employee of the Company, Thiébaut Julin has the pension plan applicable to all employees of the Company.
Compensation or benefits that are or may be due as a result of termination or change of duties	No	No benefits or compensation of this type are mentioned in the Articles of Association, or are provided by decision of the Supervisory Board, which is competent to rule on the components of compensation of the members of the Management Board with regard to the termination of the duties of a member of the Management Board of the Company.
Compensation relating to a non-compete clause	No	Thiébaut Julin is not subject to any non-compete clause, pursuant to his employment contract, the provisions of the Articles of Association applicable to the duties of a member of the Management Board or a subsequent decision to that effect by the Supervisory Board.

	Ariane Chazel, Member of the Management Board – Director of Risk, Compliance and Control Date of start of term: June 5, 2014 Date of end of term: 2020 General Meeting called to approve the financial statements for the 2019 financial year	
Employment contract	Yes	Ariane Chazel holds the position of Director of Risk, Compliance and Internal Control, in accordance with the terms of an employment contract entered into with the Company. Ariane Chazel serves as an unpaid member of the Management Board. Ariane Chazel's position as a member of the Management Board is governed by the sections of the Articles of Association relating to the functioning and powers of the Management Board.
Supplementary pension plan	No	As an employee of the Company, Ariane Chazel has the pension plan applicable to all employees of the Company.
Compensation or benefits that are or may be due as a result of termination or change of duties	No	No benefits or compensation of this type are mentioned in the Articles of Association, or are provided by decision of the Supervisory Board, which is competent to rule on the components of compensation of the members of the Management Board with regard to the termination of the duties of a member of the Management Board of the Company.
Compensation relating to a non-compete clause	No	Ariane Chazel is not subject to any non-compete clause, pursuant to her employment contract, the provisions of the Articles of Association applicable to the duties of a member of the Management Board or a subsequent decision to that effect by the Supervisory Board.

4.2.1. Compensation payment principles and terms

In compliance with Article 16.4 of the Articles of Association of AFL and the applicable provisions of the French Monetary and Financial Code, the Supervisory Board checks and approves the method and amount of compensation of each member of the Management Board and reviews it annually, based on the opinion of the Company's ARCGC.

With the exception of the Chairman of the Management Board, with whom there is a contract of appointment to corporate mandate, Management Board members perform their functions on the basis of employment contracts. The regulated nature of these agreements requires a strict annual review by the Supervisory Board and the General Meeting, with the understanding that the relaxation of the procedures respecting regulated agreements now in force does not apply to them[19].

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

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

The criteria for allocating the variable compensation of the members of the Management Board for the 2019 financial year just ended and the 2020 financial year in progress are appended to this report.

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

– <u>Yves Millardet</u>

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

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

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

Since the payment of Yves Millardet's compensation falls within the scope of the compensation policy, as it does with all employees of the Company and the salaried members of the Management Board, an express reference to the compensation policy in 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.

[19] See Section 6 of this report.

In the event of the termination of his duties as Board director, 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-compete clause adopted is as follows:

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

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

– Thiébaut Julin

Thiébaut Julin serves as an unpaid member of the Management Board of AFL. Following the approval of the Appointments, Remuneration and Corporate Governance Committee, on March 25, 2014, the Supervisory Board approved compensation for the technical functions of the Chief Financial Officer of AFL, 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 June 5, 2014, the Supervisory Board approved compensation for the technical functions of Director of Risk, Compliance and Control of AFL, 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.

4.2.2. Amount of compensation allocated

In accordance with the recommendations of the AFEP-MEDEF Code to which the Company adheres, presented below are details on the components of compensation and benefits in kind paid or due to the members of the Management Board for the financial year ended December 31, 2019.
Furthermore:

- the Company has not granted any retirement commitments or other life annuity benefits to the members of the Management Board;
- the Company has not granted any stock options or performance shares to the members of the Management Board for the financial year ended December 31, 2019;
- the Company pays for specific insurance for the Chairman of the Management Board, in the absence of unemployment insurance, corresponding to a benefit in kind, the amount of which is entered in the table itemizing compensation amounts below.
-

Summary table of compensation for each executive officer

Yves Millardet Chairman of the Management Board of the Company Deputy Chief Executive Officer of AFL-ST, with the clarification that Yves Millardet is not paid any specific compensation for his duties with AFL-ST The compensation is paid for the corporate mandate of Yves Millardet in the Company.	**Financial year ended 12/31/2018**		**Financial year ended 12/31/2019**	
	Total due (€ gross)	Amount paid (€ gross)	Total due (€ gross)	Amount paid (€ gross)
Fixed compensation	260,100	260,100	262,504	262,504
Annual variable compensation	19,000	20,040 Corresponding to the payment of variable compensation components for prior financial years for which the payments were staggered (see table below)	19,500	15,500 Corresponding to the payment of variable compensation components for prior financial years for which the payments were staggered (see table below)
Exceptional compensation	0	0	0	0
Payments in kind	7,721 corresponding to coverage by the specific insurance mentioned above	7,721 corresponding to coverage by the specific insurance mentioned above	8,194.50 corresponding to coverage by the specific insurance mentioned above	8,194.50 corresponding to coverage by the specific insurance mentioned above
	Total paid 2018	**287,861**	**Total paid 2019**	**286,198,50**

Ariane Chazel Member of the Management Board of the Company Director of Risk, Internal Control and Compliance	**Financial year ended 12/31/2018**		**For the year ended 12/31/2019**	
	Amounts due in respect of financial year (€ gross)	Amounts paid during the financial year (€ gross)	Amounts due in respect of financial year (€ gross)	Amounts paid during the financial year (€ gross)

Fixed compensation	157,213	157,213	157,213	157,213
Annual variable compensation	16,500	14,000 Corresponding to the payment of variable compensation components for the 2017 financial year	17,500	15,000 Corresponding to the payment of variable compensation components for prior financial years for which the payments were staggered (see table below)
Exceptional compensation	0	0	0	0
Payments in kind	0	0	0	0
	Total paid 2018	**171,213**	**Total paid 2019**	**172,213**

Thiébaut Julin Member of the Management Board of the Company Chief Financial Officer	**Financial year ended 12/31/2018**		**For the year ended 12/31/2019**	
	Amounts due in respect of the financial year (€ gross)	Amounts paid during the financial year (€ gross)	Amounts due in respect the financial year (€ gross)	Amounts paid during the financial year (€ gross)
Fixed compensation	221,739	221,739	221,739	221,739
Annual variable compensation	16,500	14,000 Corresponding to the payment of variable compensation components for the 2017 financial year	17,500	15,000 Corresponding to the payment of variable compensation components for prior financial years for which the payments were staggered (see table below)
Exceptional compensation	0	0	0	0
Payments in kind	0	0	0	0
	Total paid 2018	**235,739**	**Total paid 2019**	**236,739**

Principle of staggered variable compensation

In view of the regulations in force found primarily in the French Monetary and Financial Code, for employees who have a significant impact on the company's risk and those with a significant role (the ***"risk-takers*** "), which includes members of the Management Board, AFL's 2019 compensation policy provides for the implementation of a deferred payment of variable compensation components, the principles of which are as follows:

- deferred payment of the variable compensation allocated for financial year N-1 once it amounts to more than €15,000;

- payment in year N, subject to the presence of the employee in the workforce at 12/31/N-1, of the amount of variable compensation less than or equal to the threshold of €15,000 allocated for the financial year N-1;

- deferred payment of the amount of variable compensation above the threshold of €15,000 allocated for the financial year N-1: effective payment at the beginning of years N+1 and N+2, up to 50% of the remainder for each of those years.

The payment threshold of €15,000 relates specifically to the variable compensation allocated for the financial year N-1, and the total amount corresponding to variable compensation components actually paid in a given year for previous financial years may therefore exceed the amount of €15,000.

In accordance with the recommendations of the AFEP-MEDEF Code, the table below shows the variable compensation allocated to Board directors, which is paid out over several financial years.

Variable compensation, which is always published in the annual reports for the financial years for which they are paid, whose amount does not exceed €15,000 and whose payment has not been staggered over several financial years in accordance with the aforementioned compensation policy, is not mentioned in this table.

Name and function of the executive officer	Year for which variable compensation is staggered and amount of variable compensation (€)	2018 financial year Amounts paid corresponding to variable compensation for prior financial years (€)	2019 financial year Amounts paid corresponding to variable compensation for prior financial years (€)	2020 financial year Amounts paid corresponding to variable compensation for prior financial years (€)	2021 financial year Amounts paid corresponding to variable compensation for prior financial years (€)	2022 financial year Amounts paid corresponding to variable compensation for prior financial years (€)
Yves Millardet Chairman of the Management Board	2017 financial year – Total amount allocated for variable compensation: €16,000	15,000	500	500	-	-
	2018 financial year – Total amount allocated for variable compensation: €19,000	-	15,000	2,000	2,000	-
	2019 financial year – Total amount allocated for variable compensation: €19,500	-	-	15,000	2,250	2,250
Thiébaut Julin Member of the Management Board Chief Financial Officer	2018 financial year – Total amount allocated for variable compensation: €16,500	-	15,000	750	750	-
	2019 financial year – Total amount allocated for variable compensation: €17,500	-	-	15,000	1,250	1,250

Name and function of the executive officer	Year for which variable compensation is staggered and amount of variable compensation (€)	2018 financial year Amounts paid corresponding to variable compensation for prior financial years (€)	2019 financial year Amounts paid corresponding to variable compensation for prior financial years (€)	2020 financial year Amounts paid corresponding to variable compensation for prior financial years (€)	2021 financial year Amounts paid corresponding to variable compensation for prior financial years (€)	2022 financial year Amounts paid corresponding to variable compensation for prior financial years (€)
Ariane Chazel Member of the Management Board Director of Risk, Compliance and Control	2018 financial year – Total amount allocated for variable compensation: €16,500	-	15,000	750	750	-
	2019 financial year – Total amount allocated for variable compensation: €17,500	-	-	15,000	1,250	1,250

5. General Meeting of Shareholders

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

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

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

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

5.2. Rules on amendments to the Articles of Association

The rules applying to amending the Company's Articles of Association refer to the current legal and regulatory provisions in this regard.

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

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

6. Regulated agreements

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

Through the Company shareholder structure (see point 7 below), AFL-ST exercises exclusive control of its subsidiary, in accordance with the laws in force, which require a minimum of two shareholders for the incorporation of a public limited company (société anonyme). The AFL Group is thus subject to simplified procedures relating to the control of regulated agreements, which are now limited to agreements involving a third party other than one of the two companies controlling the Group, provided that the parent company exercises exclusive control of its subsidiary in accordance with Article L. 225-87 par. 1 of the French Commercial Code.

No new regulated agreement was entered into during the 2019 financial year. Following are the regulated agreements previously entered into which continued to be executed during the 2019 financial year:

Title of the agreement	Purpose of the agreement	Duration of the agreement	Impact on the financial statements for the financial year ended 12/31/19
Shareholders' Agreement entered into on June 24, 2014	The Shareholders' Agreement did not change during the 2019 financial year. The version in effect was the version dated June 28, 2018.	Unknown	None
Employment contracts for the salaried members of the AFL Management Board	- Employment contract for Thiébaut Julin approved on March 25, 2014 by the Supervisory Board. - Employment contract for Ariane Chazel approved on June 5, 2014 by the Supervisory Board. These employment contracts, like the employment contracts of all of the Company's employees, were amended during the 2016 financial year to include an express reference to the compensation policy. The new drafts of these agreements were approved by the Supervisory Board on June 20, 2016, after a favorable opinion by the Appointments, Remuneration and Corporate Governance Committee on January 28, 2016.	Unknown	Thiébaut Julin, Chief Financial Officer Gross annual amount paid during the 2019 financial year: Fixed portion €221,739 gross Variable portion €15,000 gross Ariane Chazel, Director of Risk, Compliance and Internal Control: Annual amount paid in the 2019 financial year: Fixed portion: €157,213 gross Variable portion: €15,000 gross

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

In accordance with Article L. 225-37-5 of the French Commercial Code, presented below are the following items related to the shareholding structure of AFL and the Group formed with AFL-ST with the specification that none of the items covered hereinafter is likely to have an impact in the event of a public offer.

7.1. Structure of the Company's share capital

Following the sales of the shares held by AFL's nine founding shareholders finalized in 2017 and to satisfy Article L.225-1 of the Commercial Code, only AFL-ST and the Lyon Metropolitan Area remain shareholders of the Company.

At December 31, 2019, the Company's share capital consisted of the following:

SHAREHOLDERS	AMOUNT SUBSCRIBED (IN EUROS)	NUMBER OF SHARES	% HOLDING
Agence France Locale – Société Territoriale	146,799,900	1,467,999	99.9999%
Lyon Metropolitan Area	100	1	0.0001%
TOTAL	**146,800,000**	**1,468,000**	**100%**

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

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

- **Statutory restrictions**

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

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

With regard to the specific nature of the shareholding structure of AFL, the capital of which is currently held directly or indirectly solely by local authorities, public establishments for inter-municipal co-operation with their own taxation, and local public entities, and to the need to keep shareholding stable and sustainable so that the Company's activities may be deployed under optimal conditions, the Shareholders' Agreement strictly controls the options for transferring Company shares.

So, in principle, every shareholder of AFL has agreed, by endorsing the Shareholders' Agreement, to retain their shares for as long as they remain shareholders of AFL-ST.

By exception to the principle and under strictly defined assumptions, i.e. (i) the loss of AFL's membership, and (ii) at the simple request of AFL-ST, AFL shareholders must transfer the securities they hold in AFL's capital to a person named by the Board of Directors of AFL-ST.

On the basis of this second scenario, the nine shares held by nine of the Company's founding shareholders were transferred to AFL-ST in 2017.

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

Furthermore, the Company is not aware of any agreement in which certain clauses set out preferential terms for the transfer or acquisition of shares in the Company pursuant to Article L. 233-11 of the French Commercial Code, as the Company's shares are not eligible for trading on a regulated market.

- **Restrictions by agreement**

No agreement likely to result in restrictions on the transfer of shares or the exercise of voting rights has been entered into between the shareholders of AFL, since transactions on AFL shares are, as stated in the previous paragraph, strictly controlled by the Shareholders' Agreement.

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

7.3. Securities conveying special control rights

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

7.4. Employee shareholders

No operations were carried out during the financial year ended December 31, 2019 in respect of share purchase or subscription options in the Company reserved for employees.

Indeed, the capital structure of the AFL Group required by law prohibits AFL employees from holding shares in the Company's capital.

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

<table>
<tr><th>Date of the General Meeting that granted the delegation</th><th>Purpose of the delegation granted to the Management Board</th><th>Duration</th><th>Overall ceiling</th><th>Use during the 2019 financial year</th></tr>
<tr><td>Combined General Meeting of May 4, 2018 (17th 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
Expires:
July 5, 2020 at midnight</td><td rowspan="2">€150 million
(par value)</td><td>None</td></tr>
<tr><td>Combined General Meeting of May 4, 2018 (18th resolution).</td><td>Delegation of authority granted to the Management Board to increase the share capital with cancellation of preferential subscription rights for the benefit of Société Territoriale through the issue of common shares.</td><td>Duration:
18 months
Expires:
November 5, 2019 at midnight</td><td>1. Capital increase with cancellation of preferential subscription rights for the benefit of Société Territoriale:
- Management Board decisions of January 10, 2019 (decision to increase the share capital)
- Decisions of the Chairman of the Management Board of February 27, 2019 (sub delegation - recognition of definitive completion of the share capital increase)
- Amount: €3,500,000

2. Capital increase with cancellation of preferential subscription rights for the benefit of Société Territoriale:
- Management Board decisions of Tuesday, April 2, 2019 (decision to increase the share capital);
- Decisions of the Chairman of the Management Board of May 23, 2019 (sub delegation - recognition of definitive completion of the share capital increase)
- Amount: €2,300,000</td></tr>
</table>

Date of the General Meeting that granted the delegation	***Purpose of the delegation granted to the Management Board***	***Duration***	***Overall ceiling***	***Use during the 2019 financial year***
Combined General Meeting of May 3, 2019 (19th resolution).	Delegation of authority granted to the Management Board to increase the share capital with preferential subscription rights through the issue of common shares.	**Duration:** 26 months **Expires:** July 4, 2021 at midnight	€150 million (nominal)	None
Combined General Meeting of May 3, 2019 (20th resolution).	Delegation of authority granted to the Management Board to increase the share capital with cancellation of preferential subscription rights for the benefit of Société Territoriale through the issue of common shares.	**Duration:** 18 months **Expires:** November 4, 2020 at midnight		**1. Capital increase with cancellation of preferential subscription rights for the benefit of Société Territoriale** - Management Board decisions of Tuesday, June 25, 2019 (decision to increase the share capital); - Decisions of the Chairman of the Management Board of Thursday, July 25, 2019 (sub delegation - recognition of definitive completion of the share capital increase); - **Amount: €2,100,000** **2. Capital increase with cancellation of preferential subscription rights for the benefit of Société Territoriale** - Decisions of the Management Board of Friday, December 13, 2019 (decisions to increase the share capital); - Decisions of the Chairman of the Management Board of Monday, December 30, 2019 (sub delegation - recognition of definitive completion of the share capital increase);

				- **Amount: €200,000** **3. Capital increase with cancellation of preferential subscription rights for the benefit of Société Territoriale** - Decisions of the Management Board of Thursday, January 23, 2020 (decisions to increase the share capital); - Decisions of the Chairman of the Management Board of Friday, March 13, 2020 (sub delegation - recognition of definitive completion of the share capital increase); **Amount: €3,200,000**

8. **<u>Observations of the Supervisory Board on the management report issued by the Management Board for the 2019 financial year and on the parent company financial statements established for the financial year ended on December 31, 2019</u>**

You are reminded that, pursuant to Article L. 225-68, paragraph 6, of the French Commercial Code, the Supervisory Board must submit to the Annual General Meeting of Shareholders its observations on the annual financial statements for the financial year ended on December 31, 2019, as approved by the Management Board, and on the management report submitted to this Meeting.

We hereby inform you that the annual financial statements for the year ended December 31, 2019, which were prepared in accordance with French GAAP and voluntarily in accordance with IFRS, as well as the management report prepared by the Management Board of the Company, were submitted to the Supervisory Board within the time-frame provided by the laws and regulations in force after they were reviewed favorably by the Company's Audit and Risk Committee.

The financial statements for the financial year ended December 31, 2019 show the following principal items:

	In French GAAP (in thousands €)	**In IFRS (in thousands €)**
Total balance sheet	4,147,239	4,356,701
Net banking income	10,647	11,066
Net income	(1,713)	(1,191)

The annual financial statements for the financial year ended December 31, 2019, prepared in accordance with French GAAP and voluntarily in accordance with IFRS, and the related management report prepared by the Management Board, do not require any specific comment from the Supervisory Board, which examined them on March 26, 2020.

****

**

Lyon,
Thursday, March 26, 2020,

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

Appendix 1 – Director independence criteria – Article 9.5 of the AFEP-MEDEF Code

Criterion 1: ***Salaried Board director/Executive officer/director of the company or its parent company or the consolidated company in the past five years*** Currently not be or within the last five years not have been: - an employee or executive officer of the company; - an employee, executive officer or director of a company within the company's scope of consolidation; - an employee, executive officer or director of the parent company of the company or of a company within the parent company's scope of consolidation.
Criterion 2: ***Cross-directorships*** Not be an executive officer of a company in which the Company directly or indirectly holds a directorship or in which an employee appointed as such or an executive officer of the Company (currently or within the last five years) holds a directorship.
Criterion 3: ***Significant business relationships*** Not be a customer, supplier, corporate banker, investment banker or advisor: - to a significant degree of the company or its group; - or for which the company or its group represents a significant portion of activity. The assessment of whether or not the relationship with the company or its group is significant is discussed by the Board and the quantitative and qualitative criteria that led to this assessment (continuity, economic dependence, exclusivity, etc.) are explained in the annual report.
Criterion 4: ***Family ties*** Not have a close family relationship with a Board director.
Criterion 5: ***Statutory Auditor*** Not have been a statutory auditor of the Company within the last five years.
Criterion 6: ***Term of office exceeding 12 years*** Not have been a director of the Company for more than 12 years. The loss of the status of independent director occurs on the twelve-year anniversary.
Criterion 7: ***Non-executive officer status*** A non-executive officer may not be considered independent if he or she receives variable compensation in cash or securities or any compensation related to the performance of the company or the group.
Criterion 8: ***Status of major shareholder*** Directors representing major shareholders of the company or its parent company may be considered independent if such shareholders do not participate in the control of the company. However, beyond a threshold of 10% in capital or voting rights, the Board, based on the report of the Appointments Committee, shall always query the independent classification, taking into account the composition of the capital of the company and the existence of a potential conflict of interest.

Appendix 2 – Criteria for allocating the compensation of the members of the Management Board for the 2019 financial year

These criteria were favorably reviewed by the ARCGC on February 21, 2019 before being approved by the Supervisory Board of the Company on April 2, 2019.

QUALITATIVE OBJECTIVES COMMON TO THE MEMBERS OF THE MANAGEMENT BOARD
- Consolidate the deployment of Agence France Locale banking activities; - Implement and adhere to the Agence France Locale balanced access plan; - Participate in the construction of an exemplary image for Agence France Locale; - Participate in the construction and maintenance of Agence France Locale's risk management and internal control system; - Promote an internal culture of responsibility and trust.

QUANTITATIVE OBJECTIVES COMMON TO THE MEMBERS OF THE MANAGEMENT BOARD
- Achieve a gross operating loss of a minimum of €1,654 million in 2019 as defined in the 2019-2021 business plan; - Meet a general and operating expenses target (excluding taxes and mandatory contributions) of a maximum of €10,854 million as defined in the 2019-2021 business plan; - Achieve an ICC target of at least €20 million and paid-up ICC of at least €8 million over the year; - Achieve an amount of at least €805 million in credits over the year as defined in the 2019-2021 business plan.

OBJECTIVES - YVES MILLARDET CHAIRMAN OF THE MANAGEMENT BOARD
Qualitative objectives - Promote the image of the Agence France Locale among investors, local authorities in France and in the public sphere; - Continue to oversee the implementation of the mechanisms enabling the activities to continue; - Continue to create and maintain Agence France Locale's risk management and internal control system. ***Quantitative objectives*** - Achieve an ICC target of at least €20 million and paid-up ICC of at least €8 million over the year - Make €805 million in loans in 2019 under risk conditions that comply with AFL's risk appetite and have a minimum average margin of 17 bp (non-floor) as defined in the 2019-2021 business plan; - Execute the 2019 borrowing program to finance Agence France Locale at a cost of equal to at most EURIBOR +20 bp while limiting the liquidity transformation risk, as defined in the 2019-2021 business plan.

OBJECTIVES - THIÉBAUT JULIN

MEMBER OF THE MANAGEMENT BOARD – CHIEF FINANCIAL OFFICER
Qualitative objectives - Promote agreements with Agence France Locale among investors; - Consolidate the financial management, ALM management and accounting system, limit operational risks, consolidate the management control framework and oversee the budget; - Produce timely financial statements in accordance with accounting standards, management reports and regulatory statements in collaboration with the DRCC in a timely manner; - Update the EMTN program annually and, as often as necessary, the legal framework in which AFL transactions are conducted; - Facilitate relationships with rating agencies and coordinate the annual review; - Prepare and oversee the annual budget; - Obtain TRICP accreditation and oversee the functioning of the procedures; - Contribute to the risk management and internal control system. ***Quantitative objectives*** - Execute the 2019 loan program to finance Agence France Locale at an average cost of 3-month EURIBOR +20 bp, as defined in the 2019-2021 business plan, while limiting the liquidity transformation risk and maintaining the spread between Agence France Locale and the BPI/AFD compared to 2018 (rating unchanged); - Optimize the placement of liquidity assessed against 3-month EURIBOR under the financial policies approved by the Supervisory Board in a controlled risk environment to limit the carrying cost to the level mentioned in the 2019-2021 business plan.

OBJECTIVES - ARIANE CHAZEL MEMBER OF THE MANAGEMENT BOARD – DIRECTOR OF RISK, COMPLIANCE AND CONTROL
- Consolidate and maintain the infrastructures of the internal control and risk management framework to support the transformation of AFL; - Identify, measure, anticipate, prevent and manage, in conjunction with all members of the Management Board and operational staff, all banking risks: perform aggregate and prospective risk analyses of AFL on a quarterly basis, present them to the Management Board and, on an annual basis, to the ARC and SC, identify situations to withdraw from the AFL risk appetite framework and notify the Management Board (and possibly the SC) of possible occurrences of major risks; - Help propagate the risk culture through dedicated information campaigns and interviews with employees; - Ensure that each new product/activity is compliant before launch (CNP); - Perform permanent 2nd-level controls as described in the permanent control plan approved by the Management Board; - Maintain the relationship with the supervisor; - Implement and conduct the 2019 periodic control plan (approval of a multi-year audit plan and implemented services); - Provide regulatory watch and participate in consultations on regulatory topics; - Produce compliant regulatory statements in collaboration with the FD in a timely manner.

Appendix 3 – Criteria for allocating the compensation of the members of the Management Board for the 2020 financial year

QUALITATIVE OBJECTIVES COMMON TO THE MEMBERS OF THE MANAGEMENT BOARD
- Accelerate the deployment of Agence France Locale banking activities; - Implement the new pluriannual development plan preserving AFL balanced financial plan from 2021 ; - Continue the construction of an exemplary image for Agence France Locale; - Maintenance of Agence France Locale's risk management and internal control system; - Promote an internal culture of responsibility and trust. - Participate to build an ESG Group policy and achieve the issuing of the first ESG bond.

QUANTITATIVE OBJECTIVES COMMON TO THE MEMBERS OF THE MANAGEMENT BOARD
- Achieve a gross operating loss of a minimum of €0,2 million in 2020 as defined in the 2020 budget; - Meet a general and operating expenses target (excluding taxes and mandatory contributions) of a maximum of €10,711 million as defined in the 2020 budget; - Achieve an ICC target of at least €16 million and paid-up ICC of at least €8 million over the year; - Achieve an amount of at least €800 million in credits over the year as defined in the 2020 budget.

OBJECTIVES - YVES MILLARDET CHAIRMAN OF THE MANAGEMENT BOARD
Qualitative objectives - Promote the image of the Agence France Locale among investors, local authorities in France and in the public sphere; - Continue to oversee the implementation of the mechanisms enabling the activities to continue; - Continue to create and maintain Agence France Locale's risk management and internal control system. - Manage to achieve the issuing of the ESG bond. ***Quantitative objectives*** - Achieve an ICC target of at least €16 million and paid-up ICC of at least €8 million over the year - Make €800 million in loans in 2020 under risk conditions that comply with AFL's risk appetite and have a minimum average margin of 20 bp (non-floor) as defined in the 2020-2022 business plan; - Execute the 220 borrowing program to finance Agence France Locale at a cost of equal to at most EURIBOR +20 bp while limiting the liquidity transformation risk, as defined in 2020 budget.

OBJECTIVES - THIÉBAUT JULIN MEMBER OF THE MANAGEMENT BOARD – CHIEF FINANCIAL OFFICER

Qualitative objectives

- Promote agreements with Agence France Locale among investors;
- Consolidate the financial management, ALM management and accounting system, limit operational risks, consolidate the management control framework and oversee the budget;
- Produce timely financial statements in accordance with accounting standards, management reports and regulatory statements in collaboration with the DRCC in a timely manner;
- Update the EMTN program annually and, as often as necessary, the legal framework in which AFL transactions are conducted;
- Facilitate relationships with rating agencies and coordinate the annual review;
- Implement business plan update, prepare and oversee the annual budget;
- Manage TRICP implementation and oversee the functioning of the procedures;
- Manage the implementation of "IS markets" project
- Contribute to the risk management and internal control system;
- Manage to achieve the issuing of the ESG bond.

Quantitative objectives

- Execute the 2020 loan program to finance Agence France Locale at an average cost of 3-month EURIBOR +20 bp, as defined in the 2020 budget, while limiting the liquidity transformation risk and maintaining the spread between Agence France Locale and the BPI/AFD compared to 2019 (rating unchanged);
- Optimize the placement of liquidity assessed against 3-month EURIBOR under the financial policies approved by the Supervisory Board in a controlled risk environment to limit the carrying cost to the level mentioned in the 2020 budget.

OBJECTIVES - ARIANE CHAZEL
MEMBER OF THE MANAGEMENT BOARD – DIRECTOR OF RISK, COMPLIANCE AND CONTROL

- Consolidate and maintain the infrastructures of the internal control and risk management framework to support the transformation of AFL;
- Identify, measure, anticipate, prevent and manage, in conjunction with all members of the Management Board and operational staff, all banking risks: perform aggregate and prospective risk analyses of AFL on a quarterly basis, present them to the Management Board and, on an annual basis, to the ARC and SC, identify situations to withdraw from the AFL risk appetite framework and notify the Management Board (and possibly the SC) of possible occurrences of major risks;
- Help propagate the risk culture through dedicated information campaigns and interviews with employees;
- Ensure that each new product/activity is compliant before launch (CNP);
- Perform permanent 2nd-level controls as described in the permanent control plan approved by the Management Board;
- Maintain the relationship with the supervisor;
- Implement and conduct the 2020 periodic control plan (approval of a multi-year audit plan and implemented services);
- Provide regulatory watch and participate in consultations on regulatory topics;
- Produce compliant regulatory statements in collaboration with the FD in a timely manner ;
- Continue coordination to intern reflexion on ESG policy.

APPENDIX 3

DRAFT RESOLUTIONS SUBMITTED TO THE COMBINED GENERAL MEETING OF SHAREHOLDERS OF AGENCE FRANCE LOCALE OF MAY 7, 2020

[THE RESOLUTIONS BELOW WILL BE SUBMITTED TO THE COMBINED GENERAL MEETING OF SHAREHOLDERS OF THE COMPANY CONTINGENT ON ADOPTION OF THE CORRESPONDING DECISIONS BY THE COMPANY'S SUPERVISORY BOARD AT ITS MEETING OF MARCH 26, 2020.

A. Agenda

RESOLUTIONS OF THE ORDINARY GENERAL MEETING

1. Approval of the parent company financial statements for the financial year ended December 31, 2019, prepared in accordance with French GAAP, and the complete discharge for the performance of its mandate to the Management Board for said financial year;

2. Approval of the parent company financial statements for the financial year ended December 31, 2019 prepared according to IFRS;

3. Allocation of the results of the financial year ended December 31, 2019;

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

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

6. Setting the total yearly compensation package paid to Members of the Supervisory Board for financial year 2020, to be divided among them;

7. Advisory vote on the total amount of compensation of all kinds paid during the financial year ended December 31, 2019 to the individuals named in Article L. 511-71 of the French Monetary and Financial Code;

8. Ratification of the decision to transfer the Company's registered office;

9. Appointment of new Statutory Auditors (principal and alternate);

RESOLUTIONS OF THE EXTRAORDINARY GENERAL MEETING

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

11. Delegation of authority to be granted to the Management Board to issue common shares, without preferential subscription right for the benefit of Société Territoriale;

12. 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 with cancellation of preferential subscription rights for said employees;

13. Amendment of Article 14 of the Company's Articles of Association as they provide for the transfer of the registered office;

14. Amendment of the Company's Articles of Association as they relate to the compensation paid to Members of the Supervisory Board, so as to substitute the term “compensation” for the term “directors’ fees” in accordance with the new legal provisions
    - Article 15.6:
    - Article 15.8.2 (j);

15. Amendment of Article 15.7.1 of the Company's Articles of Association as they relate to representation of the Economic and Social Committee at meetings of the Supervisory Board in accordance with applicable legal provisions;

16. Amendment of the Company's Articles of Association as they relate to a broadening of the entities authorized to belong to unions in the AFL Group;

17. Powers for completion of formalities

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

RESOLUTIONS OF THE ORDINARY GENERAL MEETING

First resolution

Approval of the parent company financial statements for the financial year ended December 31, 2019, prepared in accordance with French GAAP, and the complete discharge for the performance of its mandate to the Management Board for said financial year

The General Meeting, deliberating in accordance with the quorum and majority requirements 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 financial year ended December 31, 2019, prepared in accordance with French GAAP, approves said financial statements and gives the Management Board full and unreserved discharge of the fulfillment of its mandate for said financial year.

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

Second resolution

Approval of the parent company financial statements for the financial year ended December 31, 2019 prepared according to IFRS

The General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, having reviewed the report of the Management Board to the General Meeting, the observations of the Supervisory Board and the Statutory Auditors' report on the parent company financial statements for the financial year ended December 31, 2019, prepared in accordance with IFRS, approves said financial statements prepared in accordance with IFRS.

Third resolution

Allocation of the results of the financial year ended December 31, 2019

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 financial year ended December 31, 2019, prepared in accordance with French GAAP, decides to allocate the net loss of €1,713,304 for the year to retained earnings.

Fourth resolution

Approval of the 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.

Fifth resolution

Presentation of the Supervisory Board's report on corporate governance

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

Sixth resolution

Setting the total yearly compensation package paid to Members of the Supervisory Board for the financial year 2020, to be divided among them

The General Meeting, deliberating in accordance with the quorum and majority requirements for Ordinary General Meetings, sets the annual amount of compensation to be distributed among the members of the Supervisory Board at 220,000 for the 2020 financial year and subsequent financial years.

Seventh resolution

Advisory vote on the total amount of compensation of all kinds paid during the financial year ended December 31, 2019 to the individuals named in Article L. 511-71 of the French Monetary and Financial Code;

The General Meeting, ruling in accordance with the quorum and majority requirements for Ordinary General Meetings, in accordance with Article L. 511-73 of the French Monetary and Financial Code, takes note of the components of compensation of all kinds paid during the financial year ended December 31, 2019 to the individuals mentioned in Article L. 511-71 of said code, known as "risk-taking employees", as they appear in the Supervisory

Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee, without issuing any observations.

Eighth resolution

Ratification of the decision to transfer the Company's registered office

The General Meeting, ruling in accordance with the quorum and majority requirements for Ordinary General Meetings, ratifies the decision of the Supervisory Board dated March 26, 2020 to transfer the registered office from Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon to 112 rue Garibaldi, 69006 Lyon, in accordance with Article 4.2 of the Articles of Association. The Meeting takes official note that following said decision by the Supervisory Board to transfer the registered office, the Board amended the Company's Articles of Association by substituting the new address for the former address in Article 4.1 of the Articles of Association.

Ninth resolution

Appointment of new Statutory Auditors (principal and alternate)

[This resolution will be completed by the Company's Management Board at its first meeting after the meetings of Company's Supervisory Board and the Board of Directors of Agence France Locale – Société Territoriale called for March 26, 2020 to review the Statutory Auditors who have been approached following the selection procedure, with a view to proposing to the Ordinary General Meeting of Shareholders the appointment of the auditors for financial years 2020 to 2025:]

The General Meeting, ruling in accordance with the quorum and majority requirements for Ordinary General Meetings, after taking official note of the expiration of the engagement of the firm of Statutory Auditors and having heard a reading of the Supervisory Board report, decides to:

- [Appoint/Re-appoint] as principal co-Statutory Auditors of the Company [replacing KPMG AUDIT FS I], [XXXX] and to appoint/re-appoint [XXX] as alternate auditors for a term of 6 years, that is, until the close of the Meeting that will rule on the financial statements of the financial year ending December 31, 2025;
- [Appoint/Re-appoint] as principal co-Statutory Auditors of the Company [replacing Cailliau Dedouit et Associés], and to appoint/re-appoint [XXX] as alternate Statutory Auditors for a term of 6 years, that is, until the close of the Meeting that will rule on the financial statements of the financial year ending December 31, 2025;

RESOLUTIONS OF THE EXTRAORDINARY GENERAL MEETING

Tenth resolution

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

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

- **Delegates** to the Management Board its authority to carry out capital increases, on one or more occasions, in the proportions and at the times it determines, by issuing shares with preferential subscription right for shareholders, where the subscription for such shares is paid in cash.

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

- **Decides** that the maximum nominal amount of the Company's immediate or eventual capital increases that may be carried out by virtue of this authorization cannot exceed one hundred and fifty million euros (€150,000,000), it being noted that the nominal amount of the Company's capital increases, by virtue of the eleventh and twelfth resolutions, will be deducted from this ceiling. To this ceiling, the additional amount of the nominal value of the shares to be issued will be added to preserve, in accordance with the applicable legal and regulatory provisions and any applicable contractual provisions providing for other adjustments, the rights of holders of securities or holders of other rights giving access to the capital;

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

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

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

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

the use of this delegation, amend the Company's articles of association accordingly and ensure the financial service of the securities in question and the exercise of the rights attached thereto;

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

Eleventh resolution

Delegation of authority to be granted to the Management Board to issue common shares, with cancellation of preferential subscription right for the benefit of Société Territoriale

The General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings, having reviewed the report of the Management Board and the report of the Statutory Auditors, in accordance with Articles L. 225-129 et seq. (in particular Article L. 225-129-2) and Article L. 225-138 of the French Commercial Code:

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

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

- **Decides** that the maximum nominal amount of the Company's immediate or eventual capital increases that may be carried out by virtue of this authorization cannot exceed one hundred and fifty million euros (€150,000,000), it being noted that the nominal amount of the Company's capital increases, by virtue of the eleventh and twelfth 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 manner of the issuances as well as the form and features of the shares to be created, - determine the number of shares to be issued and the terms and conditions thereof, with the understanding that the issue price of the shares to be issued will be equal to the nominal value of those shares on the date of issue of those shares,
  - determine the method of payment for the shares issued,
  - determine the date on which entitlement to dividends arises, with or without retroactive effect, for the shares to be issued,
  - suspend, if necessary, the exercise of the rights attached to securities previously issued by the Company for a period of up to three months within the limits provided by the applicable legal and regulatory provisions,
  - at its sole discretion, allocate the costs of any issue to the amount of the related premiums and deduct from such amount the sums necessary to raise the legal reserve to one tenth of the new capital after each increase, and
  - more generally, make all necessary arrangements, enter into all agreements, request all authorizations, carry out all formalities and take all necessary measures to achieve the successful completion of the proposed issues or, if necessary, delegate them to the Chairman of the Management Board, record the capital increases resulting from any issue effected by the use of this delegation, amend the Company's articles of association accordingly and ensure the financial service of the securities in question and the exercise of the rights attached thereto;

- **Decides** that the Management Board may limit 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;

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

Twelfth 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 with cancellation of preferential subscription rights for said employees

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

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

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

- **Decides** that the maximum nominal amount of the immediate or future capital increases of the Company that may be carried out pursuant to this delegation may not exceed 3% of the share capital after the capital increase in question, with the understanding that the nominal amount of the capital increases of the Company, by virtue of the tenth and eleventh 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 Labor Code, will be set (i) in accordance with the objective methods used to evaluate shares by taking into account, as weighted on a case-by-case basis, the net book value, profitability and business prospects of the business, or (ii) dividing the amount of the net asset revalued according to the most recent balance sheet by the number of existing securities. The decision setting the subscription date will be taken by the Board;

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

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

the use of this delegation, amend the Company's articles of association accordingly and ensure the financial service of the securities in question and the exercise of the rights attached thereto;

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

Thirteenth resolution

Amendment of Article 14 of the Company's Articles of Association as they provide for the transfer of the registered office

The General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings and having reviewed the report of the Management Board decides to amend, in accordance with Article L.225-65 of the French Commercial Code as amended by Law No. 2016-1691 of December 9, 2016 (the Sapin 2 Law), Article 4.2 of the Company's Articles of Association, in order to extend throughout French territory the authorization to transfer the registered office solely by decision of the Supervisory Board provided it is ratified by the next Ordinary General Meeting.

The General Meeting, consequent to adoption of the preceding resolution, acting in accordance with quorum and majority requirements of Extraordinary General Meetings and having heard the Management Board's report to the General Meeting, decides to amend Article 4.2 of the Articles of Association of the Company as follows:

"It may be transferred to any other location on French soil by sole decision of the Supervisory Board, subject to ratification by the next Ordinary General Meeting, and anywhere else after deliberation by the Extraordinary General Meeting of Shareholders, in accordance with the legal provisions in force. Should the transfer of the registered office be decided by the Supervisory Board, the latter is also authorized to amend the Articles of Association accordingly. "

Fourteenth resolution

Amendment of the Company's Articles of Association as they relate to the compensation paid to Members of the Supervisory Board, so as to substitute the term "directors' fees" for the term "compensation" in accordance with the new legal provisions

The General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings and having reviewed the report of the Management Board decides to amend the Articles of Association as they relate to the compensation of members of the Supervisory Board, so as to substitute the term "directors' fees" for the term "compensation" in accordance with Law no. 2019-486 of May 22, 2019 concerning the growth and transformation of businesses (the PACTE Law).

The General Meeting, ruling under the conditions of quorum and majority required for Extraordinary General Meetings, having heard the Management Board's report to the General Meeting, decides to:

1°): amend Article 15.6 of the Articles of Association as follows:

"

15.6 Compensation of the Members of the Supervisory Board

15.6.1 The members of the Supervisory Board receive compensation for the exercise of their corporate mandate, the annual amount of which is set by the General Meeting of Shareholders. It is the responsibility of the Supervisory Board to decide how this compensation will be split among its members.

15.6.2 A substantially greater portion of the <u>compensation</u> is allocated to members of the Supervisory Board responsible for verifying prudential management.

15.6.3 It is possible to offer members of the Supervisory Board exceptional compensation for various services they may be charged with performing on top of their normal duties on the Supervisory Board.

15.6.4 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, as defined in the French Electoral Code, no <u>compensation</u> may be allocated to the members of the Supervisory Board who also hold national elective offices.

15.6.5 Members of the Supervisory Board may be reimbursed for expenses they have reasonably incurred in performing their duties, if supported by receipts. ”

and

2°) amend Article 15.8.2 (j) of the Articles of Association as follows:

“division of the <u>compensation</u>.”

Fifteenth resolution

Amendment of Article 15.7.1 of the Company's Articles of Association as they relate to representation of the Economic and Social Committee at meetings of the Supervisory Board in accordance with the new legal provisions

The General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings and having reviewed the report of the Management Board decides to substitute in the Company's articles of association, in accordance with Ordinance no. 2017-1386 of September 22, 2017 (i) the terms “Works Council” for the terms “Social and Economic committee” and (ii) the references to Article L.2323-62 (repealed) et seq. of the French Labor Code by Article L.2312-72 et seq. of the French Labor Code.

The General Meeting, consequent to adoption of the preceding resolution, acting in accordance with quorum and majority requirements of Extraordinary General Meetings and having heard the Management Board's report to the General Meeting, decides to amend Article 15.7.1 of the Articles of Association of the Company as follows:

<u>“15.7.1 Notice of meeting</u>

Meetings of the Supervisory Board may be called using any means of communication. The notice period for calling a meeting is eight (8) 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.

The Supervisory Board meets at least once a quarter.

Any agenda item that the members of the Supervisory Board wish to see studied at a Supervisory Board meeting must be presented to the Chairman of the Board at least eight (8) days before the meeting is held.

Meetings of the Supervisory Board are held at the registered office or in any other location stated in the notice of meeting.

The Supervisory Board meets as often as the Company's interests require and at least once every quarter to review the report of the Management Board.

The agenda is drawn up by the Chairman and may be changed up to the time of the meeting.

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.

Representation of the Company's Social and Economic Committee at meetings of the Supervisory Board will take place in accordance with Articles L.2312-72 et seq. of the French Labor Code.
The Chairman must convene the Supervisory Board at a date no later than fifteen days away if at least one member of the Management Board or at least a third of the members of the Supervisory Board present him with such a request. If the request goes unheeded, those who originated it may convene the meeting themselves, indicating the agenda for it."

Sixteenth resolution

Amendment of the Company's Articles of Association as they relate to a broadening of the entities authorized to belong to unions in the AFL Group

The General Meeting, deliberating in accordance with the quorum and majority requirements for Extraordinary General Meetings and having reviewed the report of the Management Board decides to amend the Company's corporate purpose as it is written in Article 2 of the Company's articles of association, so as to include labor unions among the institutions able to belong to the AFL Group (shareholding members of Agence France Locale - Société Territoriale and borrowers who underwrite the Company) in accordance with Article 67 of Law no. 2019-1461 of December 27, 2019 concerning involvement in local affairs and local government action, amending Article L.1611-3-2 of the French General Local and Regional Authorities Code.

The General Meeting, consequent to adoption of the preceding resolution, acting in accordance with quorum and majority requirements of Extraordinary General Meetings and having heard the Management Board's report to the General Meeting, decides to amend Article 2 of the Articles of Association of the Company as follows:

"Article 2 - PURPOSE

The corporate purpose of the Company is:

- to carry out all or some of the operations set forth below in accordance with the terms of its approval from the French Prudential Supervision and Resolution Authority:
    - to offer loans and accept any deposits from the public or other repayable funds and carry out any related transactions, particularly for the purpose of granting loans to local and regional authorities and French public entities for inter-municipal co-operation with their own taxation, local public entities mentioned in Article L.5219-2 of the French General Local and Regional Authorities Code, municipal unions, public/private unions and any entity legally authorized to participate in the mechanism provided by the Agence France Locale Group (the ***Local Authorities***) so long as their membership comports with the Articles of Association of Société Territoriale (the ***Members***),
    - to borrow funds, primarily by issuing bonds to institutional or individual investors or by any other means,
    - to provide loans to the Members,

- to assist the Members in respect of their financing by the Company,
- to provide any and all financial opinions or other administrative and financial service to the Members closely related to the financing, credit or loan by the Company,
- to carry out as needed arbitrage, brokerage or commission transactions,
- to provide Société Territoriale, as appropriate, with certain resources and certain services of an administrative, legal, financial, accounting, management or advisory nature;

- and more generally, to carry out all operations—be they economic or legal, financial, civil or commercial—that may relate directly or indirectly to one of the foregoing purposes or any similar or associated purpose. "

Seventeenth 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.

APPENDIX 4
SCHEDULE OF FINANCIAL REPORTING FOR THE FINANCIAL YEAR OPEN FROM JANUARY 1 TO DECEMBER 31, 20 20.

The **Agence France Locale Group** is composed of:

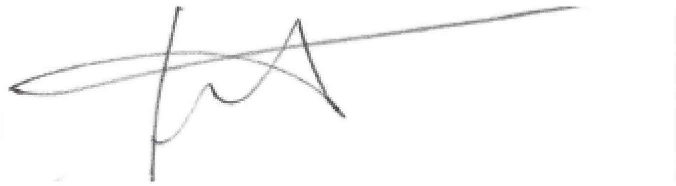
- Agence France Locale, a public limited company with a Management Board and a Supervisory Board (***the Issuer***); and
- Agence France Locale – Société Territoriale, the parent company, a public limited company with a Board of Directors (***Société Territoriale***).

Publication date	Information
March 26, 2020 (after the close of the stock market), unless changed subsequently (lock-up period starts March 4, 2020)	▪ Press release on the Issuer's annual results and the consolidated and parent company annual results for the financial year ended December 31, 2019
May 7, 2020	▪ Annual General Meeting of the Issuer's Shareholders, called to approve the parent company financial statements for the financial year ended December 31, 2019, prepared in accordance with French GAAP and IFRS
May 28, 2020	▪ "Journée de l'Agence" and Annual General Meeting of Shareholders of Société Territoriale, called to approve the parent company financial statements for the financial year ended December 31, 2019, prepared in accordance with French GAAP, and the Group's consolidated financial statements for the financial year ended December 31, 2019, prepared according to IFRS
September 22, 2020 (after the close of the stock market), unless changed subsequently (lock-up period starts August 31, 2020)	▪ Press release on the Issuer's half-year results and the consolidated half-year result of the Agence France Locale Group for the first half of the 2019 financial year, ended June 30, 2019

RESPONSIBILITY FOR THIS MANAGEMENT REPORT PREPARED FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2019

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

Lyon, Thursday, March 26, 2020,



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

PARENT COMPANY FINANCIAL STATEMENTS PREPARED PER FRENCH GAAP AND IFRS AND RELATED STATUTORY AUDITORS' REPORTS

AGENCE FRANCE LOCALE

BALANCE SHEET

Assets as of 31st of december 2019

(€ '000s)	Notes	31/12/2019	31/12/2018
Cash and central banks	2	165,609	121,654
Government paper and similar securities	1	629,454	574,048
Receivables on credit institutions	2	110,627	57,103
Loans and advances to customers	4	3,080,412	2,221,404
Bonds and other fixed income securities	1	28,064	99,104
Equities and other variable income securities			
Investments in non-consolidated companies and other long-term investments			
Investments in consolidated companies			
Intangible assets	5	2,098	3,263
Property, plant and equipment	5	92	437
Other assets	6	79,336	52,954
Accruals	6	51,547	32,575
TOTAL ASSETS		**4,147,239**	**3,162,542**

Liabilities as of 31st of december 2019

(€ '000s)	Notes	31/12/2019	31/12/2018
Central banks		26	755
Due to banks	3	9	9
Customer borrowings and deposits			
Debt securities	7	3,937,455	2,972,985
Other liabilities	8	6,300	1,448
Accruals	8	82,542	73,128
Provisions	9	322	17
Subordinated debt			
General banking risk fund (GBRF)			
Equity (excluding GBRF)	10	**120,586**	**114,199**
Share capital		146,800	138,700
Additional paid-in capital			
Reserves and retained earnings			
Revaluation differences			
Regulated provisions and investment subsidies			
Retained earnings (+/-)		(24,501)	(22,622)
Net income for the period (+/-)		(1,713)	(1,878)
TOTAL LIABILITIES		**4,147,239**	**3,162,542**

INCOME STATEMENT

(€ '000s)	Notes	31/12/2019	31/12/2018
+ Interest and similar income	12	77,819	64,375
- Interest and similar expenses	12	(67,773)	(56,547)
+ Income from variable income securities			
+ Fee and commission income	13	178	289
- Fee and commission expenses	13	(105)	(119)
+/- Net gains (losses) on held for trading portfolio	14	(2,863)	871
+/- Net gains (losses) on placement portfolio	14	3,390	673
+ Other banking income			
- Other banking expense			
NET BANKING INCOME		**10,647**	**9,542**
- General operating expenses	15	(10,101)	(9,032)
+ Other operating income			
- Depreciation and amortization	5	(2,259)	(2,388)
GROSS OPERATING INCOME		**(1,713)**	**(1,878)**
- Cost of risk			
OPERATING INCOME		**(1,713)**	**(1,878)**
+/- Net gains (losses) on fixed assets			
PRE-TAX INCOME ON ORDINARY ACTIVITIES		**(1,713)**	**(1,878)**
+/- Net extraordinary items			
- Income tax charge			
+/- Net allocation to FGBR and regulated provisions			
NET INCOME		**(1,713)**	**(1,878)**
Basic earnings per share		(1.17)	(1.35)

OFF-BALANCE SHEET

(€ '000s)

COMMITMENTS GIVEN AND RECEIVED	Notes	31/12/2019	31/12/2018
Commitments given		**317,666**	**365,646**
Financing commitments		317,666	365,646
Guarantee commitments			
Commitments on securities			
Commitments received		**2,345**	**2,469**
Financing commitments			
Commitments received from credit institutions			
Guarantee commitments		2,345	2,469
Commitments on securities			
Derivatives	11	**8,663,243**	**7,620,256**

NOTES TO THE INDIVIDUAL ACCOUNTS

I - Publication context

The 2019 financial statements were approved by the Board of Directors as of March 11, 2020.

II - Highlights from 2019 financial year

The year 2019 marks a further significant increase in the results in credit activity, which is part of the Company's development trajectory in accordance with its 2017-2021 strategic plan. After a first half year characterized, as every year, by limited demand from borrowers, credit production was very dynamic over the rest of the year, resulting in medium and long-term credit production of €978 million and short-term facilities for €95 million euros. AFL's new medium and long-term credit production represents a market share estimated at nearly 40% of AFL's members financing requirements in 2019.

The 2019 bond issue program will have been marked by the continued extension of the duration of issues in the medium and long term, in particular with private placements of maturities of 10 to 15 years, denominated in euros and in foreign currencies. In this respect, two new currencies of issue denomination have enabled AFL to attract new investors, in part thanks to a second rating, thus opening up new prospects for the placement of its bonds. As every year since the start of its activities in 2015, AFL carried out a benchmark issue denominated in euros in June 2019. This issue at 7 years and of a size of €500 million was characterized by placemeent to an increased number of investors but also a greater diversity in the typology and the geographical origin of these. To close its 2019 issue program, AFL carried out in November 2019 a matching of €190 million of the 2028 bond strain at a margin of 32 basis points against OAT.

During the 2019 financial year, AFL-ST, pursuing its corporate purpose, subscribed to the capital of AFL with an amount of €8.1 million in four capital increases, thereby increasing AFL's capital social from €138.7 millions at the start of the financial year to €146.8 million at December 31, 2019.

At the end of the 2019 financial year, the net banking income generated by the business amounted to €10,647k as compared to €9,542k at 31 December 2018, a year which was characterized by a net capital gains on investment securities disposal of €1,636k.

It mainly corresponds to an interest margin of €10,047k, increased by 28% compared to €7,828k recorded over the previous year, a net capital gains on investment securities disposal of €500k compared to €1,636k as of December 31, 2018.

The interest margin of €10,047k comes from three items:

• Firstly, an income of €8,128k from the loan portfolio, which once restated to hedge accounting is up 6% compared to income of €7,667K at December 31, 2018. Although rising, due to an increase in the size of outstanding loans, this increase is limited due to the continued rate cut that characterized the year 2019.

• Secondly, the negative income linked to the management of the liquidity reserve of €-2,816k compared to €-3,357k at December 31, 2018, reflects the cost of carrying liquidity in an environment of negative rates. However, the decrease in the carrying cost is the result of better profitability of the securities in the liquidity reserve, an average balance of bank deposits down over the whole year, an improvement in the conditions of remuneration of the accounts of deposits with the establishment of term deposits.

• The interest expense component of long-term debt and the cost of collateral represents a source of income, the amount of which amounts to €4,735k, after taking into account the income from its coverage, compared to €3,518k at December 31, 2018. This very noticeable increase stems from the increase in AFL debt outstanding during the year and the fall in the Euribor rate against which all AFL debt is swapped and optimization of short-term debt management, notably with the reactivation of issues of negotiable debt securities denominated in foreign currencies under the ECP program. This figure takes into account an increase in interest on margin calls which went from €-296k € at December 31, 2018 to €-397k € at December 31, 2019.

The €3,363k capital gains on securities disposals came from the portfolio management of the liquidity reserve over the period. These securities disposals resulted in the termination of interest rate hedges for €-2,862k, generating net capital gains of €500k for the period.

As at 31 December 2019, general operating expenses came to €10,101k as compared to €9,032k as at Decemnber 31, 2018. They include €4,732k of personnel expenses, down from €4,558k for 2018. General operating expenses also include administrative expenses, which amounted to €5,369k compared to €4,474k at December 31, 2018, after transfer of charges in fixed assets or expenses to be spread over several years. This increase is mainly explained by one of the non-recurring items of provisions for the relocation of AFL from the Tour Oxygène, planned for the first quarter of 2020, and which amounted to €505k. If this exceptional item is excluded, the administrative expenses increase slightly from last year.

At the end of the financial year, depreciation and amortization amounted to €2,259k compared to €2,388k as of December 31, 2018. This decrease is due to the end of the amortization allocations of establishment costs at the end of 2018 and a first tranche of the information system fully amortized at the fourth quarter of 2019. Depreciation charges also include a non-recurring item with an amount of €271k of depreciation charges on property, plant and equipment related to the move of AFL.

The financial year ended December 31, 2019 is closed with a gross operating income and net income of €1,713k, compared to €1,878k as of December 31, 2018. Despite the growth in banking activities of the AFL during the financial year, the outstanding amount of loans to local authorities, which increased appreciably from last year, does not yet represent an entirely sufficient size to generate income making it possible to cover the all AFL operating expenses. However, in the second half of 2019, the latter, excluding non-recurring items related to the relocation of the AFL, only represented 104.7% of revenue from the activity, thus highlighting the prospect of an imminent break-even.

Events after the end of the reporting period

No significant subsequent events occurred on the beginning of the 2020 year after the accounts closure date has to be reported.

III - Accounting principles and valuation methods

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

Presentation format

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

Preparation basis

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

• Ongoing concern principle,

• Segregation of accounting periods,

• Consistency of methods.

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

Accounting principles and methods

Loans and advances to banks and to customers

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

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

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

Premiums paid on credit acquisitions are included in the amount of the principal repurchased and are therefore recognized in "Loans and advances to customers". In accordance with the Règlement 2014-07, these marginal transaction costs are spread over the life of the loans through the calculation of a new effective interest rate.

Doubtful loans

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

. The loan or advance is in default for at least 90 days;

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

. The bank and borrower are in legal proceedings.

By applying the contagion principle, all of the outstanding amounts of the same borrower are downgraded to doubtful loans as soon as a receivable from this holder is downgraded within AFL.

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

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

All default must have been settled, no default must therefore persist at the time of leaving the classification in doubtful.

A probation period of 6 months begins when all the conditions for the issue of default are met and the return to normal has been decided by the Credit Committee.

During the probationary period payments must resume regularly and without delay, an unpaid amount immediately causes the return in Doubtful loans.

The Credit Committee examines and validates the exit from the Doubtful loans classification.

Tangible and intangible fixed assets

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

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

Software acquired are recognized in gross value at acquisition cost.

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

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

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

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

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

The amortization method is straight-line.

Securities portfolio

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

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

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

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

"Equities and other variable income securities"

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

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

Placement securities

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

Placement securities are recorded at acquisition cost including fees.

. **Bonds and other fixed income securities:**

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

Interests on these securities are recorded in Income statement as "Interest income on bonds and fixed income securities".

At the end of the reporting period, in application of the principle of prudence, placement securities are recorded on the balance sheet at their acquisition cost or selling price at the end of the reporting period, whichever is lower, after accounting, when relevant, for the value of the micro-hedge swap.

Excluding conterparty risk, when the decrease in the value of the security exceeds the unrealized gain on the micro-hedge, the decrease in net value is recorded in Net gains (losses) on placement portfolio as loss or gain on sales.

If the decrease in the value of the security arises from a risk relating specifically to the issuer of the security, impairment is recorded under “Cost of risk”, in accordance with ANC regulation 2014-07 on credit risk.

If appropriate, Impairment intended to take into account counterparty risk and recognised under the cost of risk is booked on fixed income securities as follows:

. in the case of listed securities, impairment is based on market value, which intrinsically reflects credit risk. However, if Agence has specific information on the issuer’s financial position that is not reflected in the market value, a specific impairment loss is recorded;

. in the case of unlisted securities, impairment is recorded in the same way as on loans and receivables to customers based on identified probable losses.

. **Equities and other variable-income securities:**

Equities are recognised on the balance sheet at their purchase price including transaction expenses. The associated dividends are recorded as income under “Income from variable-income securities”.

Income from mutual funds is recognised when received under the same heading.

At each reporting date, short term investment securities are measured at the lower of acquisition cost and market value. If the current value of an item or a homogeneous set of securities (calculated from market prices at the reporting date, for example)is lower than its carrying amount, an impairment loss is recorded for the unrealised loss without being offset against any gains recognised on other categories of securities.

Investment securities

Investment securities are fixed income securities with a fixed maturity date that have been acquired or transferred to this category with the manifest intention of holding them until maturity.

This category only includes securities for which Agence has the necessary financial ability to continue holding them until maturity and that are not subject to any legal or other restriction that could interfere with its intention to hold them until maturity.

Securities considered as Investment securities are recorded on the date of purchase at acquisition clean price including fees. Accrued interest at the date of acquisition is recorded separatly as "Accrued interest". Interest on these securities is recorded in income as "Interest income on bonds and fixed income securities".

The difference between the purchase price and the redemption value is spread over the remaining life of the security on an actuarial basis.

Impairment is not booked for long term investment securities if their market value falls below cost. On the other hand, if the impairment arises from a risk relating specifically to the issuer of the security, impairment is recorded under “Cost of risk”, in accordance with CRC regulation 2002-03 on credit risk.

In the case of the sale or reclassification to another category of long term investment securities and representing a material amount, during the current financial year and the next two financial years, the reporting entity is no longer authorised to classify securities previously bought and to be bought as long term investment securities, in accordance with CRC regulation 2005-01, except in the special cases provided by that regulation and by CRC regulation 2008-17.

Market price

The market price at which the various categories of securities are measured is determined as follows:

. Securities traded on an active market are measured at the latest price;

. If the market on which the security is traded is not or no longer considered active or if the security is unlisted, Agence determines the likely value at which the security concerned would be traded using valuation techniques. Firstly, these techniques take into account recent transactions carried out in normal competition conditions. If required, Agence uses valuation techniques commonly used by market participants to price these securities, when it has been demonstrated that these techniques provide reliable estimates of prices obtained in actual market transactions.

Recording date

Agence records securities classified as investment securities on the settlement date. Other securities, regardless of type or classification, are recognised on the trading date.

Disclosures on Placement securities and Investment securities

The Regulation CRC 2000-03, Appendix III, paragraph 1. 1.2, supplemented by Regulation No. 2004-16 of 23 November 2004 and Regulation CRC No. 2005-04 requires credit institutions to provide:

. A breakdown of Investment portfolio and Placement portfolio, public bills and similar securities, bonds and other fixed-income securities.

. For Placement securities, the amount of unrealized gains corresponding to the difference between the market value and acquisition cost is disclosed. The amount of unrealized gains on Placement securities subject to a provision in the balance sheet as well as investment securities unrealized losses not subject to provision.

Debt due to banks

Debt due to banks is broken down according to the initial maturity (sight or term debt).

Repurchase agreements (represented by certificates or securities) are included under these type according to the initial maturity. Accrued interest on these deposits is recognised under accrued interest and taken to profit and loss.

Debt securities issued

These debt securities are recorded at nominal value. Redemption and issue premiums are amortized on an actuarial basis over the maturity of the securities prorate temporis. They are recorded on the balance sheet in the same categories as the corresponding debt. Amortization of these premiums is recorded in the income statement as "Interest expense on bonds and other fixed income securities".

If bonds are issued above par, amortization of issue premiums is deducted from interest expense on bonds and other fixed income securities. Interest on bonds is recorded as Interest expense for accrued amounts calculated prorata temporis. Bond issue costs and commissions are amortized on an actuarial basis over the maturity of the related loans.

Derivative transactions

Agence engages in derivative transactions to hedge the interest rate and foreign exchange risks to which it is exposed in its activity.

Depending on their purpose, these transactions are assigned to micro-hedge or macro-hedge portfolios in accordance with CRB regulations 88-02 and 90-15 endorsed by ANC Regulations 2014-07. Valuation methods and accounting principles are determined according to the portfolio to which they are assigned.

Micro-hedge transactions

Transactions are booked as micro-hedges when they are designed to hedge against the interest rate risk related to an item or set of homogeneous items identified from the start. They involve swaps used to hedge issues of debt securities, fixed-income secuties recognised as placement securities and loans and advances to customers.

Macro-hedge transactions

This category includes transactions designed to hedge and manage the Company’s overall exposure to interest rate risk on assets, liabilities and off-balance sheet items, excluding micro-hedge transactions.

The reduction measurement of the Company’s global interest rate risk is done by making a sensitivity analysis of macro-hedge portfolios.

Hedging transactions accounting

Expense and income on these transactions are recorded in the income statement in the same way income and expense on the hedged item or set of homogeneous items are recorded.

Expense and income on these transactions are recorded in the income statement prorata temporis respectively as Interest expense or Interest income.

Unrealised gains and losses on derivatives valuation are not recorded.

Payments at the inception of hedging derivatives are recorded in other assets and other liabilities and amortized over their maturity according to an actuarial method.

In the event of early reimbursement or the sale of the hedged item, or early repayment within the framework of the renegotiation of the hedged item, the termination fee received or paid because of the early interruption of the hedging instrument is recorded in in the income statement if the hedging instrument has been cancelled.

Currency transactions

In accordance with ANC regulation 2014-07, AFL accounts for transactions in currencies in open accounts in each currency.

Foreign exchange position and currency exchange rate accounts are opened in each currency.

At each reporting date, the differences between the amounts resulting from the valuation of the foreign exchange position accounts at the market price on the closing date and the amounts entered in currency exchange rate accounts are recorded in the income statement.

Currency hedging transactions

As part of hedging its foreign exchange risk, AFL contract cross currency swaps. These operations are set up in order to eliminate at inception the risk of a change in currency rate related to an asset or a liability. This is mainly the hedging of debts issued by AFL in foreign currency.

The accounting principle used to recognize the result of the foreign exchange transactions of Cross currency swaps is to recognize in income prorata temporis over the duration of the contract, the interest rate gap between the forward and the spot currency rate.

Cost of risk

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

Provisions

Agence applies CRC regulation 2000-06 on liabilities relating to the recognition and measurement of provisions falling within the scope of this regulation.

Provisions are recorded at present value when the three following conditions are met:

• Agence has a present legal or constructive obligation as a result of past events;

• It is probable that an outflow of resources representing economic benefits will be required to settle the obligation;

• A reliable estimate of the amount of the obligation can be made.

Tax consolidation

Since January 1, 2015, the Agence belongs to the tax group headed up by Agence France Locale - Société Térritoriale. This entity pays the total income tax owed by the group. The Agence records in its accounts the amount of tax for which it would be liable if it were not a member of the tax group. Tax savings realized by the tax group are recorded in the accounts of Agence France Locale - Société Térritoriale.

Post-employment benefits

Agence has applied ANC recommendation 2013-02 of 7 November 2013 relating to the measurement and recognition of retirement and similar benefit obligations.

In accordance with this recommendation, Agence sets aside provisions to cover its retirement and similar benefit obligations falling within the category of defined-benefit plans.

These obligations are stated on the basis of actuarial, financial and demographic assumptions, and in accordance with the projected unit credit method. Under this method, for each year of service, a charge is booked in an amount corresponding to the employee’s vested benefits for the period. The charge is calculated based on the discounted future benefit.

The entity has opted for method 2 in recommendation 2013-02 which allows in particular for the recognition of gains or losses arising from changes to defined-benefit plans when the curtailment or settlement occurs.

The entity elected to immediately recognise the actuarial gains or losses in profit or loss over the expected average remaining working lives of the employees participating in the scheme. Accordingly the amount of the provision is equal to:

. the present value of the obligation to provide the defined benefits at the reporting date, calculated in accordance with the actuarial method advised by the recommendation;

. plus any actuarial gains (less any actuarial losses) not recognized,

. less, where applicable, the fair value of plan assets. These may be represented by an eligible insurance policy. In the event that the obligation is fully covered by such a policy, the fair value of the policy is deemed to be the value of the corresponding obligation, i.e. the amount of the corresponding actuarial liability.

The recommendation also allows for the recognition of actuarial gains and losses using the “corridor method” or any other method that results in faster recognition in profit or loss.

Identity of the parent company consolidating the accounts of the Agence as of December 31, 2019

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

IV - Notes to the Balance Sheet

Note 1 - PORTFOLIO

(€ '000s)

31/12/2019	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	628,453	28,064		656,517
Unlisted securities				-
Accrued interest	1,225	-		1,225
Impairment	(224)	-		(224)
Net carrying amount	**629,454**	**28,064**	**-**	**657,518**
Residual net Premium/Discount	3,710	(111)		3,599

31/12/2018	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	573,027	98,711		671,737
Unlisted securities				-
Accrued interest	1,136	529		1,665
Impairment	(115)	(136)		(251)
Net carrying amount	**574,048**	**99,104**	**-**	**673,151**
Residual net Premium/Discount	(734)	565		(169)

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 31/12/2019	Total 31/12/2018
Government paper and similar securities								
Net amount	25,005	31,309	220,090	351,826	628,229	1,225	629,454	574,048
NET CARRYING AMOUNT	**25,005**	**31,309**	**220,090**	**351,826**	**628,229**	**1,225**	**629,454**	**574,048**
Bonds and other fixed income securities								
Net amount	16,531	1,593	9,939	-	28,064	-	28,064	99,104
NET CARRYING AMOUNT	**16,531**	**1,593**	**9,939**	**-**	**28,064**	**-**	**28,064**	**99,104**

Analysis by type of portfolio

Portfolio *(€ '000s)*	Gross amount 31/12/2018	Additions	Disposals	Transfers	Prem/Disc Amort.	Change in accrued interest	Impairment	Total 31/12/2019	Unrealized gains/(losses)
Transaction									
Held-for-sale	673,151	1,272,842	(1,312,450)		(814)	(607)	27	632,150	3,954
Investment		25,550	(200)		(149)	167		25,368	
NET CARRYING AMOUNT	**673,151**	**1,298,392**	**(1,312,650)**	**-**	**(963)**	**(440)**	**27**	**657,518**	**3,954**
Of which Premium/Discount	(169)	14,927	(10,197)		(963)			3,599	

Note 2 -RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	31/12/2019	31/12/2018
Mandatory reserve deposits with central banks	165,609	121,654
Other deposits		
Cash and central banks	**165,609**	**121,654**

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 31/12/2019	Total 31/12/2018
Credit institutions								
Loans and receivables								
- demand	15,600				15,600	1	15,601	7,103
- time	95,000				95,000	26	95,026	50,000
Securities bought under repurchase agreements								
TOTAL	**110,600**	**-**	**-**	**-**	**110,600**	**1**	**110,627**	**57,103**
Impairment								
NET CARRYING AMOUNT	**110,600**	**-**	**-**	**-**	**110,600**	**1**	**110,627**	**57,103**

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 31/12/2019	Total 31/12/2018
Credit institutions								
Accounts and Overdrafts								
- demand	9				9		9	9
- time								
Securities sold under repurchase agreements								
TOTAL	**9**	**-**	**-**	**-**	**9**	**-**	**9**	**9**

Note 4 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	31/12/2019	31/12/2018
Short-term credit facilities	9,971	2,954
Other loans	3,070,442	2,218,449
Customers transactions before impairment charges	**3,080,412**	**2,221,404**
Impairment		
Net carrying amount	**3,080,412**	**2,221,404**
Of which related receivables	6,945	5,130
Of which gross doubtful receivables	3,794	
Of which gross non-performing doubtful receivables		

Doubtful loans correspond to a default for at least 90 days unpaid loans and by contagion to all of the outstanding amounts of counterparties in default. Although classified as doubtful loans, these loans have not been subject to impairment. Impairments are established on the basis of the recoverable amount of the receivable, i.e. the present value of the estimated future flows recoverable. However, on the closing date, the AFL intends to recover all of its debts as well as the interest attached to them.

Analysis by residual maturity excluding accrued interest

(€ '000s)	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 31/12/2019
Loans and advances to customers	140,685	68,695	132,247	845,812	1,886,023	**3,073,461**	**6,951**	**3,080,412**

Note 5 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible assets	31/12/2018	Additions	Transfers	Disposals	Amort.	Impairments	Other movements	31/12/2019
Intangible assets	**11,976**	**603**					**125**	**12,704**
Start-up costs	2,123							2,123
IT development costs	9,357	549					125	10,031
Web site	468	54						522
Software	28							28
Intangible assets in progress	**125**	**122**					**(125)**	**122**
Intangible assets amortisation	**(8,838)**				**(1,890)**			**(10,728)**
Net carrying amount	**3,263**	**725**			**(1,890)**			**2,098**

Property, plant & equipment	31/12/2018							31/12/2019
Property, plant & equipment	817	23						841
Tangible assets in progress	-							-
Tangible assets amortization	(380)				(369)			(749)
Net carrying amount	**437**	**23**			**(369)**			**92**

Note 6 - OTHER ASSETS AND ACCRUALS

(€ '000s)	31/12/2019	31/12/2018
Other assets		
Cash collateral paid	79,260	52,909
Other assets	76	45
Impairment		
Net carrying amount	**79,336**	**52,954**
Accruals		
Deferred charges on bond issues	13,461	10,203
Deferred charges on hedging transactions	21,150	6,459
Prepaid charges	206	213
Accrued interest not yet due on hedging transactions	14,626	15,698
Other deferred income		1
Other accruals	2,105	
TOTAL	**51,547**	**32,575**

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 31/12/2019	Total 31/12/2018
Negotiable debt securities	89,015				89,015		89,015	-
Bonds			2,339,015	1,497,239	3,836,255	12,185	3,848,440	2,972,985
Other debt securities					-		-	-
TOTAL	**89,015**	**-**	**2,339,015**	**1,497,239**	**3,925,270**	**12,185**	**3,937,455**	**2,972,985**

Note 8 - OTHER LIABILITIES and ACCRUALS

(€ '000s)	31/12/2019	31/12/2018
Other liabilities		
Cash collateral received	4,228	
Miscellaneous creditors	2,072	1,448
TOTAL	**6,300**	**1,448**
Accruals		
Transaction to pay and settlement accounts		
Premium EMTN issue	17,907	2,501
Unrealised gains on hedging instruments	54,599	52,307
Unearned income		
Accrued expenses on hedging instruments	10,037	11,881
Other accrued expenses		
Other accruals		6,439
TOTAL	**82,542**	**73,128**

Note 9 - PROVISIONS

(€ '000s)	Balance as of 31/12/2018	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 31/12/2018
Provisions						
Financing commitment execution risks						
Provisions for other litigations						
Provisions for employee retirement and similar benefits	17	48	-	-	-	65
Provisions for other liabilities to employees						
Other provisions		257				257
TOTAL	**17**	**304**	**-**	**-**	**-**	**322**

Note 10 - CHANGES IN EQUITY

(€ '000s)	Share capital	Legal reserve	Share premiums	Statutory reserve	Translation, revaluation	Translation, revaluation subsidies	Retained earnings	Net income	Total equity
Balance as of 31/12/2017	**132,500**	**-**	**-**	**-**	**-**	**-**	**(22,769)**	**146**	**109,878**
Change in share capital	6,200 (1)								6,200
Change in share premium and reserves									
Allocation of 2017 net profit							146	(146)	
Net income as of 31/12/2018								(1,878)	(1,878)
Other changes									
Balance as of 31/12/2018	**138,700**	**--**	**-**	**-**	**-**	**-**	**(22,622)**	**(1,878)**	**114,199**
Dividend paid for 2018									
Change in share capital	8,100 (1)								8,100
Change in share premium and reserves									
Allocation of 2018 net profit							(1,878)	1,878	
Net income as of 31/12/2019								(1,713)	(1,713)
Other changes									
Balance as of 31/12/2019	**146,800**	**-**	**-**	**-**	**-**	**-**	**(24,501)**	**(1,713)**	**120,586**

(1) The share capital of Agence France Locale which amounts on December 31st, 2019 to € 146,800,000 consists of 1,468,000 shares. AFL carried out four capital increases in 2019 for the benefit of the Territorial Company, its parent company. The first was subscribed on 27th February, 2019 for € 3,500k, on 23rd May, 2019 for € 2,300k, on 25th June, 2019 for € 2,100k and on 30th December, 2019 for € 200k.

Note 11 - DERIVATIVES

Outstanding notional and Fair value

(€ '000s)	31/12/2019				31/12/2018			
	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	**7,677,128**	**(42,641)**	**986,115**	**486**	**5,690,024**	**(33,639)**	**1,930,232**	**(448)**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**7,677,128**	**(42,641)**	**986,115**	**486**	**5,690,024**	**(33,639)**	**1,930,232**	**(448)**
Interest rate contracts	7,442,154	(44,831)	822,100	(140)	5,596,441	(27,880)	1,930,232	(448)
FRA								
Cross Currency Swaps	234,974	2,190	164,015	626	93,583	(5,759)		
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 31/12/2019	7,073,714	(€ '000s)
Amount of macro-hedge transaction as of 31/12/2019	603,414	(€ '000s)
Amount of trading transaction as of 31/12/2019	986,115	(€ '000s)

Notional amount by maturity

(€ '000s)	31/12/2019					
	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	**251,587**	**2,820,262**	**4,605,279**	**188,015**	**416,100**	**382,000**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts						
Other contracts						
Over-the-counter markets	**251,587**	**2,820,262**	**4,605,279**	**188,015**	**416,100**	**382,000**
Interest rate contracts	162,720	2,731,394	4,548,040	24,000	416,100	382,000
FRA						
Cross Currency Swaps	88,867	88,867	57,239	164,015		
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)	31/12/2019	31/12/2018
Interest and similar income	**77,819**	**64,375**
Due from banks	50	
Due from customers	28,440	19,790
Bonds and other fixed income securities	2,024	1,830
from Held-for-sale securities	*1,924*	*1,830*
from Investment securities	*100*	
Income from interest rate instruments	47,304	42,755
Other interest income		
Interest and similar expenses	**(67,773)**	**(56,547)**
Due to banks	(1,162)	(1,953)
Due to customers		
Debt securities	(23,451)	(16,863)
Expense from interest rate instruments	(43,159)	(37,731)
Other interest expenses		
Interest margin	**10,047**	**7,828**

Note 13 - NET FEE AND COMMISSION INCOME

(€ '000s)	31/12/2019	31/12/2018
Commission income	**178**	**289**
Interbank transactions		
Customer transactions	178	289
Securities transactions		
Forward financial instruments transactions		
Currencies transactions		
Financing commitments and guarantee		
Other commissions recieved		
Commission expenses	**(105)**	**(119)**
Interbank transactions	(5)	(3)
Securities transactions		
Forward financial instruments transactions	(100)	(117)
Currencies transactions		
Financing commitments and guarantee		
Other commissions paid		
Net fee and commission income	**72**	**169**

Note 14 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS

(€ '000s)	31/12/2019	31/12/2018
Gains/(losses) on Trading book		
Gains/(losses) on forward financial instruments	(2,862)	871
Gains/(losses) on foreign currency transactions	(0.2)	
Gains or (losses) on trading portfolio	**(2,863)**	**871**
Gains/(losses) from disposal of held-for-sale securities	3,363	863
Other income/(expenses) from held-for-sale securities		
Impairment (charges) and reversals on held-for-sale securities	27	(190)
Gains or (losses) on held-for-sale portfolio	**3,390**	**673**

Note 15 - GENERAL OPERATING EXPENSES

(€ '000s)	31/12/2019	31/12/2018
Employee expenses		
Wages and salaries	2,991	2,970
Post-employment benefit expenses	324	320
Other expenses	1,417	1,268
Total Employee expenses	**4,732**	**4,558**
Operating expenses		
Taxes and duties	495	478
External services	5,818	4,552
Total Administrative expenses	**6,313**	**5,030**
Charge-backs and reclassification of administrative expenses	(943)	(556)
Total General operating expenses	**10,101**	**9,032**

Note 16 - STAFF

	31/12/2019	31/12/2018
Director (corporate officer)	1	1
Managers	25	24
Technicians & employees	1	1
Apprentices and professional trainng contracts	6	6.5
Average staff during the year	**33**	**33**
Staff at year-end	**35**	**35**

Note 17 - REMUNERATIONS

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

Neither members of AFL Board nor Group's Director benefited from a payment in actions in conformance with the exercise 2019 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 2019 were the following ones :

(€ '000s)	**31/12/2019**
Fixed remuneration	641
Variable remuneration	46
Payments in kind	8
Total	**695**

Members of the AFL Supervisory Board received €140k attendance fees.

Note 18 - EXTERNAL AUDITOR FEES

	Caillau Dedouit et Associés		**KPMG Audit**	
	2019 (€ '000s)	**2018** (€ '000s)	**2019** (€ '000s)	**2018** (€ '000s)
Audit				
Fees related to statutory audit, certification, examination of:				
AFL-Société Opérationelle	66	60	66	60
Sub-total	**66**	**60**	**66**	**60**
Other fees and benefits (*) :				
AFL-Société Opérationelle	54	37	34	73
Sub-total	**54**	**37**	**34**	**73**
TOTAL	**120**	**97**	**100**	**133**

(*) Other fees and benefits are related to issue prospectus audit, capital increases, reliance letter, IFRS 9 First Time Application review and social, environmental and societal data audits.

Note 19 - INCOME TAX CHARGE

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

Tax losses amounting to €25.6m at 2019 year-end closing were not recognised as deferred tax assets.

Note 20 - RELATED PARTIES

There are, on 31 December 2019, an agreement of administrative services and a licensing for the use of a mark, as well as a professional lease, which were concluded which have been concluded between Agence France Locale - Société térritoriale at normal market conditions.

Agence France Locale S.A.

Statutory auditors' report on the financial statements

For the year ended 31 December 2019

Agence France Locale S.A.

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

KPMG AUDIT FS I
Tour EQHO
2 Avenue Gambetta
CS 60055
92066 Paris la Défense Cedex
France

CAILLIAU DEDOUIT et ASSOCIES
19, rue Clément Marot
75008 PARIS

This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.
This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Agence France Locale S.A.

Registered office: 10-12 boulevard Vivier Merle - Tour Oxygène - 69003 Lyon
Share capital: €.146,800,000

Statutory auditors' report on the financial statements

For the year ended 31 December 2019

Dear Shareholders,

Opinion

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying financial statements of Agence France Locale S.A. for the year ended 31 December 2019. Those financial statements have been approved by the management Board on 11 March 2020 based on the information available at that date in the evolving context of the Covid-19 health crisis.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2019 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Statutory Auditors' Responsibilities for the Audit of the Financial Statements* section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from 1 January 2019 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics (code de déontologie) for statutory auditors.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

We have decided that there is no key audit matter to communicate in our report.

Specific Verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations.

Information given in the management report and in the other documents provided to the Shareholders with respect to the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Management Board approved on 11 March 2020 and in the other documents provided to Shareholders with respect to the financial position and the financial statements.

Concerning the accuracy and consistency with the financial statements information about the terms of payment specified in Article D.441-4 of the French commercial code (code de commerce), we report to you the following observation:

As indicated in the management report, this information does not include banking and related operations, your company considering that they do not fall within the scope of the information to produce.

Report on corporate governance

We attest that the Supervisory Board's report on corporate governance sets out the information required by Articles L.225-37-3 and L.225-37-4 of the French Commercial Code.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Agence France Locale S.A. by the annual general meeting held on 17 December 2013.

As at 31 December 2019, KPMG and Cailliau Dedouit et Associés were in their 6th year of total uninterrupted engagement, and the 4rd year since the company is a public interest entity as defined by Article L.820-1-6-III of the French commercial code (code de commerce).

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Management Board.

Statutory Auditors' Responsibilities for the Audit of the Financial Statements

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.

- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.

- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (code de commerce) and in the French Code of Ethics *(code de déontologie)* for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris La Défense, on the 27 March 2020

Paris, on the 27 March 2020

KPMG Audit FSI	Cailliau Dedouit et Associés
French original signed by	
Ulrich Sarfati *Partner*	Laurent Brun *Partner*

AGENCE FRANCE LOCALE IFRS GAAP

BALANCE SHEET

Assets as of December 31, 2019

(€ '000s)	Notes	31/12/2019	31/12/2018
Cash, central banks	5	165,604	121,650
Financial assets at fair value through profit or loss	1	15,962	26,299
Hedging derivative instruments	2	130,957	44,661
Financial assets at fair value through other comprehensive income	3	535,900	502,487
Securities at amortized cost	4	135,387	175,152
Loans and receivables due from credit institutions and similar items at amortized cost	5	189,822	109,942
Loans and receivables due from customers at amortized cost	6	3,160,500	2,229,911
Revaluation adjustment on interest rate risk-hedged portfolios		14,284	1,873
Current tax assets			
Deferred tax assets	7	5,635	5,671
Accruals and other assets	8	381	380
Intangible assets	9	2,098	3,263
Property, plant and equipment	9	171	437
Goodwill			
TOTAL ASSETS		**4,356,701**	**3,221,726**

Liabilities as of December 31, 2019

(€ '000s)	Notes	31/12/2019	31/12/2018
Central banks		26	755
Financial liabilities at fair value through profit or loss	1	15,476	26,747
Hedging derivative instruments	2	173,597	78,300
Debt securities	10	4,036,974	2,996,909
Due to credit institutions	11	4,236	9
Due to customers			
Revaluation adjustment on interest rate hedged portfolios			
Current tax liabilities			
Deferred tax liabilities	7	19	
Accruals and other liabilities	12	2,310	1,675
Provisions	13	207	23
Equity		**123,854**	**117,309**
Equity, Group share		**123,854**	**117,309**
Share capital and reserves		146,800	138,700
Consolidated reserves		(20,189)	(18,269)
Reevaluation reserve			
Gains and losses recognised directly in equity		(1,566)	(1,411)
Profit (loss) for the period		(1,191)	(1,712)
Non-controlling interests			
TOTAL LIABILITIES		**4,356,701**	**3,221,726**

Income statement

(€ '000s)	Notes	31/12/2019	31/12/2018
Interest and similar income	14	77,822	64,339
Interest and similar expenses	14	(67,747)	(56,534)
Fee & Commission Income	15	178	289
Fee & Commission Expense	15	(105)	(119)
Net gains (losses) on financial instruments at fair value through profit or loss	16	(2,444)	868
Net gains or losses on financial instruments at fair value through other comprehensive income	17	3,363	863
Income on other activities			
Expenses on other activities			
NET BANKING INCOME		**11,066**	**9,705**
Operating expenses	18	(9,354)	(9,033)
Net depreciation, amortisation and impairments of tangible and intangible assets	9	(2,221)	(1,984)
GROSS OPERATING INCOME		**(508)**	**(1,311)**
Cost of risk	19	5	(191)
OPERATING INCOME		**(503)**	**(1,502)**
Net gains and losses on other assets	20	(461)	
INCOME BEFORE TAX		**(964)**	**(1,502)**
Income tax	7	(227)	(210)
NET INCOME		**(1,191)**	**(1,712)**
Non-controlling interests			
NET INCOME GROUP SHARE		**(1,191)**	**(1,712)**
Basic earnings per share (in EUR)		(0.81)	(1.23)
Diluted earnings per share (in EUR)		(0.81)	(1.23)

Net income and other comprehensive income

(€ '000s)	31/12/2019	31/12/2018
Net income	**(1,191)**	**(1,712)**
Items will be reclassified subsequently to profit or loss	**(156)**	**(1,991)**
Revaluation of financial assets at fair value through other comprehensive income recyclable to income	(213)	(2,756)
Other items recognized through other comprehensive income recyclable to income		
Related taxes	57	765
Elements not recyclable in profit or loss	**(9)**	**-**
Revaluation in respect of defined benefit plans	(9)	
Other items recognized through other comprehensive income not recyclable to income		
Related taxes		
Total gains and losses recognized directly in equity	**(164)**	**(1,991)**
COMPREHENSIVE INCOME	**(1,356)**	**(3,703)**

Consolidated statement of changes in equity

(€ '000s)	Capital	Associated reserves to capital	Consolidated reserves	Gains and losses recognized directly in comprehensive income – Recyclable: Net change in fair value of Financial assets at fair value through other comprehensive income, after tax	Gains and losses recognized directly in comprehensive income – Recyclable: Net change in fair value of cash flow hedging derivatives, after tax	Gains and losses recognized directly in comprehensive income – Not recyclable: Revaluation in respect of defined benefit plans	Gains and losses recognized directly in comprehensive income – Not recyclable: Other items recognized through other comprehensive income not recyclable to income	Net income, Group share	Share-holders' equity - Group share	Share-holders'equity, non-controlling interests	Total share-holders equity
Shareholders' equity at 1 january 2018	**132,500**	**-**	**(17,842)**	**580**	**-**	**-**	**-**	**(427)**	**114,811**	**-**	**114,811**
Increase in share capital	6,200								6,200		6,200
Elimination of treasury shares											
Allocation of profit 2017			(427)					427			
Dividends 2017 paid											
Sub-total of changes linked to transactions with shareholders	**6,200**	**-**	**(427)**	**-**	**-**	**-**	**-**	**427**	**6,200**	**-**	**6,200**
Changes in fair value through equity				(2,404)					(2,404)		(2,404)
Change in value of through profit or loss				(352)					(352)		(352)
Changes in actuarial gains on retirement benefits											
Related taxes				765					765		765
Changes in gains and losses recognized directly in equity	**-**	**-**	**-**	**(1,991)**	**-**	**-**	**-**	**-**	**(1,991)**	**-**	**(1,991)**
2018 Net income								(1,712)	(1,712)		(1,712)
Sub-total	**-**	**-**	**-**	**(1,991)**	**-**	**-**	**-**	**(1,712)**	**(3,703)**	**-**	**(3,703)**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 31 December 2018	**138,700**	**-**	**(18,269)**	**(1,411)**	**-**	**-**	**-**	**(1,712)**	**117,309**	**-**	**117,309**
Impact of changes in IFRS 16 accounting policies			(199)						(199)		(199)
Shareholders' equity at 1 january 2019	**138,700**	**-**	**(18,468)**	**(1,411)**	**-**	**-**	**-**	**(1,712)**	**117,109**	**-**	**117,109**
Increase in share capital	8,100 (1)								8,100		8,100
Elimination of treasury shares											
Allocation of profit 2018			(1,712)					1,712			
Dividends 2018 paid											
Sub-total of changes linked to transactions with shareholders	**8,100**	**-**	**(1,712)**	**-**	**-**	**-**	**-**	**1,712**	**8,100**	**-**	**8,100**
Changes in fair value through equity				(397)					(397)		(397)
Change in value of through profit or loss				184					184		184
Changes in actuarial gains on retirement benefits			(9)						(9)		(9)
Related taxes				57					57		57
Changes in gains and losses recognized directly in equity	**-**	**-**	**(9)**	**(156)**	**-**	**-**	**-**	**-**	**(164)**	**-**	**(164)**
2019 Net income								(1,191)	(1,191)		(1,191)
Sub-total	**-**	**-**	**(9)**	**(156)**	**-**	**-**	**-**	**(1,191)**	**(1,356)**	**-**	**(1,356)**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 31 December 2019	**146,800**	**-**	**(20,189)**	**(1,566)**	**-**	**-**	**-**	**(1,191)**	**123,854**	**-**	**123,854**

(1) The share capital of Agence France Locale - which amounts on 31 of December, 2019 to € 146,800,000 consists of 1,468,000 shares. The Company carried out four capital increases during the year 2019 for the benefit of the Territorial Company, its parent company, They were subscribed on 27th February, 2019 for € 3,500k, on 23rd May, 2019 for € 2,300k, on 25th June, 2019 for € 2,100k and on 30th December, 2019 for € 200k.

Cash flow statement

(€ '000s)	31/12/2019	31/12/2018
Net income before taxes	**(964)**	**(1,502)**
+/- Net depreciation and amortisation of tangible and intangible non-current assets	2,221	1,984
+/- Net provisions and impairment charges	113	
+/- Expense/income from investing activities	(6,024)	(2,392)
+/- Expense/income from financing activities	474	469
+/- Other non-cash items	(615)	1,499
= Non-monetary items included in net income before tax and other adjustments	**(3,831)**	**1,559**
+/- Cash from interbank operations		
+/- Cash from customer operations	(857,188)	(783,180)
+/- Cash from financing assets and liabilities	(36,808)	23,742
+/- Cash from not financing assets and liabilities	4,236	180
- Income tax paid		
= Decrease/(increase) in cash from operating activities	(889,759)	(759,258)
= CASH FLOW FROM OPERATING ACTIVITIES (A)	**(894,555)**	**(759,201)**
+/- Flows linked to financial assets and investments	(24,639)	(312,442)
+/- Flows linked to investment properties		
+/- Flows linked to tangible and intangible non-current assets	(748)	(525)
= CASH FLOW FROM INVESTING ACTIVITIES (B)	**(25,387)**	**(312,968)**
+/- Cash from or for shareholders	8,100	6,200
+/- Other cash from financing activities	964,293	613,141
= CASH FLOW FROM FINANCING ACTIVITIES (C)	**972,393**	**619,341**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)		
Increase/(decrease) in cash equivalents (A + B+ C + D)	**52,452**	**(452,828)**
Cash flow from operating activities (A)	(894,555)	(759,201)
Cash flow from investing activities (B)	(25,387)	(312,968)
Cash flow from financing activities (C)	972,393	619,341
Effect of changes in exchange rates on cash and cash equivalents (D)		
Cash and cash equivalents at the beginning of the period	**128,757**	**581,585**
Cash and balances with central banks (assets & liabilities)	121,654	
Interbank accounts (assets & liabilities) and loans/deposits at sight	7,103	581,585
Cash and cash equivalents at the end of the period	**181,209**	**128,757**
Cash and balances with central banks (assets & liabilities)	165,609	
Interbank accounts (assets & liabilities) and loans/deposits at sight	15,600	128,757
CHANGE IN NET CASH	**52,452**	**(452,828)**

NOTES TO THE YEAR END FINANCIAL STATEMENTS ACCORDING TO IFRS STANDARDS

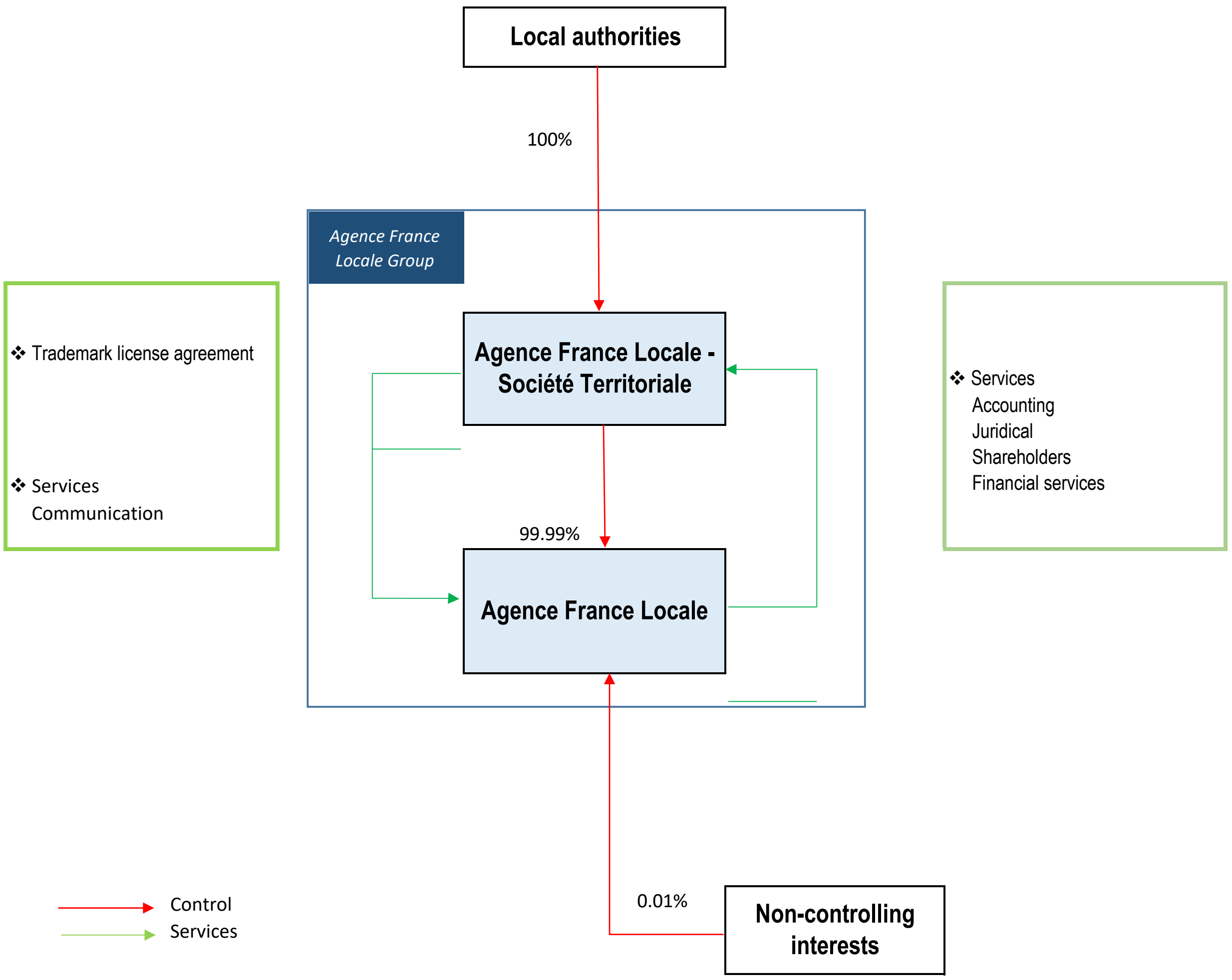
General framework

AFL (« Agence ») presentation

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

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

The diagram below shows the structure of the AFL group:



I - Publication context

The financial statements were approved by the Board of Directors as of March 11, 2020.

II - Highlights from 2019 financial year

The year 2019 marks a further significant increase in the results in credit activity, which is part of the Company's development trajectory in accordance with its 2017-2021 strategic plan. After a first half year characterized, as every year, by limited demand from borrowers, credit production was very dynamic over the rest of the year, resulting in medium and long-term credit production of €978 million and short-term facilities for €95 million euros. AFL's new medium and long-term credit production represents a market share estimated at nearly 40% of AFL's members financing requirements in 2019.

The 2019 bond issue program will have been marked by the continued extension of the duration of issues in the medium and long term, in particular with private placements of maturities of 10 to 15 years, denominated in euros and in foreign currencies. In this respect, two new currencies of issue denomination have enabled AFL to attract new investors, in part thanks to a second rating, thus opening up new prospects for the placement of its bonds. As every year since the start of its activities in 2015, AFL carried out a benchmark issue denominated in euros in June 2019. This issue at 7 years and of a size of €500 million was characterized by placemeent to an increased number of investors but also a greater diversity in the typology and the geographical origin of these. To close its 2019 issue program, AFL carried out in November 2019 a matching of €190 million of the 2028 bond strain at a margin of 32 basis points against OAT.

During the 2019 financial year, AFL-ST, pursuing its corporate purpose, subscribed to the capital of AFL with an amount of €8.1 million in four capital increases, thereby increasing AFL's capital social from €138.7 millions at the start of the financial year to €146.8 million at December 31, 2019.

At the end of the 2019 financial year, the net banking income generated by the business amounted to €11,066k as compared to €9,705k at 31 December 2018, a year which was characterized by a net capital gains on investment securities disposal of €1,636k.

It mainly corresponds to an interest margin of €10,076k, increased by 29% compared to €7,805k recorded over the previous year, a net capital gains on investment securities disposal of €500k and a result of hedge revaluations of €419k.

The interest margin of €10,076k comes from three items:

• Firstly, an income of €8,127k from the loan portfolio, which once restated to hedge accounting is up 6% compared to income of €7,667k at December 31, 2018. Although rising, due to an increase in the size of outstanding loans, this increase is limited due to the continued rate cut that characterized the year 2019.

• Secondly, the negative income linked to the management of the liquidity reserve of €-2,778k compared to €-3,380k at December 31, 2018, reflects the cost of carrying liquidity in an environment of negative rates. However, the decrease in the carrying cost is the result of better profitability of the securities in the liquidity reserve, an average balance of bank deposits down over the whole year, an improvement in the conditions of remuneration of the accounts of deposits with the establishment of term deposits.

• The interest expense component of long-term debt and the cost of collateral represents a source of income, the amount of which amounts to €4,727k, after taking into account the income from its coverage, compared to €3,518k at December 31, 2018. This very noticeable increase stems from the increase in AFL debt outstanding during the year and the fall in the Euribor rate against which all AFL debt is swapped and optimization of short-term debt management, notably with the reactivation of issues of negotiable debt securities denominated in foreign currencies under the ECP program. This figure takes into account an increase in interest on margin calls which went from €-296k € at December 31, 2018 to €-397k € at December 31, 2019.

The €3,363k capital gains on securities disposals came from the portfolio management of the liquidity reserve over the period. These securities disposals resulted in the termination of interest rate hedges for €-2,862k, generating net capital gains of €500k for the period.

Net income from hedge accounting came to €419k. It comes from two items. It represents the sum of the fair value differences of the hedged items and their hedging. Among these differences, €431k relate to valuation differential charges on instruments classified as macro-hedges and €12k of products relate to valuations of instruments classified as micro-hedges. This hedge accounting result comes from an accounting practice that leads to an asymmetry in the valuation, on the one hand, of hedging instruments collateralised daily, discounted on the basis of an Eonia curve, and, on the other, of hedged items, discounted on the basis of a Euribor curve, which, pursuant to IFRS standards, leads to the recognition of a hedging ineffectiveness that is recorded in the income statement. However, it should be noted that this corresponds to latent income.

As at 31 December 2019, general operating expenses came to €9,354k as compared to €9,033k as at Decemnber 31, 2018. They include €4,732k of personnel expenses, down from €4,558k for 2018. General operating expenses also include administrative expenses, which amounted to €4,622k compared to €4,475k at December 31, 2018, after recharges. Note, however, that the administrative charges for 2019 take into account, on the one hand, the impact of the cancellation of the rent paid by the AFL in the context of the first application of IFRS 16 on the a professional lease contracts which reduce general operating expenses by €311k, and on the other hand by a provision of € 71K for repair costs, following the relocation of AFL from the offices of the Tour Oxygène. If we exclude this last non-reccuring item, the administrative expenses are relatively stable from one year to the next.

At the end of the financial year, depreciation and amortization amounted to €2,221k compared to €1,984k as of December 31, 2018. This represents an increase of €237K which comes mainly from the application of IFRS 16 with the incorporation of €233K of amortization of Commercial leases occupied by the AFL. After the end of the amortization of a first tranche of the information system, AFL continued its investments in the infrastructure of the information system with the construction of data facilities management and the development works on the reservoir of data.

The financial year ended December 31, 2019 is closed with a gross operating income and net income of €-508k, compared to €-1,311k as of December 31, 2018 which was characterized by capital gains on sale of securities at a non-recurring level of €1,636k. Despite the growth in banking activities of the AFL during the financial year, the outstanding amount of loans to local authorities, which increased appreciably from last year, does not yet represent an entirely sufficient size to generate income making it possible to cover the all AFL operating expenses. However, in the second half of 2019, the latter, they represented only 103.3% of revenue from the activity, thus highlighting the prospect of an imminent break-even.

The cost of risk relating to impairments for expected losses on financial assets under IFRS 9 was positive in 2019 of €5k, reflecting a reversal of provisions which, however, masks an increase in the provisioning rate. Indeed, the increase in outstanding loans did not translate into an increase in provisions because they are low risk. With regard to the liquidity reserve, the fall in the stock of securities, for some matured and replaced by term deposits and in central bank, led to a decrease in provisions, the latter being very sensitive to duration actives. Consequently, despite a tightening of the weightings linked to expectations of a weakening of the economic situation by AFL, the less risky nature of the assets led to a slight reversal of provisions as of December 31, 2019.

The net gains or losses on other assets section, which represents an amount of €-461k €, relates to the cost of AFL's relocation from the Oxygen Tower and to the treatment of the readjustment of the comercial lease term according to IFRS 16, to which it is necessary to add €-71k of refurbishment of premises which have been charged in administrative expenses.

The tax losses recorded over the period did not give rise to any recognition of deferred tax assets. The deferred tax assets that the AFL stopped activating on its deficits as of December 31, 2015 amounted to €5,051k. However, there are deferred tax charges for 2019 which come exclusively from IFRS restatements over the period, corresponding to temporary differences between the tax value of the assets and their book value and which amount to €-227k.

After a deferred tax expense of €227k, the 2019 year ended with a net result of €-1,191k compared to €-1,712k in the previous financial year.

Subsequent events

No significant subsequent events occurred on the beginning of the first half 2020 after the accounts closure date has to be reported.

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

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

The preparation of the financial statements involves making assumptions and estimates that may or may not prove accurate in the future. These estimates, which are based on the information available as at 31 December 2019, call upon the judgement of managers and the parties involved in preparing the financial statements, particularly where assessing the fair value of financial instruments is concerned.

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

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

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

Application of IFRS basis

In accordance with IFRS 1 "First-time Adoption of IFRS" and pursuant to European Regulation 1606/2002 of July 19, 2002, the financial statements for 2019 are presented in compliance with the IFRS (International Financial Reporting Standards) published by and as approved by the European Union and in force on that date. The IFRS framework includes IFRS standards and also include International Accounting Standards (IAS) and related interpretations issued by the International Financial Reporting Interpretations Committee) et SIC (Standing Interpretations Committee).

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

Accounting principles applied to the financial statements

First-time application of IFRS 16

IFRS 16

IFRS 16 – Leases was adopted on 31 October 2017 by the European Union. It replaces IAS 17 – Leases and requires the recognition in the balance sheet of an asset and a liability for all leases where the company is the lessee.

Under IFRS 16, the definition of leases implies the identification of an asset on the one hand and the lessee's control of the right to use that asset on the other. From the point of view of the lessor, the treatments remain substantially unchanged from the current IAS 17 standard.

On the lessee side, operating leases and finance leases are accounted for in a single model, with recognition:

- an asset representing the right-of-use the leased property during the term of the contract,
- in exchange for a liability for the lease obligation to pay,
- a straight-line amortization of assets and degressive interest charges in the income statement.

Options retained for the first-time application of IFRS 16

AFL has elected the following options for first-time application of IFRS 16:

The application of IFRS 16 is retrospective in accordance with IAS 8, which implies applying the principles of IFRS 16 as if the standard had always been applied. However, the standard gives the choice between a fully retrospective application (including the reprocessing of the comparative periods) or a simplified approach with impact accounting only at the date of first application.

AFL opted for a simplified retrospective application with recognition of the cumulative effect of the initial application as of January 1, 2019, according to the following transition arrangements:

- application of the new definition of a lease to all contracts in progress,
- option for the exemptions proposed by IFRS 16 with the exclusion of leases with a remaining term of less than 12 month at the date of first-time application as well as low value (fixed at € 5,000).

AFL has only activated its real estate lease, retaining as a first-time application a remaining term of just over four years and the related interest rate implicit in the lease applied to lease payments including non-recoverable VAT.

Impacts of first time application on financial statements

At January 1, 2019, AFL recognized the right-of-use as tangible asset for €1,082m, classified as Commercial leases.

The additional lease liabilities amounted to €1,396m and was classified in Other liabilities.

Deferred taxes are calculated on both the right-of-use and the lease liability. They generated a deferred tax asset of €114k at the date of first application.

The net of deferred tax impact in equity of the first-time application of IFRS 16 was unsignificant and amounted to -€199K as at 1 January 2019.

Impact of the application of IFRS 16 on 2019 income statement:

(€ '000s)	**31-déc-19**
Rental expenses reversed (for lease contracts under IFRS 16)	311
Amortization expenses for building right-of-use	-233
Interest charges on lease liabilities	-8
Total impact IFRS 16 in P/L	**70**

Other new accounting standards and interpretations:

IFRIC 23 - Uncertainty over Income Tax Treatments

An entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

The scope of this text is limited to income tax (current / deferred). AFL does not consider it to be a change from current practice. Today a risk is recognized upon the occurrence of a tax restoration. That is the case for the entity itself, a related entity or a recovery of position that is to say a third party entity.

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

It concerns all financial instruments representing "other interests" in an associate or joint venture that is not accounted for using the equity method, including long-term financial assets that are part of the net investment in an associate or joint venture. In the absence of a subsidiary, AFL don't apply this amendment.

IAS 19 Amendment, reduction or liquidation of a plan

It addresses the consequences of a plan amendment, curtailment or settlement on the determination of the cost of services and the net interest. The cost of services and the net interest of the post-modification, reduction or liquidation period are mandatory determined using the actuarial assumptions used to record these events. As of the closing date, AFL does not know any cases within the scope of this amendment.

AFL has not applied early the following standards and interpretations that could concern the company and of which application was not mandatory at 31 December 2019.

Accounting principles applied to the financial statements

Classification and measurement

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

Business model

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

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

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

The IFRS 9 standard uses three business models:
- a business model whose objective is to hold financial assets in order to receive contractual cash flows ("hold to collect model"). This model, under which the concept of "holding" is relatively similar to holding to maturity, remains valid if disposals occur under the following conditions:

o the disposals are due to an increase in credit risk;
o the disposals occur just before maturity and at a price that reflects the contractual cash flows that are still owed;
o other disposals may also be compatible with the "hold to collect" model's objectives if they are in frequent(even if their value is significant) or if their value is insignificant when considered both individually and overall (even if they are frequent).

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

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

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

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

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

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

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

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

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

For example:

Any contractual option that creates risk exposure or cash-flow volatility that is not consistent with a basic lending arrangement, such as exposure to fluctuations in the price of stocks or of a market index, or the introduction of leverage, would make it impossible to categorize contractual cash flows as SPPI.
- the applicable interest rate features (for example, consistency between the rate refixing period and the interest calculation period);

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

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

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

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

Accounting categories

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

A debt instrument is valued at amortized cost if it meets the following two conditions:
- the asset is held under a business model where the objective is to collect contractual cash flows; and
- the contractual terms of the financial asset define it as basic (SPPI) within the meaning of the standard.

A debt instrument is valued at fair value through other comprehensive income if it meets the following two conditions:
- the asset is held under a business model where the objective is both to collect contractual cash flows and to sell financial assets; and
- the contractual terms of the financial asset define it as basic (SPPI) within the meaning of the standard.

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

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

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

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

Financial assets at amortized cost

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

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

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

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

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

Financial assets at fair value through profit or loss

This asset category includes:

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

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

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

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

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

Financial assets at fair value through other comprehensive income

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

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

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

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

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

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

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

Recognition date of securities

AFL records financial securities on the settlement date.

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

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

Financial information regarding financial instruments

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

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

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

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

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

Stage 1 (Performing assets)

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

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

Stage 2 (Non-performing assets)

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

Factors to detect an increase in credit risk for local government loans are:

- Degradation of three (3) points or more of the internal note
- Change to an internal note greater than 6.5
- Non-technical outstanding payment for more than 30 days all loans combined,
- Restructuring of a loan meaning that the local hautority is having difficulty meeting its deadlines,
- Significant internal or external event

Regarding the assets of the liquidity reserve the criteria retained are:

- Degradation of two (2) notchs or more of the internal note

- Non-technical outstanding payment for more than 30 days from a contractual cash flow, a security or any other product with the counterparty,
- Significant internal or external event
- Restructuring of the debt

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

When all the elements allowing to note a degradation of the risk are solved, the exposures are considered as having no more risk of degradation.

Stage 3 (Doubtfull assets)

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

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

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

When all the criteria having triggered the classification in default are cleared, that there is no new one whatever its nature, the counterparty can leave the default category.

All outstanding payment must have been regularized, no unpaid must therefore continue at the time of the release of the the default category.
A probationary period of 6 months begins when all the conditions of the default are met and the healthy return has been decided by the Credit Committee.
During the probationary period, payments must continue on a regular basis and without delay, an unpaid amount immediately causes the return to default category.
The Credit Committee instructs and validates the exit of the default category.
Depreciation charges and reversals amounts are registred in "Cost of risk" in income statement.

Estimation of Expected Credit Losses (ECL)

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

Agence France Locale has less than three years of existence at implementation of the standard, it does not have a default data history.
To overcome this lack of data, and considering the low level of risk represented by its exposures, AFL Group has decided to base its ECL method on external public data and on the documented opinion of its experts given at quarterly meetings.
The process is framed by two committees. The Provision Committee deals with the parameters used in the calculation of provisions: it sets the probability of realization of business cycle evolution scenarios and validates the calculation of default probabilities and losses in case of default. The Provision Credit Committee scans line by line exposures and validates their treatment in terms of provision.

- The exposures classification in the 3 phases is a function of the evolution of the ratings of these exposures since their entry in the balance sheet. The ratings used are rating agencies ratings or internal[1] ratings in the case of local governments, possibly supplemented by expert opinion to reflect recent information and future risks. The thresholds used are relative and absolute.
- The calculation of default probabilities (PD) is based on historical default rates ("point in time" default) and cumulated default rates ("through the cycle") published by rating agencies with a historical depth of 35 years. The default rates of the high point and low point of the cycle scenarios are derived from the first and last deciles of the histories; the average default rates are used for the central scenario.
- Beyond 10 years, cumulated default rates are extrapolated using a Weibull statistical law;
- For the liquidity reserve exposures, regulatory default losses (LGD) of the standard approach (45%) are used. For exposures on local authorities, an LGD was calculated by expert opinion;
- The experts decide on future developments in the business cycle and establish the forward-looking vision by defining the weightings of the 3 scenarios (central, low point of the cycle and high point of the cycle). The experts' expectations are underpinned by the macroeconomic, sectoral and geographical studies published by recognized institutions such as the World Bank, the European Central Bank, the economic research of the big banks or the rating agencies.

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

Fixed assets

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

After initial recognition fixed assets are valued at their nominal value less accumulated depreciation and possible impairment losses.
Fixed assets that are depreciated are subject to impairment tests in cases where evidence of a loss of value is identified at year-end. Fixed assets that are not depreciated are subject to impairment tests in cases where potential evidence of a loss of value is identified at year-end, and at least once a year.
If evidence of a loss of value is recorded, the recoverable value of the asset is compared with its net book value. In the event of a loss of value, an impairment charge is recorded in the profit and loss statement. That impairment changes the depreciation schedule of the asset going forwards. The impairment is reversed in the event of a change in the estimated recoverable value or the evidence of impairment disappears.

Tangible assets

Tangible assets are depreciated linearly over their expected useful life.

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

Intangible assets

Software are recognised in intangible assets as they meet the following three criteria in respect of IAS 38:
- Must be identifiable;
- Be controlled by the Company;
- Is likely that the future economic advantages attributable to such an element will go to the Company.

Intangible assets are depreciated linearly over their expected useful life.

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

Debt

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

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

Hedge accounting

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

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

The hedging relationship satisfies the effectiveness constraints of the hedge if there is an economic link between the hedged item and the hedging instrument.
For an economic link to exist, the value of the hedging instrument and that of the hedged item must generally vary inversely with each other as a result of same risk, which is the risk covered.

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

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

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

Fair value hedge

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

The potential ineffectiveness of the hedge is recognized directly in the income statement. The relative ineffectiveness of the bi-curve valuation of collateralised derivatives is taken into account in the efficiency calculations.
The portion relating to the accrued income or expenses of the derivative instrument is recognised in Income and interest expense in the profit and loss statement at the same time as the interest income and expense relating to the hedged item.

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

Cash flow hedge

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

Macro-hedging

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

Determining fair value or market value

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

When an instrument is initially recognised, its fair value is generally the transaction price.
IFRS 13 recommends using a price quoted on an active market in the first instance to determine the fair value of a financial asset or liability. A market is considered to be active if prices are easily and regularly available from a stock exchange, a broker (multiple inputs), an intermediary or a regulatory agency, and if those prices represent real transactions (volume and price range) under normal competition conditions.
In the absence of an active market, the fair value must be determined using valuation techniques.
These techniques include the use of recent transactions performed in a normal competition environment. They are based on market data, on the fair value of substantially identical instruments, or on cash flow or option valuation discount models, and involve recognised valuation methods.
The aim of a valuation technique is to establish what the price of an instrument would be under normal market conditions.

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

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

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

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

Level 2 is composed of:

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

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

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

Provisions

Provisions are recorded in balance sheet liabilities when the AFL 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 31% rate which is the effective tax rate for the 31 December 2019 period.

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

Deferred taxes

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

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

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

IAS 12 prohibits discounting of deferred tax assets and liabilities.

Post-employment benefits

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

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

- an estimated date of payment of the benefit,
- a financial discount rate
- an inflation rate
- assumptions on salary increases, staff turnover

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

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

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

V - Notes to the Balance Sheet

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

	31/12/2019		31/12/2018	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Financial assets held for trading	15,962	15,476	26,299	26,747
Financial assets at fair value option through profit or loss				
Total financial assets at fair value through profit or loss	**15,962**	**15,476**	**26,299**	**26,747**

Financial assets held for trading

	31/12/2019		31/12/2018	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Equity instruments				
Debt securities				
Loans and advances				
Derivatives	15,336	15,476	26,299	26,747
Total Financial assets held for trading	**15,336**	**15,476**	**26,299**	**26,747**

	31/12/2019				31/12/2018			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**493,058**	**493,058**	**15,962**	**15,476**	**965,116**	**965,116**	**26,299**	**26,747**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**493,058**	**493,058**	**15,962**	**15,476**	**965,116**	**965,116**	**26,299**	**26,747**
Interest rate contracts	411,050	411,050	15,336	15,476	965,116	965,116	26,299	26,747
FRA								
Cross Currency Swaps	82,008	82,008	626					
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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

Note 2 - HEDGING DERIVATIVES

Analysis by type of hedge

	31/12/2019		31/12/2018	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Derivatives designated as fair value hedges	125,690	152,729	43,441	73,474
Derivatives designated as cash flow hedges				
Derivatives designated as portfolio hedges	5,267	20,868	1,220	4,825
Total Hedging derivatives	**130,957**	**173,597**	**44,661**	**78,300**

Detail of derivatives designated as fair value hedges

	31/12/2019				31/12/2018			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**3,924,974**	**3,148,740**	**125,690**	**152,729**	**2,968,583**	**2,300,829**	**43,441**	**73,474**
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	**3,924,974**	**3,148,740**	**125,690**	**152,729**	**2,968,583**	**2,300,829**	**43,441**	**73,474**
Interest rate contracts	3,690,000	3,148,740	121,793	151,022	2,875,000	2,300,829	43,441	67,716
FRA								
Cross Currency Swaps	234,974		3,897	1,707	93,583			5,759
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	-	-	-	-	-	-	-	-

Detail of derivatives designated as interest rate hedged portfolios

	31/12/2019				31/12/2018			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**87,910**	**515,504**	**5,267**	**20,868**	**62,610**	**358,002**	**1,220**	**4,825**
Organised markets	-	-	-	-	-	-	-	-
Interest rate contracts								
Other contracts								
Over-the-counter markets	**87,910**	**515,504**	**5,267**	**20,868**	**62,610**	**358,002**	**1,220**	**4,825**
Interest rate contracts	87,910	515,504	5,267	20,868	62,610	358,002	1,220	4,825
FRA								
Cross Currency Swaps								
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	-	-	-	-	-	-	-	-

PORTFOLIO

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

Fixed-income securities - Analysis by nature

(€ '000s)	31/12/2019	31/12/2018
Government paper and similar securities	535,900	489,486
Bonds		13,001
Other fixed income securities		
Net amount in balance sheet	**535,900**	**502,487**
Including depreciation	(245)	(229)
Including net unrealised gains and losses	13,248	4,054

Expected credit losses on debt instruments	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 31 December 2018	**(229)**	**-**	**-**	**-**
Transfers from 12-month to maturity				
Transfers from maturity to 12-month				
Transfers from expected to incurred losses				
Total transfer movment	**-**	**-**	**-**	**-**
Movment attributable to financial instruments recognized over the period	**(16)**	**-**	**-**	**-**
Acquisitions	(34)			
Re-estimate of parameters	(21)			
Bad debts written off				
On sales	38			
Expected losses as of 31 December 2019	**(245)**	**-**	**-**	**-**

Fixed-income securities - Analysis by contreparty

(€ '000s)	31/12/2019	31/12/2018
Local public sector	521,278	445,417
Financial institutions and other financial corporations	14,621	42,070
Non-financial corporations	-	15,000
Net amount in balance sheet	**535,900**	**502,487**

Fixed income securities held on Financial institutions include € 14,621k of securities guaranteed by States of the European Economic Area.

Changes in Financial assets at fair value through other comprehensive income

(€ '000s)	Total amount as of 31/12/2018	Additions	Disposals	Change in fair value recognised in equity	Change in accrued interest	Prem/Disc Amort.	Total amount as of 31/12/2019
Government paper and similar securities	489,486	1,264,640	(1,227,778)	9,955	(88)	(314)	535,900
Bonds	13,001	-	(12,469)	7	(477)	(62)	-
Other fixed income securities	-	-	-	-	-	-	-
TOTAL	**502,487**	**1,264,640**	**(1,240,247)**	**9,962**	**(566)**	**(376)**	**535,900**

Note 4 - SECURITIES AT AMORTIZED COST

Fixed-income securities - Analysis by nature

(€ '000s)	31/12/2019	31/12/2018
Government paper and similar securities	107,216	88,889
Bonds	28,171	86,262
Other fixed income securities		
Net amount in balance sheet	**135,387**	**175,152**
Including expected credit losses on debt instruments	(75)	(145)

Expected credit losses on securities at amortized cost	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 31 December 2018	**(145)**	**-**	**-**	**-**
Transfers from 12-month to maturity				
Transfers from maturity to 12-month				
Transfers from expected to incurred losses				
Total des mouvements de transfert	**-**	**-**	**-**	**-**
Movment attributable to financial instruments recognized over the period	**70**	**-**	**-**	**-**
Acquisitions	(18)			
Re-estimate of parameters	33			
Bad debts written off				
On sales	54			
Expected losses as of 31 December 2019	**(75)**	**-**	**-**	**-**

Fixed-income securities - Analysis by contreparty

(€ '000s)	31/12/2019	31/12/2018
Local public sector	48,083	22,822
Financial institutions and other financial corporations	87,304	152,330
Non-financial corporations		
Net amount in balance sheet	**135,387**	**175,152**

Fixed income securities held on Financial institutions include € 33,198k of securities guaranteed by States of the European Economic Area.

Changes in securities at amortized cost

(€ '000s)	Total amount as of 31/12/2018	Additions	Disposals	Interest rate Reevaluation	Change in accrued interest	Prem/Disc Amort.	Expected credit losses change	Total 31/12/2019
Government paper and similar securities	88,889	33,752	(15,208)	28	177	(441)	17	107,216
Bonds	86,262	-	(57,980)	34	(52)	(146)	52	28,171
Other fixed income securities	-	-	-	-	-	-	-	-
TOTAL	**175,152**	**33,752**	**(73,188)**	**62**	**126**	**(587)**	**70**	**135,387**

Note 5 - RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	31/12/2019	31/12/2018
Mandatory reserve deposits with central banks	165,609	121,654
Other deposits		
Cash and central banks	**165,609**	**121,654**
Impairment	(6)	(4)
Net amount in balance sheet	**165,604**	**121,650**

Receivables on credit institutions

(€ '000s)	31/12/2019	31/12/2018
Loans and receivables		
- on demand and short notice	15,601	7,103
- term	95,064	50,000
Cash collateral paid	79,190	52,841
Securities bought under repurchase agreements		
TOTAL	**189,855**	**109,944**
Impairment for expected losses	(33)	(2)
NET CARRYING AMOUNT	**189,822**	**109,942**

Note 6 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	31/12/2019	31/12/2018
Short-term credit facilities	9,971	2,954
Other loans	3,150,593	2,227,003
Customers transactions before impairment charges	**3,160,563**	**2,229,957**
Impairment	(63)	(46)
Net carrying amount	**3,160,500**	**2,229,911**
Of which individual impairment	(63)	(46)
Of which collective impairment		

Expected credit losses on loans and financing commitments	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 31 December 2018	**(49)**	**(2)**	-	-
Transfers from 12-month to maturity	(0.1)	(0.3)		
Transfers from maturity to 12-month				
Transfers from expected to incurred losses				
Total transfer movment	**(0.1)**	**(0.3)**	-	-
Movment attributable to financial instruments recognized over the period	(45)	(5)	-	-
Production and acquisition	(53)	(2)		
Re-estimate of parameters	2	(3)		
Bad debts written off				
Repayments	7	0.1		
Expected losses as of 31 December 2019	**(94)**	**(7)**	-	-

SUMMARY OF PROVISIONS ON SECURITIES, LOANS AND FINANCING COMMITMENTS

(€ '000s)	31/12/2018	Depreciation charges	Reversals amounts not used	Net charge	Utilised	31/12/2019
Financial assets at fair value through other comprehensive income						
Depreciations on performing assets	229	34	(17)	**16**		**245**
Depreciations on non-performing assets						**-**
Depreciations on doubtfull assets						**-**
Total	**229**	**34**	**(17)**	**16**		**245**
Financial assets at amortized cost						
Depreciations on performing assets	194	71	(96)	**(24)**		**169**
Depreciations on non-performing assets	2	5	0.2	**5**		**7**
Depreciations on doubtfull assets						**-**
Total	**196**	**76**	**(96)**	**(19)**		**176**

CLASSIFICATION OF FINANCIAL ASSETS BY RISK LEVEL

	Gross amount			Depreciation			Net Amount
(€ '000s)	Step 1	Step 2	Step 3	Step 1	Step 2	Step 3	
Accounts with central banks	165,609			(6)			**165,604**
Financial assets at fair value through other comprehensive income	536,144			(245)			**535,900**
Securities at amortized cost	135,462			(75)			**135,387**
Loans and receivables due from credit institutions at amortized cost	189,855			(33)			**189,822**
Loans and receivables due from customers at amortized cost	3,149,012	7,765	3,787	(56)	(6)	(1)	**3,160,500**

Note 7 - DEFERRED TAX

The movement on the deferred tax account is as follows:

(€ '000s)	31/12/2019	31/12/2018
Net asset as at 1st of january	**5,671**	**5,116**
Of which deferred tax assets	5,671	5,334
Of which deferred tax liabilities		219
Recognised in income statement	**(227)**	**(210)**
Income statement (charge) / credit	(227)	(210)
Recognised in equity	**172**	**765**
Financial assets at fair value through other comprehensive income	57	765
Cash flow hedges		
Other	114	
Net asset as at	**5,616**	**5,671**
Of which deferred tax assets	5,635	5,671
Of which deferred tax liabilities	19	

Deferred tax are attributable to the following items:

(€ '000s)	31/12/2019	31/12/2018
Financial assets at fair value through other comprehensive income	604	546
Cash flow hedges		
Losses carried forward	5,031	5,031
Other temporary differences		94
TOTAL DEFERRED TAX ASSETS	**5,635**	**5,671**

(€ '000s)	31/12/2019	31/12/2018
Financial assets at fair value through other comprehensive income		
Cash flow hedges		
Other temporary differences	19	
TOTAL DEFERRED TAX LIABILITIES	**19**	**-**

Note 8 - OTHER ASSETS AND ACCRUALS

(€ '000s)	31/12/2019	31/12/2018
Other assets		
Deposits	70	68
Other assets	76	45
Impairment		
Total	**146**	**113**
Accruals		
Prepaid charges	206	213
Other deferred income		1
Transaction to recieve and settlement accounts		
Other accruals	30	53
Total	**236**	**267**
TOTAL OTHER ASSETS AND ACCRUALS	**381**	**380**

Note 9 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible fixed assets	31/12/2018	Additions	Transfers	Disposals	Amort. and provisions	Other	31/12/2019
Intangible fixed assets							
IT development costs	9,357	549				125	10,031
Other intangible assets	496	54					550
Intangible assets in progress	125	122				(125)	122
Intangible fixed assets gross amount	**9,978**	**725**	**-**	**-**	**-**	**-**	**10,703**
Depreciation and allowances - Intangible fixed assets	(6,715)				(1,890)		(8,606)
Intangible fixed assets net carrying amount	**3,263**	**725**	**-**	**-**	**(1,890)**	**-**	**2,098**

Tangible fixed assets	31/12/2018	Additions	Transfers	Disposals	Amort.	Other	31/12/2019
Commercial leases				(1,889)		2,095 [(1)]	206
Property, plant & equipment	817	23					841
Tangible fixed assets gross amount	**817**	**23**	**-**	**(1,889)**	**-**	**2,095**	**1,047**
Depreciation and allowances - Tangible fixed assets	(380)			1,246	(729)	(1,013) [(1)]	(876)
Tangible fixed assets net carrying amount	**437**	**23**	**-**	**(643)**	**(729)**	**1,082**	**171**

[(1)] These amounts result from the first time application of IFRS 16 on January 1, 2019.

Note 10 - DEBT SECURITIES

(€ '000s)	31/12/2019	31/12/2018
Negotiable debt securities	88,923	
Bonds	3,948,052	2,996,909
Other debt securities		
TOTAL	**4,036,974**	**2,996,909**

NOTE 11 - DUE TO CREDIT INSTITUTIONS

(€ '000s)	31/12/2019	31/03/2016
Loans and receivables		
- on demand and short notice	9	9
- term		
Cash collateral paid	4,228	
Securities bought under repurchase agreements		
TOTAL	**4,236**	**9**

Note 12 - ACCRUALS AND OTHER LIABILITIES

(€ '000s)	31/12/2019	31/12/2018
Other liabilities		
Miscellaneous creditors	1,618	817
Total	**1,618**	**817**
Accruals		
Transaction to pay and settlement accounts		
Other accrued expenses	661	824
Unearned income		
Other accruals	31	34
Total	**692**	**858**
TOTAL ACCRUALS AND OTHER LIABILITIES	**2,310**	**1,675**

Note 13 - PROVISIONS

(€ '000s)	Balance as of 31/12/2018	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 31/12/2019
Provisions						
Financing commitment execution risks	5	3		(5)		3
Provisions for litigations						
Provisions for employee retirement and similar benefits	19	48			9	75
Provisions for other liabilities to employees						
Other provisions		129				129
TOTAL	**23**	**180**	**-**	**(5)**	**9**	**207**

OFF-BALANCE SHEET

(€ '000s)	31/12/2019	31/12/2018
Commitments given	**317,666**	**365,646**
Financing commitments	317,666	365,646
For credit institutions		
For customers	*317,666*	*365,646*
Guarantee commitments		
For credit institutions		
For customers		
Commitments on securities		
Securities to be delivered to the issuance		
Other securities to be delivered		
Commitments received	**2,345**	**2,469**
Financing commitments		
From credit institutions		
Guarantee commitments	2,345	2,469
From credit institutions		
From customers	*2,345*	*2,469*
Commitments on securities		
Securities receivable		

EXPECTED LOSSES ON COMMITMENTS

Expected credit losses on loans and financing commitments	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 31 December 2018	**5**	**-**	**-**	**-**
Transfers from 12-month to maturity				
Transfers from maturity to 12-month				
Transfers from expected to incurred losses				
Total transfer movement	**-**	**-**	**-**	**-**
Movment attributable to financial instruments recognized over the period	(2)			
Charge	3			
Utilised				
Reversal untilised	(5)			
Expected losses as of 31 December 2019	**3**	**-**	**-**	**-**

VI - Notes to the Income Statement

Note 14 - INTEREST INCOME AND EXPENSES

(€ '000s)	31/12/2019	31/12/2018
Interest and similar income	**77,822**	**64,339**
Due from banks	88	
Due from customers	28,405	19,754
Bonds and other fixed income securities	2,024	1,830
Financial assets at fair value through other comprehensive income	*2,050*	*1,957*
Securities at amortized cost	*(26)*	*(127)*
Income from interest rate instruments	47,304	42,755
Other interest income		
Interest and similar expenses	**(67,747)**	**(56,534)**
Due to banks	(1,171)	(1,975)
Due to customers		
Debt securities	(23,451)	(16,863)
Expense from interest rate instruments	(43,125)	(37,695)
Other interest expenses		
Interest margin	**10,076**	**7,805**

Note 15 - NET FEE AND COMMISSION INCOME

(€ '000s)	31/12/2019	31/12/2018
Fee & Commission Income	**178**	**289**
Interbank transactions		
Customer transactions	59	178
Securities transactions		
Forward financial instruments transactions		
Currencies transactions		
Financing commitments and guarantee	118	111
Other commissions recieved		
Fee & Commission Expense	**(105)**	**(119)**
Interbank transactions	(5)	(3)
Securities transactions		
Forward financial instruments transactions	(100)	(117)
Currencies transactions		
Financing commitments and guarantee		
Other commissions paid		
Net Fee and Commission income	**72**	**169**

Note 16 - NET RESULT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(€ '000s)	31/12/2019	31/12/2018
Gains/(losses) on Trading book	1	(0.1)
Net result of hedge accounting	(2,444)	868
Net result of foreign exchange transactions	(2)	0.2
TOTAL	**(2,444)**	**868**

Analysis of net result of hedge accounting

(€ '000s)	31/12/2019	31/12/2018
Fair value hedges		
Fair value changes in the hedged item attributable to the hedged risk	13,724	(18,948)
Fair value changes in the hedging derivatives	(13,736)	19,213
Hedging relationship disposal gain	(2,862)	871
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	11,835	2,836
Fair value changes in the hedging derivatives	(11,404)	(3,105)
Net result of hedge accounting	**(2,444)**	**868**

Note 17 - NET GAINS (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(€ '000s)	31/12/2019	31/12/2018
Gains from disposal of fixed income securities	3,734	3,439
Losses from disposal of fixed income securities	(371)	(2,576)
Gains from disposal of variable income securities		
Other income/(expenses) from Financial assets at fair value through other comprehensive income		
Impairment (charges) and reversals on Financial assets at fair value through other comprehensive income		
Gains or (losses) on Financial assets at fair value through other comprehensive income	**3,363**	**863**

Note 18 - GENERAL OPERATING EXPENSES

(€ '000s)	31/12/2019	31/12/2018
Employee expenses		
Wages and salaries	2,991	2,970
Post-employment benefit expenses	324	320
Other expenses	1,417	1,268
Total Employee expenses	**4,732**	**4,558**
Operating expenses		
Taxes and duties	495	478
External services	4,228	4,092
Total Administrative expenses	**4,723**	**4,571**
Charge-backs and reclassification of administrative expenses	(101)	(96)
Total General operating expenses	**9,354**	**9,033**

Note 19 - COST OF RISK

(€ '000s)	31/12/2019	31/12/2018
Net charge to provisions	4	(190)
for financial assets at fair value through other comprehensive income	*(16)*	*(86)*
for financial assets at amortized cost	*20*	*(104)*
Net charge to provisions	2	(2)
for financing commitments	*2*	*(2)*
for guarantee commitments		
Irrecoverable loans written off not covered by provisions		
Recoveries of bad debts written off		
Total Cost of risk	**5**	**(191)**

Note 20 - NET GAINS AND LOSSES ON OTHER ASSETS

(€ '000s)	31/12/2019	31/12/2018
Gains on sales of Investment securities		
Gains on sales of tangible or intangible assets	461	
Reversal of impairment		
Total Gains on other assets	**461**	**-**
Losses on sales of Investment securities		
Losses on sales of tangible or intangible assets		
Charge of impairment		
Total Losses on other assets	**-**	**-**

Net gains on other assets include part of the costs AFL's relocation planned for the second quarter of 2020. They include the accelerated depreciation of fixtures in the premises of the Tour Oxygène for €271k, the exit compensation paid to the lessor, the readjustment of the duration of the current commercial lease, its depreciation for unoccupied premises in 2020. They should be added €71k of dismantling costs classified as administrative expenses.

Note 21 - EXTERNAL AUDITOR FEES

	Caillau Dedouit et Associés		KPMG Audit	
	2019 (€ '000s)	**2018** (€ '000s)	**2019** (€ '000s)	**2018** (€ '000s)
Audit				
Fees related to statutory audit, certification, examination of:				
AFL-Société Opérationelle	66	60	66	60
Sub-total	**66**	**60**	**66**	**60**
Other fees and benefits (*) :				
AFL-Société Opérationelle	54	37	34	73
Sub-total	**54**	**37**	**34**	**73**
TOTAL	**120**	**97**	**100**	**133**

(*) Other fees and benefits are related to issue prospectus audit, capital increases, reliance letter, IFRS 9 First Time Application review and social, environmental and societal data audits.

Note 22 - RELATED PARTIES

There are, on 31 December 2019, an agreement of administrative services and a licensing for the use of a brand, and a professional lease which have been concluded between the Agence and the Agence France Locale - Territorial at normal market conditions.

Remuneration for Board of AFL and the CEO of the Territorial Company :

Neither members of AFL Board nor the CEO of the Territorial Company benefited from a payment in actions in conformance with the exercise 2019 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 2019 were the following ones :

(€ '000s)	31/12/2019
Fixed remuneration	641
Variable remuneration	46
Payments in kind	8
Total	**695**

In addition, members of the AFL Supervisory Board received €140k attendance fees. No attendance fees were paid to members of the Board of Directors of Agence France Locale - Société Territoriale.

VII - Notes to Risk exposure

A - Fair value of financial instruments

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

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

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

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

Fair value of instruments carried at fair value:

	31/12/2019			
	Total	Measured using		
(€ '000s)		Level 1	Level 2	Level 3
Financial assets				
Financial assets at fair value through profit or loss	**15,962**	-	15,962	-
Hedging derivative instruments	**130,957**	-	130,957	-
Government paper and similar securities	535,900	535,900	-	-
Bonds	-	-	-	-
Other fixed income securities	-	-	-	-
Total Financial assets at fair value through other comprehensive income	**535,900**	**535,900**	**-**	**-**
Total Financial assets	**682,818**	**535,900**	**146,919**	**-**
Financial liabilities				
Financial liabilities at fair value through profit or loss	**15,476**	-	15,476	-
Hedging derivative instruments	**173,597**	-	173,597	-
Total Financial liabilities	**189,073**	**-**	**189,073**	**-**

Fair values of instruments carried at amortised cost:

	31/12/2019				
	Net Carrying value	Fair value	Measured using		
(€ '000s)			Level 1	Level 2	Level 3
Financial assets					
Cash, central banks and issuing institutions	**165,604**	**165,604**	-	-	165,604
Government paper and similar securities	107,216	107,294	61,229		46,065
Bonds	28,171	28,141	28,141		-
Other fixed income securities	-	-	-		-
Total Securities at amortized cost	**135,387**	**135,435**	89,369	-	46,065
Loans and receivables due from credit institutions	**189,822**	189,822	-	-	189,822
Loans and advances to customers (*)	**3,174,785**	3,174,785	-	-	3,174,785
Total Financial assets	**3,665,598**	**3,665,645**	**89,369**	**-**	**3,576,276**
Financial liabilities					
Debt securities	**4,036,974**	4,041,825	3,543,673	409,229	88,923
Total Financial liabilities	**4,036,974**	**4,041,825**	**3,543,673**	**409,229**	**88,923**

(*) The fair value of loans and receivables to customers includes the outstanding capital and the revaluation in interest rates of the loans hedged on the closing date.
For Loans and receivables due from credit institutions, which are deposits, the fair value used was the nominal value.

B - Credit risk exposure

The tables below disclose the maximum exposure to credit risk at 31 December 2019 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 31/12/2019
Cash, central banks	165,609		(6)	**165,604**
Financial assets at fair value through profit or loss	15,962			**15,962**
Hedging derivative instruments	130,957			**130,957**
Financial assets at fair value through other comprehensive income	535,900			**535,900**
Securities at amortized cost	135,462		(75)	**135,387**
Loans and receivables due from credit institutions	189,855		(33)	**189,822**
Loans and advances to customers	3,156,777	3,787	(63)	**3,160,500**
Revaluation adjustment on interest rate hedged portfolios	14,284			**14,284**
Current tax assets				
Other assets	146			**146**
Sub-total Assets	**4,344,951**	**3,787**	**(176)**	**4,348,562**
Financing commitments given	317,666			**317,666**
TOTAL Credit risk exposure	**4,662,617**	**3,787**	**(176)**	**4,666,228**

Exposure analysis by counterparty

(€ '000s)	Total 31/12/2019
Central banks	165,604
Local public sector	4,061,826
Credit institutions guaranteed by the EEA States	47,819
Credit institutions	311,698
Other financial corporations guaranteed by the EEA States	
Other financial corporations	79,190
Non-financial corporations guaranteed by the EEA States	
Non-financial corporations	91
Total Exposure by counterparty	**4,666,228**

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

Exposure analysis by geographic area

(En milliers d'euros)	Total 31/12/2019
France	4,140,038
Supranational	258,267
Canada	85,740
Finland	66,471
Netherlands	39,625
New Zealand	25,962
Germany	20,704
Japan	15,313
China	10,622
Denmark	3,485
Exposition totale par zone géographique	**4,666,228**

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

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

(€ '000s)	Less than 3 month	3 month to 1 year	1 year to 5 years	more than 5 years	Total	Related receivables and payables	Revaluation	Total 31/12/2019
Cash, central banks	165,604				**165,604**			**165,604**
Financial assets at fair value through profit or loss	646		5,773	8,279	**14,698**	**1,265**		**15,962**
Hedging derivative instruments		10	39,567	80,354	**119,931**	**11,026**		**130,957**
Financial assets at fair value through other comprehensive income								
Government paper and similar securities			182,572	339,121	521,693	959	13,248	535,900
Bonds								
Total Financial assets at fair value through other comprehensive income			**182,572**	**339,121**	**521,693**	**959**	**13,248**	**535,900**
Securities at amortized cost								
Government paper and similar securities	35,596	20,696	37,506	12,904	106,702	266	248	107,216
Bonds	16,527	1,592	9,928		28,047		125	28,171
Total Securities at amortized cost	**52,123**	**22,288**	**47,434**	**12,904**	**134,749**	**266**	**372**	**135,387**
Loans and receivables due from credit institutions	109,779		80,000		**189,779**	42		**189,822**
Loans and advances to customers	140,685	200,879	845,812	1,886,023	**3,073,399**	**6,951**	**80,151**	**3,160,500**
Revaluation adjustment on interest rate hedged portfolios							**14,284**	**14,284**
Current tax assets								
Other assets	146				**146**			**146**
TOTAL ASSETS								**4,348,562**
Central banks						**26**		**26**
Financial assets at fair value through profit or loss	19		5,772	8,279	**14,070**	**1,406**		**15,476**
Hedging derivative instruments	1,868	153	9,099	156,182	**167,302**	**6,295**		**173,597**
Debt securities	88,923		2,335,405	1,505,389	**3,929,716**	**12,185**	**95,073**	**4,036,974**
Due to credit institutions	4,236				**4,236**			**4,236**
Revaluation adjustment on interest rate hedged portfolios								
Other liabilities	1,618				**1,618**			**1,618**
TOTAL LIABILITIES								**4,231,929**

Agence France Locale oversees the transformation of its balance sheet into liquidity by monitoring several indicators, including the difference in average maturity between assets and liabilities which is limited to 12 months, temporarily increased to 18 months, and limits in gaps.

D - Interest rate risk: sensitivity to interest rate changes

Exposure to interest rate risk relates to that of the Operational subsidiary, Agence France Locale.

Interest rate risk includes the risk that AFL will suffer losses due to unfavourable changes in interest rates due to all of its balance sheet and off-balance sheet transactions, in particular in the event of a mismatch between the interest rates generated by its assets and those arising from its liabilities. Interest rate risk includes the risk of refinancing an asset at a higher interest rate than the original interest rate, or the risk of replacing an asset at a lower rate than the original one. In both cases, in the event of a change in interest rates, there may be a negative impact on the net margin of interest that reduces AFL's income.

In order to maintain its financial base for the development of its lending activities, AFL has also set up a hedging policy for interest rate risks in order to limit the exposure of its balance sheet and the volatility of its revenues to unwanted market movements.

AFL's interest rate hedging policy consists of:

- a systematic micro-hedging of fixed-rate debt to be converted into floating-rate debt mainly indexed to the three-month Euribor reference using interest rate swaps;

- micro-hedging of loans contracted at a fixed or floating Euribor six-month or twelve-month rate to convert them into floating-rate loans indexed to the Euribor three-month reference, except for fixed-rate loans corresponding to a limited portion of the balance sheet at least equal to the re-use of prudential capital. The resulting exposure to interest rate risk is influenced by the sensitivity to AFL's net present value rate, which measures the impact of a predefined rate shock on the variation in discounted cash flows of all assets and liabilities on the AFL balance sheet; and

- a macro-hedging of fixed-rate loans that are small or whose depreciation profile is not linear.

The hedging strategy for interest rate risk translated into a notional outstanding amount of swaps of €8.5 billion at December 31, 2019.

At December 31, 2019, the sensitivity of AFL's net present value of equity capital to a change of over 100 basis points was 3.3% to a change of over 200 basis points in the yield curve.

Throughout 2019, the sensitivity of AFL's net present value to a change of plus or minus 200 basis points remained below 15% of equity. The table below shows the sensitivity of the NPV since December 31, 2018.

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

KPMG AUDIT FS I
Tour EQHO
2 Avenue Gambetta
CS 60055
92066 Paris la Défense Cedex
France

CAILLIAU DEDOUIT ET ASSOCIES
19, rue Clément Marot
75008 Paris
France

Agence France Locale S.A.

Statutory Auditor's report on the "financial statements"

Year ended or Period from 1 January 2019 to 31 December 2019

Agence France Locale S.A.

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

KPMG AUDIT FS I
Tour EQHO
2 Avenue Gambetta
CS 60055
92066 Paris la Défense Cedex
France

CAILLIAU DEDOUIT ET ASSOCIES
19, rue Clément Marot
75008 Paris
France

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

Agence France Locale S.A.

Registered office: Tour Oxygène - 10-12 boulevard Vivier Merle - 69003 Lyon
Share capital: €.146,800,000

Statutory Auditor's report on the "financial statements"

Year ended or Period from 1 January 2019 to 31 December 2019

Ladies and Gentlemen,

In our capacity as Statutory Auditors of Agence France Locale S.A. and in compliance with your request within the framework of financial information communication to investors, we have audited the accompanying "financial statements", of Agence France Locale S.A. for the year ended 31 December 2019, presented in compliance with the IFRS (International Financial Reporting Standards) published by and as approved by the European Union and in force on that date.

Management Board is responsible for the preparation and fair presentation of these "financial statements" and were approved on 11 March 2020 based on the information available at that date in the evolving context of the Covid-19 health crisis. Our responsibility is to express an opinion on these "financial statements" based on our audit.

We conducted our audit in accordance with professional standards applicable in France and the professional doctrine of the French national auditing body (Compagnie nationale des commissaires aux comptes) related to this engagement; these standards require that we plan and perform the audit to obtain reasonable assurance whether the "financial statements" are free from material misstatement. An audit involves performing procedures, on a test basis or by other means of selection, to obtain audit evidence about the amounts and disclosures in the "financial statements". An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall presentation of the "financial statements". We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the "financial statements" present fairly, in all material respects, the financial position and assets and liabilities of Agence France Locale S.A. as of 31 December 2019, and of the results of its operations for the year then ended in accordance with the International Financial Reporting Standards as adopted in the European Union.

We draw attention to the change in accounting method following the application as of 1 January 2019 of the new IFRS 16 standard "Leases" described in Paragraph III "First Application IFRS 16 " of the Notes to the consolidated financial statements, and in the other Notes to the consolidated financial statements presenting figures related to the consequences of this change. Our opinion is not modified in respect of this matter.

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

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

Paris La Défense, on the 27 March 2020

Paris, on the 27 March 2020

French original signed by

KPMG Audit FS I

Ulrich Sarfati

Partner

Cailliau Dedouit et Associés

Laurent Brun

Partner