Agence France Locale

Half-yearly report for the period from January 1,2021 to June 30, 2021

AFL
La banque des collectivités

Key figures at June 30, 2021 - IFRS

Outstanding credit on the balance sheet

€3,945 million

Net interest margin

€6,357K

Operating expenses

€6,167K

Deposits in central banks and credit institutions

€1,300 million d'euros

Common Equity Tier 1 ratio

17.66%

Gross operating income

€2,239K

Table of contents

HALF-YEARLY ACTIVITY REPORT ... 7

I. Background and shareholding model structure ... 7

1. **A robust structure** ... 7
2. **A very conservative liquidity policy** ... 9
3. **A customer centric model** ... 9
4. **Rating of bonds issued by AFL** ... 9

II. Review of activities in the first half of 2021 and significant events ... 10

1. Developments in the context of the health crisis ... 10
2. Broadening of the AFL-ST shareholder base ... 11
3. Amendment of certain rules applicable to the Capital Contribution ... 12
4. Corporate Social Responsibility ... 13
5. Implementation of a profit-sharing agreement ... 14
6. Regulatory points ... 14
7. AFL's activities on the capital markets ... 14

i. Company bond issuance program ... 14

ii. Bond issues as part of the EMTN program ... 14

iii. Money market issues as part of the ECP (Euro Commercial Paper) program 15

8. Loan production ... 16
9. Membership ... 16
10. Governance ... 17

III. Results of the period for AFL ... 18

1. Individual AFL financial statements according to French GAAP ... 19
2. AFL financial statements according to IFRS ... 20

IV. Assets as at June 30, 2021 (IFRS) ... 22

1. Loans to local authorities ... 22
2. Liquidity reserve ... 24
3. Margin calls and valuations of hedging swaps ... 26

V. Debts and capital as at June 30, 2021 (IFRS) ... 26

VI. Description of the main risks and uncertainties to which the Company is confronted ... 27

1. Strategic risks ... 28
2. Financial risks ... 31
3. Non-financial risks ... 35

VII. Prudential ratios and equity ... 36

VIII. Outlook for the 2021 financial year and events since the balance sheet date 37

1. Financial market transactions in the second half of 2021 37
2. Loan production in the second half of 2021 38
Certification of the half-yearly financial report for the six-month period ended June 30, 2021 39
HALF-YEARLY FINANCIAL STATEMENTS 40
I. Half-yearly financial statements prepared according to French GAAP 40
II. Half-yearly financial statements prepared according to IFRS 57

GLOSSARY

ICC	Initial Capital Contribution
ACC	Additional Capital Contribution
ACPR	French Prudential Supervision and Resolution Authority
AFL	Agence France Locale
AFL-ST	Agence France Locale - Société Territoriale
ALM	Asset and Liability Management
AMF	Autorité des Marchés Financiers (French Financial Markets Authority)
ASW	Asset Swap
ECB	European Central Bank
OCF	Operating cash flow
RAC	Audit and Risk Committee
CBPP	Covered Bond Purchase Program
ICC	Internal Control Committee
CET1	Common Equity Tier One
FGTC	French General Tax Code
GRC	Global Risk Committee
SRB	Single Resolution Board
CVAE	Corporate value-added levy
ALT	Average lifetime
EAPB	European Association of Public Banks
ECP	Euro Commercial Paper
EMTN	Euro Medium Term Notes
EPCI	Établissement public de coopération intercommunale (Groupings of municipalities)
EPL	Local public institution
EPT	Regional public institutions
SRF	Single resolution fund
DRGF	Deposit and Resolution Guarantee Fund
GFP	Own tax group
HQLA	High Quality Liquid Assets
DTA	Deferred tax asset
IMR	Initial margin requirement
LCR	Liquidity Coverage Ratio
LFR	Amending Finance Law
LGFA	Local government funding agency
NIM	Net interest margin
ESM	European Stability Mechanism
NSFR	Net Stable Funding Ratio
PEPP	Pandemic Emergency Purchase Program
OAT	Obligations Assimilables du Trésor (French Treasury bonds)
OFGL	Observatory of local finance and public management

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

HALF-YEARLY ACTIVITY REPORT

I. Background and shareholding model structure

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

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

Accordingly, AFL-ST's Board of Directors has adopted a rule stating that independent directors 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. 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

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

have sufficient size to borrow in the capital markets, through bond issues in particular, in order to grant simple fixed- or floating-rate loans to local authority shareholders.

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

- On the one hand, the "Member Guarantees" granted by local authorities that are AFL-ST shareholders to any financial creditor of AFL make it possible to call directly on the local authority shareholders as guarantors. The amount of this guarantee is intended to be equal to the total amount of outstanding loans with a maturity of more than 364 days contracted by each member local authority with AFL. Thus, a creditor can call on the guarantee from several local authorities. 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, enables 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. At June 30, 2021, the amount of guaranteed securities issued by AFL and corresponding to debt issues and financial transactions with counterparties, amounted to €7.76 billion.

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 activate 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 call mechanism is to be able to mobilize guarantees on behalf of creditors to prevent non-compliance with the regulatory ratios or an event of default.

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

2. A very conservative liquidity policy

AFL has adopted a liquidity policy with three objectives:

- The construction of a sufficient liquidity reserve to maintain its operational activities, in particular its lending activities, for a period of twelve months; this reserve is largely made up of liquid assets that can be used for the regulatory Liquidity Coverage Ratio (LCR);
- A funding strategy that encourages a diversity of debt instruments (including benchmark issues in euros traded in regulated markets, issues in foreign currencies and private placements) as well as the diversity of the investor base, both by type and geographical area;
- In order to reduce its liquidity price risk, AFL strictly monitors the maturity gaps. It has undertaken to limit the average maturity gap between its assets and liabilities to one and a half years until March 20, 2022, the year of repayment of its first benchmark issue, and to one year thereafter, with the possibility of temporarily exceeding this limit by up to 18 months in the event of significant credit production at the end of the year.

With regard to liquidity access, it should be noted that AFL has a line of credit with the Banque de France, available at any time, through the mobilization of local authority loans that AFL holds on its balance sheet, via the TRiCP (Data Processing of Private Loans) system, corresponding to nearly 70% of its outstanding loans.

3. A customer centric model

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

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

4. Rating of bonds issued by AFL

After its creation and the granting of its banking license, on January 29, 2015, AFL was awarded the long-term rating of Aa2 and the short-term rating of P-1 by Moody's, one slot below that of the French government, in recognition of the robust model that it embodies. Following the reduction in the State's rating by Moody's on September 18, 2015, AFL's long-term rating was lowered by one slot to Aa3 with a stable outlook.

This rating has remained unchanged since. The AFL short-term rating at Moody's is P-1.

Since May 20, 2019, the AFL has a long-term rating of AA-, stable outlook and a short-term rating of A-1+, stable outlook by the rating agency Standard & Poor's.

AFL's bond issuance program is equally rated by Moody's and Standard & Poor's rating agencies.

II. Review of activities in the first half of 2021 and significant events

1. Developments in the context of the health crisis

Economic and market situation

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

To date, the pandemic is not under control. In the first half of 2021, the widespread roll-out of vaccination in Western countries, in particular, slowed its expansion. At the same time, more contagious variants have emerged. New health measures have been announced which weigh on the economic recovery.

There have been multiple responses to the crisis, at the national level through the intervention of governments and central banks, as well as at the international level through numerous initiatives by major donors. Regarding Europe, multiple joint actions, particularly by the European Central Bank, but also by the Commission and the Council, have been decisive in restoring the confidence of economic participants, improving market liquidity and enabling economies to recover.

These measures correctly addressed the immediate effects of the crisis: to date, the European Commission has revised its growth forecasts upwards to +4.8% in 2021 and +4.5% in 2022 (vs. +4.3% and +4.4% previously) following the stronger-than-expected rebound of European economies. The institution now estimates that the euro zone should return to its pre-crisis GDP level by Q4-2021. The French government has raised its growth forecast from 5% to 6% as part of the 2021 budget.

Government-funded stimulus measures have put a strain on public finances, leading to a rise in public debt. Germany's debt ratio at the end of 2021 is expected to be at 70% of GDP, that of Italy at 156% and the debt ratio of France would amount to 117% according to Natixis. The debt differential between northern and southern European countries has increased. For the countries of southern Europe, the fiscal room to maneuver has automatically become more limited.

The US Federal Reserve could begin to reduce its debt purchase programs before the end of 2021 if the economic recovery continues and in particular if the labor market situation allows it. In the euro zone, it is likely that the European Central Bank will have to wait until 2022 to take a similar approach. The end of these extraordinary regimes would require purchases of public debt to be made by private market participants within a certain timeframe.

Lastly, the production line tensions, as well as the increase in wages and the labor problems that have arisen following the disruption of production and trade, are causing inflation to reappear. If these do not prove to be temporary, interest rate increases could be considered by the central banks which could have repercussions on yield curves. In the long run, inflation has the mechanical effect of reducing the real burden of debt stocks; nevertheless, the current situation of some states, which have limited fiscal room for maneuver, could lead to increases in their debt burden.

To date, the health crisis has had a limited effect on the French local authority financing market, which is the market in which the AFL conducts all of its lending operations.

- In 2021, the health crisis resulted in the postponement of departmental and regional elections from March to June 2021. It had a direct impact on local authority budgets in 2020, but in proportions that were generally bearable, as highlighted in the Cazeneuve and Court of Auditors reports. The Observatory of finance and public management (OFGL) estimates that "the net cost before taking into account State aid increased to €5.1 billion in 2020, i.e. the equivalent of 12% of gross savings of the previous year and 20.5% of net savings" and underlines "disparities between levels of local authorities and between local authorities themselves".

- The consequences on local public investment and the recourse to borrowing by local authorities are still uncertain and the recovery plan of €100 billion announced in September 2020 is being rolled out. However, the role of French local authorities in financing public investment in a context of energy transition and their role in the recovery plan should not lead to a decline in public investment. The financing needs of the main local authority budgets is expected to increase by 14.5% in 2021 according to the Directorate General of Local Authorities (DGCL, Ministry of the Interior). The institutional rules governing the financial management of local authorities (the "golden rule") limit and will continue to limit the local public sector's indebtedness, which at the end of 2020 stands at 10% of GDP and should protect the financial health of local authorities. However, it cannot be ruled out that certain local authorities may be excluded or categories of local authorities directly exposed to the health crisis will face difficulties.

Continuity of missions since the start of the health crisis:

The AFL has shown that in a crisis context, its economic and operational model is perfectly suited to continue all its missions and meet the needs of its borrowers. Indeed, the AFL is very resilient in terms of liquidity and solvency, based on prudent financial policies and an organization which, by its very nature, enables all of its staff to operate remotely.

Organization addressing the health crisis:

Since the start of the health crisis in March 2020, AFL has discovered how to work to meet the requirements of the government by generalizing remote working during periods of lockdown and the opening of its offices, with all the health protection measures required, during periods of flexibility, particularly for employees wishing to return to the premises.

AFL initially made the strategic choice to organize its information systems in SaaS (software as a service) mode and when it moved from a Flex office type organization in 2020, each employee has had the ability to connect seamlessly to all of its business applications since March 16, 2020, when the first lockdown period began. As a result, the bank has not suffered any significant dysfunction since that date and no particular action had to be taken during the periods when all employees were working remotely.

A crisis unit adapts the organization and monitoring of the system as events and government instructions occur.

2. Broadening of the AFL-ST shareholder base

Since the law n°2019-1461 of December 27, 2019 on engagement in local life and the proximity of public action, the scope of local authorities able to become shareholders of AFL-ST has been extended to all local authority groupings as well as to local public institutions. Until that date, local authorities likely to join the AFL-ST included the municipalities, départements, regions, public institutions of inter-municipal cooperation (EPCI) with their own tax system and regional public institutions (EPT). This change represents an additional source of growth for the Group since the publication of the implementing decree of May 11, 2020.

In addition, Decree No. 2020-556 of May 11, 2020 defines the eligibility criteria for new AFL-ST shareholders, with thresholds that apply to the financial position and level of debt of any entity becoming a shareholder after its publication.

The AFL General Meeting of Shareholders of May 7, 2020 and as well as that of AFL-ST on May 28, 2020 initially amended the Articles of Association of the two companies in order to integrate the trade unions, major players in local public investment, and thus allow a significant number of trade unions to join. As of June 30, 2021, the AFL-ST had 13 trade union members.

The AFL General Meeting of May 6, 2021 as well as that of the AFL-ST of May 27, 2021 amended the Articles of Association of the two companies to include, in addition to the trade unions, all entities authorized by law to join the AFL Group, i.e. local and regional authorities, their groupings and local public institutions in accordance with the text of Article L. 1611-3-2 of the General Code of Local Authorities resulting from the aforementioned law of December 27, 2019.

As such, it will be up to the Board of Directors of AFL-ST, without having to refer to the General Meeting of Shareholders to make successive amendments to the Articles of Association, to define the conditions, methods and timing of the gradual entry of new types of members.

The AFL-ST General Meeting of May 27, 2021 accordingly amended the definition of the categories of local authorities referred to in the statutory provisions on the electoral colleges. Thus, the Board of Directors will be required to define, in particular, the involvement of each new local authority group to the special meetings of shareholders (electoral colleges) called to appoint the members of the Board of Directors according to the type of to which they belong, in accordance with the statutory rules.

Work is underway within AFL teams to sequence and prepare for this expansion.

3. Amendment of certain rules applicable to the Capital Contribution

Amendment of the definition of Total Debt taken into account for the calculation of the Initial Capital Contribution:

The AFL-ST General Meeting of May 27, 2021 amended the Company's Articles of Association to modify the definition of Total Debt taken into account for the calculation of the Initial Capital Contribution, in order to add to the categories of debt already excluded from this calculation (a) debts relating to repayable advances (actually recognized in 1678), and (b) in the case of public housing offices, debts (actually recognized in 1641) contracted with the Caisse des Dépôts et Consignations.

Staggering of the payment of the Initial Capital Contribution to ten years:

The AFL-ST General Meeting of May 27, 2021 amended the Company's Articles of Association to authorize the extension of the Initial Capital Contribution (ICC) payment over a maximum period of five to ten years as follows:

In accordance with the Shareholders' Agreement, upon joining the AFL Group, new shareholders undertake to subscribe to one or more capital increases for a total subscription price equal to their Initial Capital Contribution (ICC). In accordance with the Articles of Association, the payment of ICC may in principle be staggered, at the request of the Local Authority, over a maximum period of three (3) calendar years.

Pursuant to the statutory provisions of the Articles of Association, as an exception, the Board of Directors of the Company approves, on the proposal of the Management Board and the opinion of the AFL Supervisory Board, the amounts of ICC from which the Local Authorities may request a payment spread over more than three years, provided that the corresponding kn and kn' coefficients are applied for the calculation of their ICC, and up to a maximum of five to ten calendar years.

Change in the value of the indicators used to determine the amounts of the First Payment and the annual Share of the Initial Capital Contribution (ICC):

The AFL-ST Board of Directors, meeting on June 23, 2021, after hearing the favorable opinion of the AFL-ST Audit and Risk Committee and the AFL Supervisory Board, decided to change the value of the indicators referred to in Article 7.4.6 of the AFL-ST Articles of Association as follows:

For the single lump sum amount:

- The single lump sum amount applicable to all Members paying an ICC equal to or greater than €12 million is reduced in the first year from one and a half million euros to one million euros;
- The single lump sum amount applicable to all Members paying an ICC of less than €12 million is reduced in the first year by one million euros to 500,000 euros;

As regards "the commitment to pay an annual share (the **Share**) the balance of the overall ICC to be paid (the **Balance**), the amount of which is determined objectively each year by the Société Territoriale based on the volume of loans completed by the local authority with Agence France Locale", in accordance with the Articles of Association, the Share is equal to the highest amount of the following indicators, whose values are set by the Board of Directors on the recommendation of the Management Board and opinion of the AFL Supervisory Board:

- A percentage of the Borrowing Volume (regardless of the ICC volume), unchanged at 3%; and
- A single lump sum applicable to all members paying an ICC greater than or equal to €12 million, unchanged at €500,000; and
- A single lump sum applicable to all members paying an ICC of less than €12 million, decreased from €250,000 to €125,000.

These amendments will be applicable to any entity considering a subscription to a capital increase of AFL-ST after June 23, 2021.

4. Corporate Social Responsibility

Several decisions were made by AFL during the first half of 2021 as part of its corporate social responsibility approach. The Management Board approved a responsible refinancing policy document on the source of funds and an employer mobility plan. A Disconnection Charter has also been put in place.

The Mobility Guidance law of December 2019 made it mandatory for companies with more than 50 employees on the same site to set up an Employer Mobility Plan or Company Travel Plan. However, the AFL, which employs less than 50 employees, wanted to adopt such a plan as part of a voluntary approach to contribute to the development of soft mobility for its employees as part of their professional and private travel.

Financing the ecological transition - First AFL study - INET

On the occasion of World Environment Day, on June 5, 2021, AFL published its first study on financing the ecological transition in local authorities, carried out by nine INET regional administrator students from the Abbé Pierre class, with the help of the Institut de l'économie pour le Climat (I4CE). A qualitative study based on testimonials and an analysis of existing systems, it aims to draw up an inventory of the obstacles and opportunities for the financing of the ecological transition in the regions.

As a follow-up to this study, AFL and the association of small towns in France (APVF) conducted a study on the financing of the ecological transition in small towns, which was published at the beginning of July.

5. Implementation of a profit-sharing agreement

AFL has set up a profit-sharing agreement for all its employees, approved by the Supervisory Board of the Company in its meeting of March 29, 2021, taken after the favorable opinion of the ARCGC of March 22, 2021 and the RAC of March 16, 2021 and ratified by a two-thirds majority of the staff, according to the minutes of May 11, 2021.

The system is accompanied by the underlying employee savings schemes, i.e. an inter-company savings plan (PEI) and an inter-company collective retirement savings plan (PERECOI), managed by Société Générale.

These schemes are scheduled to open in 2022 to accommodate any incentive bonuses that would be paid in 2022 for the 2021 financial year.

6. Regulatory points

At its meeting of March 11, 2021, the Supervisory Board of the ACPR recognized AFL as a public development credit institution, pursuant to paragraph 2 of Article 429 bis of Regulation (EU) no. 575/2013 of June 26, 2013 of the European Parliament and of the Council. The recognition of this status allows AFL to exclude from the institution's leverage ratio "exposures resulting from assets that constitute claims from central, regional or local governments or from public sector entities in connection with public investments and incentive loans".
As compliance with the leverage ratio is assessed, for AFL, on the basis of the consolidated situation of AFL-ST, a financial holding company (the AFL Group), AFL-ST is authorized to exclude from the measurement of the total exposure under the leverage ratio the exposures resulting from loans granted to local authorities.
The leverage ratio requirement is 3%.

7. AFL's activities on the capital markets

i. Company bond issuance program

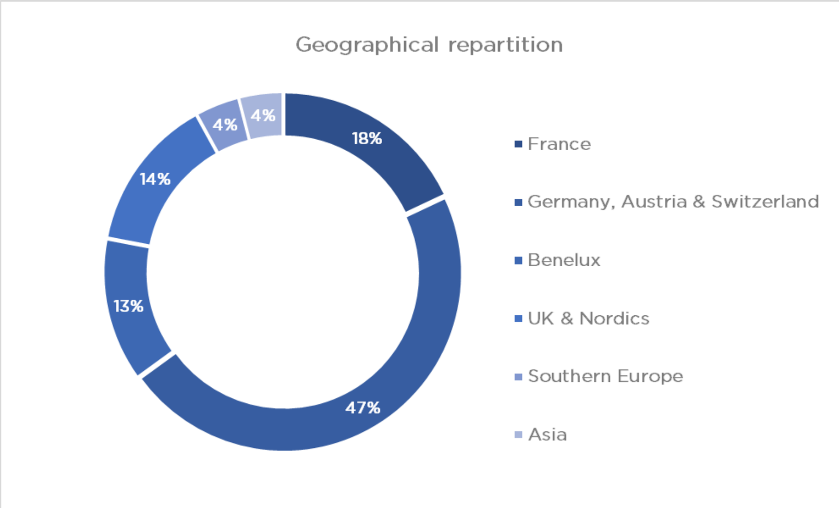
The Supervisory Board meeting of December 14, 2020 authorized the Company to continue, for the financial year 2021, to implement its borrowing program through new bond issues, within a maximum volume of medium and long-term issues under the EMTN program amounting to €1.8 billion (compared to €1.2 billion for the financial year 2020) of which €300 million related to the possible pre-financing of the borrowing program for 2022 .

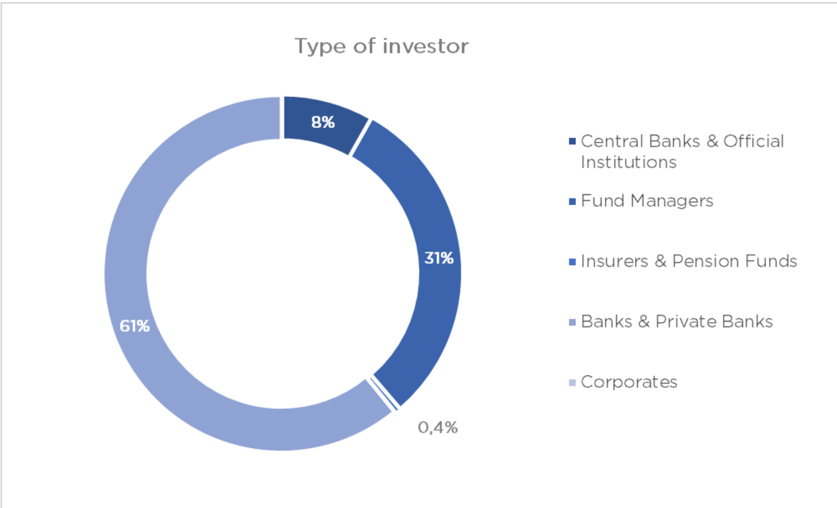
The maximum amount of the EMTN program (maximum amount outstanding) was itself raised from €7 to 8 billion.

ii. Bond issues as part of the EMTN program

On January 14, 2021 AFL issued a new benchmark for €500 million maturing on March 20, 2031 under excellent conditions. This seventh benchmark issue, since the creation of AFL, has met with unprecedented success with demand of more than €2.2 billion from nearly 90 investors. The securities were placed with a margin of 31 basis points over the government bond curve (OAT).

The geographical distribution of this issue by type of investor is shown in the charts below.





This issue was re-opened on June 18, 2021 for an additional amount of €250 million at 23 basis points over the OAT curve, bringing the issue to a total of €750 million. In addition, several private placements were completed: a private placement of US $100 million, with a maturity of two years, two private placements denominated in Australian dollars of 50 million at 10.5 years and 110 million at 15 years and a Euro-denominated private placement of €20 million with a maturity of 10.5 years. In total, at June 30, 2021, AFL has raised €956 million, thus completing 64% of its borrowing program for 2021 with a funding mix that combines good balance sheet utilization with competitive terms. Indeed, the weighted average margin of the issues carried out during the first half of the year amounted to 26.5 basis points over the OAT curve.

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

In addition to AFL's medium- and long-term borrowing program, an authorization to draw down under the ECP program is authorized for the 2021 financial year (compared with €400 million for the previous financial year).

As part of its short-term securities issuance program (ECP), AFL carried out several ECP issuances during the period in both euros and foreign currencies in order to optimize AFL's cash management.

These issues were carried out under favorable conditions at a rate lower than the ECB deposit rate.

The average amount of ECP outstanding over the period totaled €156 million.

8. Loan production

As regards the production of medium- and long-term loans for 2021, AFL is continuing with a target set at €1 billion. At June 30, 2021, production over the period with member local authorities amounted to €289 million, for 103 loan agreements with an average maturity of 21 years. To this is added a production of €72.5 million cash loans.

At the end of the half-year, outstanding customer loans, expressed under French GAAP, amounted to €3,868 million in loans made available and €315 million in financing commitments, for total commitments of €4,183 million, which also includes cash loans.

Although seasonal and generally concentrated in the second half of the year, recourse to borrowing by local authorities was a little more dynamic in the first half of 2021 than it had been in previous years, despite the ongoing health crisis.

Of note is the €68 million in 30-year financing to the Syndicat Mixte de Traitement des Déchets de la Région Sud et Ouest de la Réunion, following its membership in the AFL Group at the time of the twenty-eighth capital increase on March 23, 2021. These sums contribute to the financing of a project to set up a multi-channel waste treatment and recovery management tool covering the needs of more than 60% of the population of Réunion.

9. Membership

During the first half of the 2021 financial year, the AFL Group closed two capital increases, in which 42 new local authorities acquired a stake in AFL-ST, raising the number of shareholders of the Group's parent company to 453.

These 42 new member authorities include two regions: the Grand Est region, which joined the AFL Group during the twenty-eighth capital increase closed on March 23, 2021, and the Bourgogne-Franche-Comté region, itself a participant in the AFL Group. the twenty-ninth capital increase closed on June 24, 2021. These two regions become the third and fourth metropolitan regions, after Pays de la Loire and Occitanie, to join the AFL Group, helping to strengthen its presence in these regions.
Secondly, seven unions joined the AFL Group in the first half of 2021. In addition to Ileva, the Syndicat intercommunal d'adduction en eau potable de Combloux-Domancy, the Syndicat Intercommunal des Eaux de Montigny-sur-Chiers et Villers-la-Chèvre, the SIVOM Saudrune Ariège Garonne, the Syndicat Mixte des Eaux Tarn et Girou and the Syndicat Mixte des Eaux Sommerviller Vitrimont are now members of the AFL Group. Lastly, the new members include the PETR du Segréen d'Anjou (Territorial and Rural Balance Cluster), which is a public establishment that brings together several public institutions of inter-municipal cooperation within a given territorial perimeter in the form of a mixed union.
Lastly, a new EPT, the Établissement public territorial Grand Paris - Grand Est (EPT GPGE), also joined during the period, bringing the total number of EPT members of the AFL Group to 6 out of a total of 12. Finally, 32 new municipalities also joined the AFL Group during this period, including the City of Arras.

At June 30, 2021, the share capital of AFL-ST rose to €199,685,000 and the share capital of AFL rose to €190,450,000. On the same date, committed capital reached €233 million compared to a target of €230 million in the business plan for 2021.

The table below presents a breakdown of the share capital and voting powers by category of local authority at June 30, 2021, following the 29th capital increase.

Figures in € thousands	Number	Committed capital	Paid-up capital	Voting powers
Region	5	49 422	24 634	12,34%
Department	11	33 903	30 071	15,06%
Municipality	338	51 708	49 287	24,68%
EPCI (groupings of municipalities)	99	98 283	95 693	47,92%
Metropolis	*12*	*68 315*	*68 315*	*34,21%*
Territorial public entities	*6*	*6 077*	*4 807*	*2,41%*
Urban communities	*5*	*3 546*	*3 494*	*1,75%*
Suburban communities	*23*	*7 842*	*7 083*	*3,55%*
Municipality communities	*40*	*1 606*	*1 448*	*0,73%*
Other groupings	*13*	*10 896*	*10 546*	*5,28%*
TOTAL	453	233 316	199 685	100%

10. Governance

- *AFL Supervisory Board*

At its meeting of February 4, 2021, the AFL General Meeting of Shareholders ratified the co-option of Mr. Sacha Briand as a member of the Supervisory Board, and appointed Ms. Sophie L'Hélias as a member of the Board of Directors. A Supervisory Board meeting held on the same day following the General Meeting appointed Sophie L'Hélias as a member of the AFL's Appointments, Remuneration and Corporate Governance Committee (ARCGC).

The terms of office of the members of the Supervisory Board expiring at the end of the Annual General Meeting of Shareholders, and Mr. Daniel Lebègue and Mr. Jacques Pélissard (due to their age) and Ms. Mélanie Lamant (for personal reasons) based on their wish not to apply for the reappointment within the AFL Group, the AFL General Meeting of Shareholders held on May 6, 2021:

- Reappointed, for the statutory term of four years, the terms of office of the members of the Supervisory Board whose terms were then expiring: Mr. Lars Andersson, Ms. Victoire Aubry, Mr. Sacha Briand, Mr. François Drouin, Mr. Nicolas Fourt, Mr. Olivier Landel, Mr. Rollon Mouchel-Blaisot, and Ms. Carol Sirou; and
- Appointed two new members of the Supervisory Board, for the statutory term of four years, namely, Ms. Pia Imbs, and Ms. Barbara Falk.

The AFL Supervisory Board, which met on May 6, 2021 at the end of the General Meeting of Shareholders, appointed:

- As regards the Chairman of the Board:
  - Mr. Sacha Briand as Chairman of the Supervisory Board,
  - Ms. Pia Imbs as Vice-Chair of the Supervisory Board.

- For the Audit and Risk Committee:
  - Mr. François Drouin, as a member and Chairman of the Committee;
  - Ms. Victoire Aubry, as a member of the Committee;
  - Ms. Carol Sirou, as a member of the Committee;

- Mr. Olivier Landel, as a member of the Committee.

- **For the Appointments, Remuneration and Corporate Governance Committee:**
  - Ms. Sophie L'Hélias, as a member and Chair of the Committee,
  - Mr. Rollon Mouchel-Blaisot, as a member of the Committee,
  - Mr. Olivier Landel, as a member of the Committee,
  - Ms. Carol Sirou, as a member of the Committee.

- **For the Strategy Committee:**
  - Mr. Lars Andersson, as a member and Chairman of the Committee,
  - Ms. Barbara Falk, as a member of the Committee,
  - Mr. Olivier Landel, as a member of the Committee,
  - Mr. Nicolas Fourt, as a member of the Committee.

With these changes, the composition of the AFL Supervisory Board is as follows:

	Independence[3]	Specialized committees		
		Audit and Risk Committee	Appointments, Remuneration and Corporate Governance Committee	Strategy Committee
Mr. Sacha Briand Chairman of the Board				
Ms. Pia Imbs Vice-Chairwoman of the Board				
Mr. Lars Andersson	▲			■
Ms. Victoire Aubry	▲	◊		
Mr. François Drouin	▲	■		
Mr. Nicolas Fourt	▲			◊
Ms. Barbara Falk				◊
Mr. Olivier Landel		◊	◊	◊
Mr. Rollon Mouchel-Blaisot			◊	
Ms. Carol Sirou	▲	◊	◊	
Ms. Sophie L'Hélias	▲		■	

■ Chairman of the Committee
◊ Committee members

III. Results of the period for AFL

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

[3] The independence of the members of the Supervisory Board meet the criteria of the Afep-Medef Code, as detailed in the report on corporate governance appended to the annual report.

AFL has decided to voluntarily prepare financial statements according to IFRS for the period ending on June 30, 2021, which are commented on in this report

1. Individual AFL financial statements according to French GAAP

The first half of 2021 marks a further increase in net banking income, which is part of the Company's development path in accordance with the objectives of the 2017-2021 strategic plan. Net banking income generated by the activity stands at €7,585K It corresponds to an interest margin of €6,312K, to capital gains on the disposal of investment securities of €608K after taking into account the result of ending the hedging relationship which relates to the management of the liquidity reserve, €1,381K of capital gains on the disposal of loans, net of the balancing payment on the termination of hedging swaps and commissions, and -€724K of impairments on investment securities.

These results should be compared with those of the first half of 2020 in which the NBI amounted to €6,413K, corresponding mainly to a net interest margin of €6,221K, to capital gains on the disposal of securities of €83K after taking into account the profit (loss) of ending the hedging relationship, to commission charges of €12K and a reversal of impairment of investment securities of €97K.

In accordance with the prudence principle that governs French accounting standards, impairments on investment securities during the first half of 2021 were €724K. However, these provisions are not indicators of proven counterparty risk; they represent only 0.07% of the outstandings concerned.

- The composition of the interest margin of €6,312K at June 30, 2021 has changed significantly with the arrival of negative interest rates and in particular the fall in the three-month Euribor rate against which the largest part of AFL exposures is swapped. During the first half of the year, the yield on some of the loans became negative, due to the continued decline in three-month Euribor into negative territory, leading to a squeeze in income from the loan portfolio to €1,987K, once restated for hedges, compared to €3,741K at June 30, 2020. However, this squeeze is only apparent because outstanding loans continue to increase with a constant credit margin against the cost of debt. Indeed, this squeeze is to be compared with the sharp increase in income from debts on the balance sheet, which are swapped against three-month Euribor and amounted to €8,692K at June 30, 2021 compared to €4,140K at June 30, 2020, after taking into account interest on hedges. The fall in rates leads to a reversal of flows, with expenses becoming income and income as expenses. As regards the income related to the management of the liquidity reserve, it is an interest expense of -€4,370K, compared to -€1,661K at June 30, 2020. This deterioration is due to the increase in the amount of the liquidity reserve and, above all, to the continued decline in the three-month Euribor rate into negative territory.

During the period, portfolio management of the liquidity reserve generated a net income of €2,027K on the disposal of short-term investment securities and a loss of -€1,417K on the cancellation of interest rate hedging instruments on the securities sold, i.e. a net capital gain of €600K.

The item "Other banking income" for €2,146K, corresponds to capital gains on the disposal of loans. During the financial year, AFL sold a number of fixed-rate loans that it had held for a long time intended to replace its equity. The cost of terminating the hedging swaps for these loans for €597K and sale commissions of €168K should be deducted from these capital gains. In total, these disposals generated net proceeds of €1,381K.

At June 30, 2021, general operating expenses, after transfers of administrative expenses, amounted to €5,801K compared to €5,148K at June 30, 2020. They amounted to €2,761K in personnel costs, compared to €2,486K for the first half of the previous financial year, and €3,040K for administrative expenses after transfers and re-invoicing to Société Territoriale, compared to €2,662K for the first half of 2020. This increase in administrative expenses is mainly due to the increase in fees for information systems, which rose from €801K at June 30, 2020 to €965K at June 30, 2021 due to the commissioning of the new market IS, and of taxes, duties and mandatory bank contributions which increased from €530K at June 30, 2020 to €604K at June 30, 2021.

The increase in the transfer of administrative expenses from €541K at June 30, 2020 to €1,009K at June 30, 2021 is due to the increase in the rating fees of debt issues due to an increase in the volume of issues carried out during the first half of 2021 compared to the first half of 2020.

The net income at June 30, 2021 takes into account depreciation and amortization expenses, which amounted to €366K over the period, compared to €644K for the first half of 2020. In fact, in 2020, AFL had finished amortizing all of the investments made at its creation, particularly in information systems, which were necessary to start its activities.

After depreciation and amortization, gross operating income at June 30, 2021 stood at €1,418K, compared to €621K for the first half of 2020.

After taking into account the capital gains of €8K related to the disposal of investment securities that were close to maturity, the net income of AFL at June 30, 2021 was €1,427K compared to €600K for the first half of the previous financial year.

In accordance with the reporting practices of financial institutions, earnings for the financial year are presented in the paragraph below in accordance with IFRS.

The difference between French GAAP and IFRS relates mainly to deferred tax assets not recognized in French GAAP, hedge accounting, restatements relating to IFRS 16 on leases, and the recognition of ex-ante impairment of the securities and loan portfolio.

Transition from French GAAP to IFRS

Transition from French GAAP to IFRS (In thousands of euros)	30/06/2021
Net profit - French GAAP	**1426**
IFRS restatements	
Cancellation of provisions for unrealized losses on investment securities	724
Ineffective hedging of financial instruments	44
IFRS 9 restatements (JV securities through OCI, loans and bank accounts)	-273
Deferred tax adjustments	-199
Other adjustments	46
Net profit under IFRS	**1770**

2. AFL financial statements according to IFRS

The first half of 2021 marks a further increase in net banking income, which is part of the Company's development path in accordance with the objectives of the 2017-2021 strategic plan. Net banking income generated by the activity stands at €8,406K. It corresponds to an interest margin of €6,357K, capital gains on the disposal of portfolio securities at fair value through OCI of €608K after taking into account the net income from the termination of the hedging relationships relating to the management of the liquidity reserve, to capital gains on loan disposals of €1,381K net of the balancing payment for cancellation of hedging swaps and commissions, and to net income from hedging revaluations of €44K.

These results should be compared with those of the first half of 2020 in which the NBI amounted to €6,088K, corresponding mainly to a net interest margin of €6,274K, to capital gains on the disposal of securities of €83K, to commission charges of €12K and to net loss from hedging revaluations of €81K.

The interest margin of 6,357 thousand euros, realized at June 30, 2021, has seen a significant change in its composition since the arrival of negative interest rates and in particular the fall in the three-month Euribor rate against which the largest swap is swapped. part of AFL exposures. During the first half of the year, the yield on some of the loans became negative, due to the continued decline of the three-month Euribor in negative territory, leading to a contraction of revenues from the portfolio of loans to €1,987K once restated for their hedges, compared to €3,741K at June 30, 2020. However, this contraction is only apparent as the outstanding credit continues to increase with a constant line of credit against the average cost of debt. Indeed, this contraction is to be compared with the sharp increase in revenues from on-balance sheet debt swapped against the three-month Euribor, which amounted to €8,692K on June 30, 2021 compared to €4,138K on June 30, 2020. after taking into account interest on the covers. The fall in interest rates thus leads to a reversal of flows, with expenses becoming income and income as expenses.

As regards the income related to the management of the liquidity reserve, they constitute an interest expense of -€4,322K, compared to -€1,605K at June 30, 2020. This deterioration is due to the increase in the amount of the liquidity reserve and, above all, to the continued decline in the three-month Euribor rate.

During the first half of the year, the liquidity reserve portfolio management generated net income of €2,027K on the disposal of securities at fair value through OCI and €1,417K of expenses on the termination of interest rate hedging instruments on the securities sold, i.e. net capital gains of €600K. To this amount was added a gain of €8K on disposals of securities at amortized cost.

The disposal of loans during the period also generated capital gains of €2,146K from which the cost of terminating the hedging swaps must be deducted for €597K and commissions on the disposal of €168K, i.e. a total net amount of €1,381K.

Net income from hedge accounting came to -€1,979K. It is made up of two items : on the one hand expenses for the termination of interest rate hedges related to the aforementioned disposals of securities and loans for -€1,426K and -€597K respectively, i.e., a total of -€2,023K, and on the other hand an amount of €44K, which represents, for the instruments still in the portfolio at the balance sheet date, the sum of the fair value differences of the hedged items and of their hedging instruments. Among these differences, -€230K relate to valuation differences on interest rate hedging instruments classified as macro-hedges €274K relates to valuation differences on interest rate hedging instruments classified as micro-hedges and denominated in euro. Thus, latent valuation differences remain as hedge inefficiencies between the hedged items and the hedging instruments, one of the components of which stems from a market practice leading to a valuation asymmetry between, on the one hand, hedging instruments collateralized on a daily basis and discounted on an €STR yield curve and, on the other hand, hedged items discounted on a Euribor yield curve. However, it should be noted that this corresponds to unrealized income.

At June 30, 2021, general operating expenses represented €5,724K compared to €4,918K at June 30, 2020. They amounted to €2,761K in personnel costs compared to €2,486K for the first half of the previous financial year. General operating expenses also include administrative charges, which amounted to €2,962K, after transfers and re-invoicing to Société Territoriale, compared with €2,432K at June 30, 2020. General operating expenses also include administrative charges, which amounted to €2,882K versus €2,364K at June 30, 2020. This increase results in part from a three-year catch-up of inflation on fixed salaries, the provisioning of the first payment of the profit-sharing scheme, an increase in IT expenses, and an increase in taxes and duties from €530K at June 30, 2020 to €604K at June 30, 2021, mainly due to the increase in contributions to regulatory authorities.

Depreciation and amortization charges at June 30, 2021 amounted to €443K compared with €871K at June 30, 2020, i.e. a decrease of €428K. In fact, in 2020, AFL had finished amortizing all of the investments made at its creation, particularly in information systems, which were necessary to start its activities. Depreciation and amortization charges take into account the application of IFRS 16 on the commercial lease between AFL and Société Territoriale for the AFL registered office at 112 rue Garibaldi in Lyon.

After depreciation and amortization charges, gross operating income at June 30, 2021 stood at €2,239K, compared to €299K for the first half of the previous financial year.

The cost of risk relating to ex ante impairments for expected losses (expected credit losses - ECL) on financial assets under IFRS 9 represents a charge of €273K in the first half of 2021 compared to -€453K in the first half of 2020. This decrease in provisions is mainly due to the modification of the assumptions used to construct the macro-economic scenarios by asset class in order to take into account an exit from the crisis. The stock of impairments stood at €1,049 thousand at June 30, 2021.

After deducting the cost of risk resulting from the application of IFRS 9, the operating income at June 30, 2021, amounted to €1,967K, compared to -€155K at June 30, 2020. Lastly, after taking into account deferred taxes on temporary differences, net income amounted to €1,770K compared to a loss of -€24K at June 30, 2020.

IV. Assets as at June 30, 2021 (IFRS)

AFL's assets are mainly composed of loans to local authorities, securities resulting from investing the liquidity reserve, AFL's bank accounts, margin calls made to swap counterparties and the fair value of hedging derivative instruments. At June 30, 2021, a steadily growing portion of AFL's assets consisted of loans to member local authorities. The significant increase in deposits made by AFL with the Banque de France is the result of several fundraisings during the period, pending future disbursements as part of the loan production and the pre-financing, in accordance with AFL's liquidity policy, of a debt maturing in March 2022. As a result, the percentage of liquidity net of undisbursed credit commitments compared to the balance sheet total amounted to 30% at June 30, 2021 compared to 20% as at December 31, 2020.

Excerpts of main assets (IFRS)

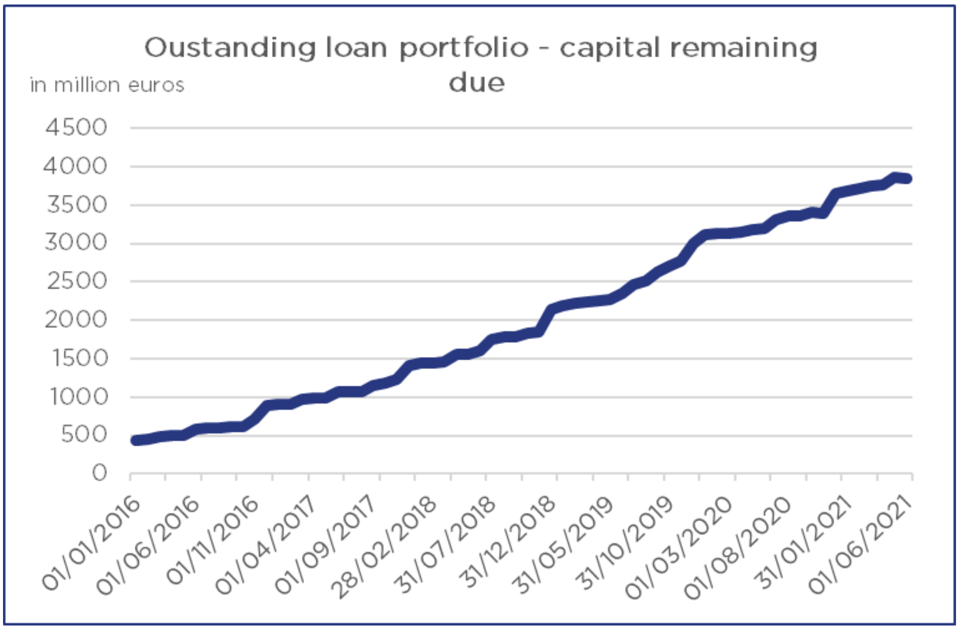
In thousands of euros	30/06/2021	31/12/2020	30/06/2020
Loans and customer transactions	3 945 227	3 858 260	3 438 249
Securities at fair value through other comprehensive income	788 406	614 697	518 012
Securities held at amortized cost	189 077	166 864	190 546
Loans and receivables due from credit institutions	165 836	196 955	139 883
Margin calls	54 296	49 954	88 630
Cash and central banks	1 134 267	601 746	448 057
Hedging derivative instruments	166 550	211 916	179 899

1. Loans to local authorities

AFL exclusively lends to French local authorities that are shareholders of Société Territoriale. As at June 30, 2021, the loan portfolio recognized among assets on AFL's balance sheet represents an outstanding amount of €3,945 million compared to €3,858 million at December 31, 2020 after taking into account the impact from changes in interest rates (change in the fair value of the hedged rate component) due to hedge accounting. To have an overall view of AFL's outstanding loans, this portfolio must be supplemented by loans signed but not disbursed that are shown as off-balance sheet items. As of June 30, 2021, the amount of financing commitments recorded in the off-balance sheet amounted to 315 million euros compared to 399 million euros as of December 31, 2020. As a result, all credit commitments to local authorities carried by AFL amounted to €4,260 million at June 30, 2021, compared with €4,257 million at December 31, 2020.

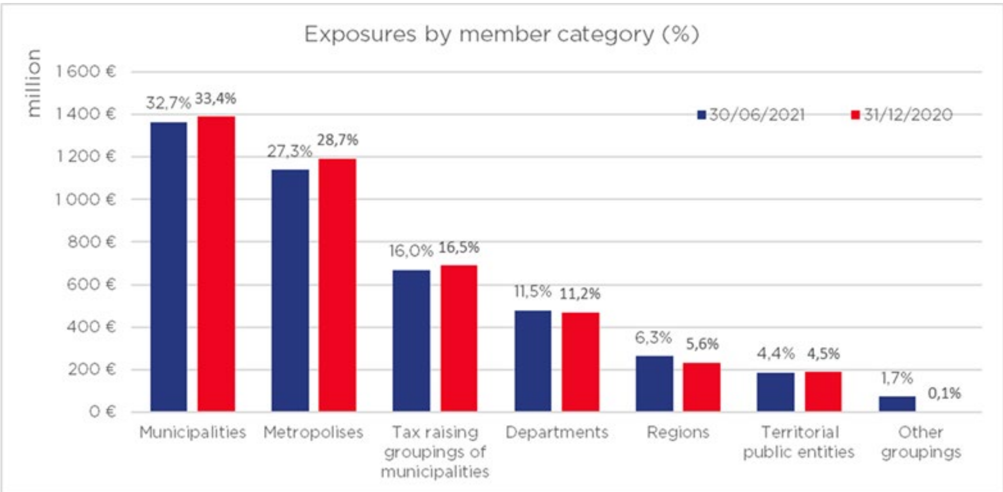
The monthly change in the outstanding principal of the medium- and long-term loan portfolio is shown in the graph below.

Growth in outstanding loans



As at June 30, 2021, 76.1% of the loan portfolio consisted of exposures to the entire municipal block, compared with 78.6% at December 31, 2020. Exposure to departments increased from 11.2% at December 31, 2020 to 11.5% at June 30, 2021, and exposure to regions went from 5.6% at December 31, 2020 to 6.3% at June 30, 2021. Lastly, that on FTEs was stable at 4.4% as of June 30, 2021 compared to 4.5% as of December 31, 2020 and the mixed unions which joined as members of the AFL Group in 2020 represented 1.7% as of June 30, 2021 compared to 0.1% compared to December 31, 2020.

Breakdown of exposures by type of local authority member



Among the other characteristics of the loan portfolio, it is worth noting the stability of the residual maturity of the outstanding credit, which amounts to 15 years at June 30, 2021.

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, which are generated by the credit activities, the debt service and the margin calls that AFL may have to handle due to the significant use of interest rate and currency risk hedging instruments in accordance with its financial policies and management objectives. This liquidity is invested and may be mobilized under any circumstances.

At June 30, 2021, the assets comprising the liquidity reserve amounted to €2,278 million, compared to €1,580 million at December 31, 2020, an amount corresponding to more than 12 months of cash flow requirements. The increase in the liquidity reserve during the first half of 2021 stems, in accordance with its liquidity policy, from the pre-financing 12 months before its maturity date of March 20, 2022, of the first bond issued by AFL at the start of its activities.

This liquidity reserve is divided into three main segments:

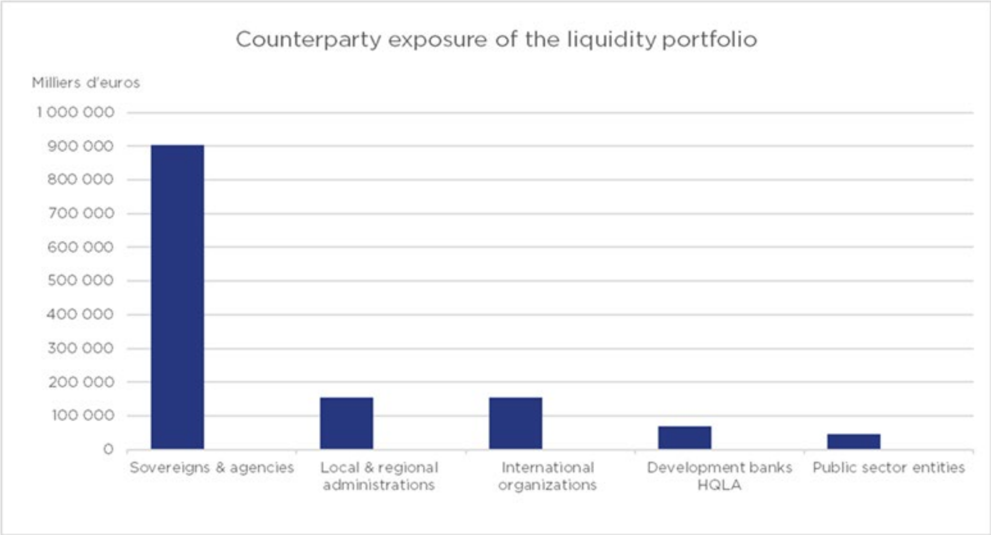
- A segment invested in very short-term instruments, and mainly comprising deposits on nostro accounts with Banque de France of €1,185 million;
- One-month term deposits totaling €115 million; and
- A segment consisting mainly but not exclusively of HQLA[4]-accredited securities, due to their high rating and high degree of liquidity of €977 million.

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 June 30, 2021, 81.6% of the liquidity reserve was comprised of so-called "HQLA" assets mainly sovereigns and public agency issuers as shown in the graph below. The other exposures consisted mainly of nostro accounts and a few exposures in securities on the banking sector. The securities acquired as part of the liquidity reserve are 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.

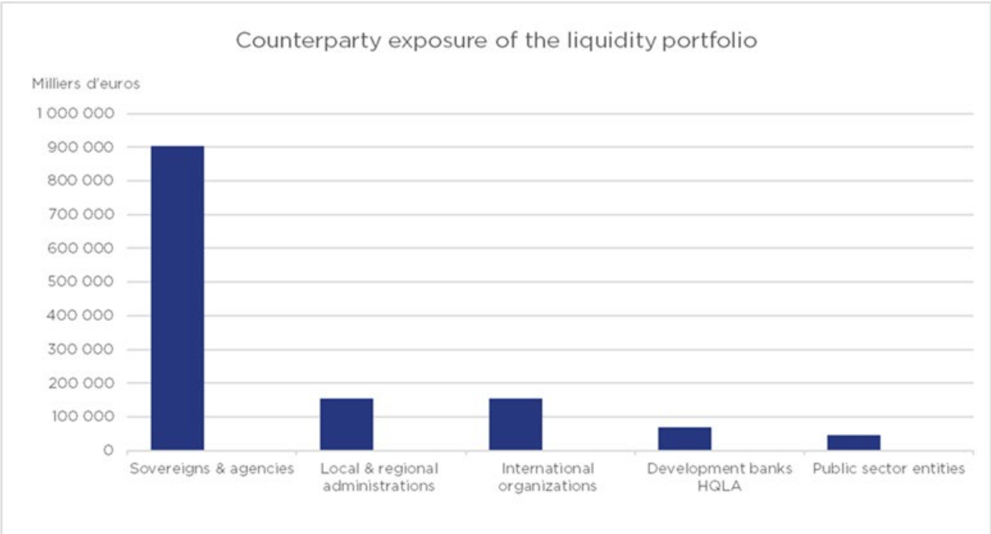
[4] High Quality Liquid Assets.

Breakdown of liquidity reserve exposures by type of counterparty[5]



As shown in the graph below, the assets making up the liquidity reserve relate mainly to French issuers but also European and international issuers to a more limited extent. However, the share of France includes deposits with the Banque de France and nostro accounts, which increases the weight of France in the geographical distribution of the liquidity reserve.

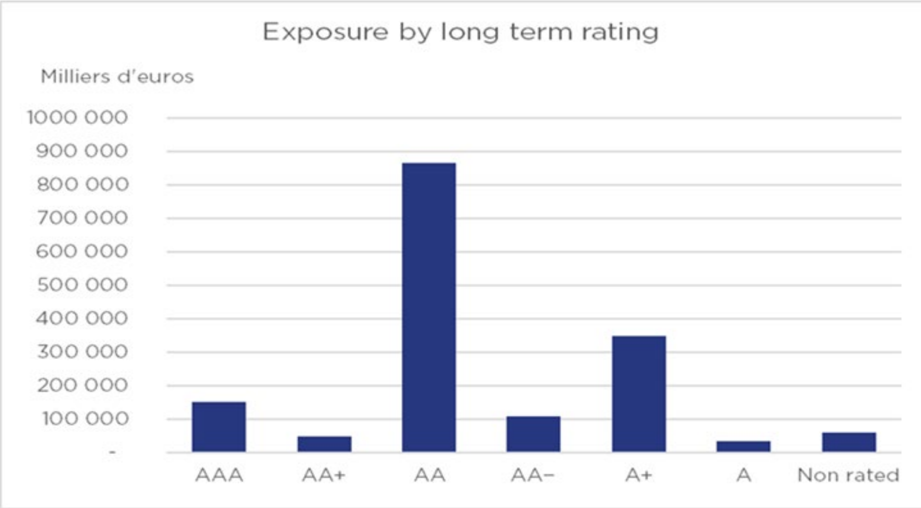
Breakdown of liquidity reserve exposures by country



The rating of all the exposures that AFL carries in its liquidity reserve remains very high, with 85.5% rated AA- and above.

[5] "Promotional" banks or public development credit institutions (defined by the European Commission's Delegated Act on the LCR liquidity coverage ratio of October 10, 2014) are categories of financial institutions eligible for the HQLA rules in view of their particular characteristics.

Breakdown of liquidity reserve exposures by rating



3. Margin calls and valuations of hedging swaps

Excluding loans to local authorities and liquidity reserve assets, the balance of financial assets on AFL's balance sheet consists of the positive fair value of interest rate and currency swaps and related margin calls, mainly to the clearing house LCH Clearnet, as AFL offsets virtually all of its production of interest rate derivatives, and to AFL's bank counterparties for a very limited portion. These margin calls amounted to €54.3 million at June 30, 2021 compared to €50 million at December 31, 2020. This amount must be increased by the guarantee deposits (IMR) covered by securities with the clearing house for €58 million at June 30, 2021 compared to €58.8 million at December 31, 2020. Despite the increase in the size of the balance sheet, this amount remains stable. Its change is rather sensitive to the fall in interest rates and to the flattening of the yield curve, given a structural fixed-rate paying position, as well as to the rise of the euro against other currencies in the case of currency swaps. At the same date, margin calls received amounted to €1.4 million compared to €8.2 million at December 31, 2020.

At June 30, 2021, the fair value of AFL's hedging swaps broke down as follows:

	30/06/2021	
In thousands of euros	nominal value	market value
Interest rate swaps	11 519 071	-54 079
Currency swaps	473 143	-660
Total	11 992 214	-54 739

- **Securitization**

AFL has no exposure to securitization.

V. Debts and capital as at June 30, 2021 (IFRS)

In addition to equity capital, AFL's liabilities are mainly composed of bond issues, which have been executed since the beginning of AFL's banking activities and not amortized in the meantime. Liabilities may also include debt securities issued under the AFL's ECP program.

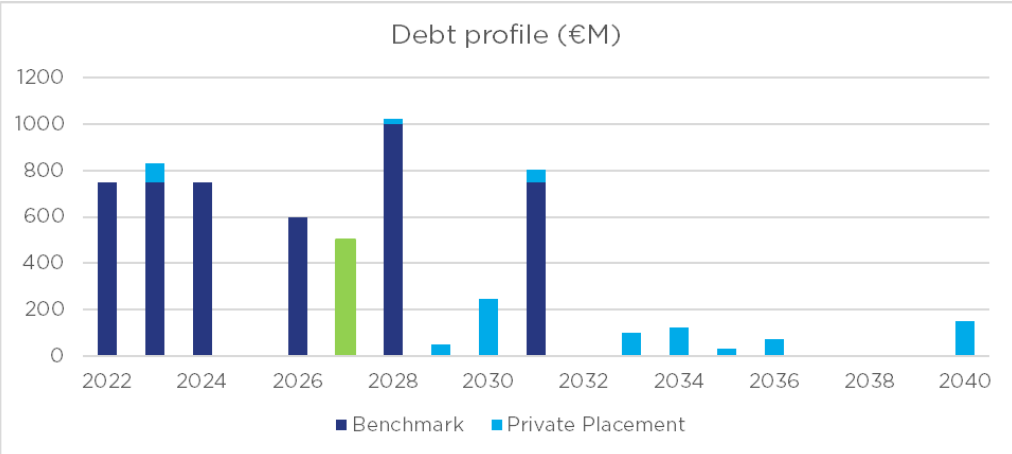
At June 30, 2021, AFL's outstanding debts consisted of the following issues:

- Seven medium- and long-term public issues denominated in euros, for an outstanding amount of €5.1 billion;
- Nine private placements denominated in euros for a total of €450 million;
- A private placement denominated in US dollars for an amount of US $100 million;
- A private placement denominated in SEK for an amount of SEK 500 million; and
- Three private placements in Australian dollars for an amount of AUD 240 million.

At June 30, 2021, the outstanding medium- and long-term debt had an average maturity of 5.7 years.

In addition to these medium- and long-term debt instruments, short-term debt securities denominated in euros and US dollars were outstanding for a total of €149 million at June 30, 2021.

AFL's debt maturity profile is shown in the graph below:



As at June 30, 2021, the net carrying value of the debt stood at €6,052 million, after taking into account, in the amortized cost, the consequences of the changes in interest rates since issue date, under the rules of hedge accounting. The carrying value of the debt portfolio as of December 31, 2020 was €5,296 million. This increase reflects the increase in the AFL's balance sheet resulting from the development of AFL's activities and is consistent with a prudent strategy of having at all times the necessary resources to cover all of AFL's operational needs at twelve months without recourse to the market.

At the end of the two capital increases carried out after 42 new local authorities became AFL-ST members during the first half of 2021, the amount of AFL subscribed capital totaled €190,450,000 at June 30, 2021 compared to €168,400,000 at December 31, 2020. After taking into account retained earnings, equity capital amounted to €173.7 million at June 30, 2021 compared with €149.7 million at December 31, 2020.

Excerpts of the main liabilities

In thousands of euros	30/06/2021	31/12/2020
Debt securities issued	6 052 310	5 295 982
Equity	173 670	149 728

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

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

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

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

1. Strategic risks

A. The economic consequences of the Covid-19 epidemic could adversely impact AFL’s activity and financial performance.

In December 2019, a new strain of coronavirus (Covid-19) appeared in China. The virus has spread out to many countries becoming pandemic in March 2020. Very significant health measures have been taken in many countries to combat the spread of the virus. They have had and continue to have significant direct and indirect impacts on the overall economic situation and financial markets.

To date, the pandemic is not under control. In the first half of 2021, the roll-out of vaccination slowed its spread. At the same time, more contagious variants have emerged. New health measures were announced which weighed on the economic recovery and financial markets.

This situation could generate pressure on the sovereign spreads, including that of France, to which the AFL spread is linked, for several reasons.

- Government-funded stimulus measures have put a strain on public finances, leading to a rise in public debt. These debt levels weaken the financial position of the States.
- The end of extraordinary asset buyback programs by central banks would require purchases of public debt be made by private market participants within a certain timeframe.
- Even if, over the long term, inflation has the mechanical effect of reducing the real weight of debt burdens, inflationary pressures, if they were to materialize, could weigh on the budgetary balances of the States, in particular those with limited fiscal room to maneuver.

To date, the health crisis has had a limited effect on the French local authority financing market, which is the market in which the AFL conducts all of its lending operations. Should the health crisis continue, further impacts cannot be ruled out.

- In 2021, the health crisis led to the postponement of departmental and regional elections from March to June 2021. It had a direct impact on local budgets in 2020, but in proportions that were generally bearable.
- The consequences on local public investment and recourse to borrowing by local authorities are still uncertain. However, the role of local authorities in the recovery plan should not lead to a decline in public investment. The institutional rules governing the financial management of local authorities (the “golden rule”) limit and will continue to limit the debt of the local public sector and should protect the financial health of local authorities, without ruling out that certain local authorities may be excluded or categories of local authorities directly exposed to the health crisis will face difficulties.

This context led to an increased, albeit limited, cost of risk for AFL in the first half of 2021. This increase reflects the impact of ex-ante provisioning for expected losses under IFRS 9 related to the health crisis. The cost of risk amounted to €273,092 for the first half of 2021 for a stock of provisions of €1,049K on all outstandings and corresponds to 1.6 basis points of exposures compared with 1.4 basis points at December 31, 2020.

To the extent the pandemic is not controlled, the level of provisioning is likely to increase in the future.

Uncertainty about the continuation of the Covid-19 pandemic makes it difficult to predict the impacts that could adversely affect AFL's business and financial performance. The exact impact on AFL will depend primarily on the strength of the economic recovery and support measures taken by governments and central banks, and the ability of players to adapt to the situation.

B. The economic, financial, political and health context of the markets in which AFL conducts its activities or its financing may have a significant impact on its financial position of and its net income.

AFL, which funds itself in the international financial markets, would be strongly impacted by a significant deterioration in market conditions and the global economic environment, which could result from crises affecting the capital or credit markets, or from liquidity constraints, regional or global recessions, significant volatility in interest rates or exchange rates, a sovereign default, the downgrading of France's rating, on which the rating of Member Authorities depends, both as guarantors of AFL borrowings in the financial markets and as counterparties of the AFL for the medium-long-term loans granted to them, Brexit, pandemics or climate change (also refer to the risk factor "A. The economic consequences of the Covid-19 epidemic could adversely impact AFL's activity and financial performance").

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

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

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

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

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

Existing and/or growing competition in the local public sector financing market, resulting in particular from players such as the LBP-SFIL-CAFFIL group, CDC, EIB and the BPCE group, could lead to (i) a sharp reduction in AFL's profit margins and (ii) very limited new loan production for AFL, which would adversely impact AFL's net banking income.

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

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

A lack of interest from local authorities could delay the acquisition by AFL of the equity necessary to develop its activity, and in the absence of sufficient ICC payments, jeopardize its sustainability.

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

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

AFL was approved by the French Prudential Supervision and Resolution Authority (ACPR) on January 12, 2015 as a specialized credit institution. This approval is essential for AFL to carry out its activities, subjecting it to a certain number of regulatory requirements, including the obligation to comply with specific legal provisions and prudential ratios.

Changes in the regulatory framework may disrupt the forecasts made by AFL as part of its business plan, strengthen some of its obligations and adversely impact its net income.

Directive 2014/59/EU of May 15, 2014, as amended (the "**RRD**"), and Regulation no. 806/2014 of July 15, 2014, as amended by Regulation (EU) 2019/877 of May 20, 2019 regarding the single resolution mechanism (the "**SRM**"), establish a framework for the recovery and resolution of credit institutions and investment firms that is intended to allow for a broad range of actions that can be taken by the relevant regulatory authorities in relation to credit institutions and investment firms that are considered to be at risk of default. The objective of the RRD is to provide resolution authorities, including the ACPR in France, with common and effective tools and powers to preventatively address banking crises, preserve financial stability and minimize taxpayers' exposure to losses. The resolution powers granted to the authorities by the RRD and the SRM are divided into three categories: (i) powers to take preparatory measures and make plans to reduce the risk of potential problems occurring; (ii) if problems emerge at an institution, powers to stop the deterioration of the situation so as to avoid insolvency; and (iii) if the insolvency of an institution is a matter of public policy concern, powers to reorganize or wind down in an orderly fashion while preserving critical functions and limiting the taxpayer's exposure to losses to the extent possible.

The SRM Regulation provides for the application of several resolution instruments which may be used separately (subject to asset segregation which can only be implemented in conjunction with another resolution instrument) or together, if the resolution authority considers that (a) the failure of AFL or the Agence France Locale Group is proven or foreseeable, (b) there is no reasonable prospect that another private measure or supervisory action would prevent the failure within a reasonable timeframe and (c) a resolution measure is necessary in the public interest.

Article 22 of the SRM Regulation lists the following resolution mechanisms in particular:

- Disposal of activities - allows resolution authorities to sell either the institution itself or all or part of its business on an arm's length basis, without the consent of the shareholders and without complying with the procedural requirements that would normally apply;
- Bridge institutions - allows resolution authorities to transfer all or part of the credit institution's activities to the "bridge institution" (an entity under public control);
- Asset segregation - allows resolution authorities to transfer impaired or toxic assets to a structure that can manage and ultimately clean them up; and
- Bail-in - allows resolution authorities to write down certain subordinated and unsubordinated debt (including principal and interest on securities) of a defaulting institution and/or convert them into equity securities, the latter of which may subsequently be subject to other reduction or impairment measures. The resolution

authority must apply the impairment and conversion powers firstly to Common Equity Tier 1 instruments, then to additional Tier 1 equity instruments and finally to Tier 2 instruments and other subordinated debts to the extent necessary. If, and only if, the total reduction thus made is less than the amount sought, the resolution authority will reduce the unsubordinated debt of the institution (including the principal and interest on the Notes) by the necessary proportion.

The level of minimum capital requirement and eligible liabilities of each credit institution is determined by the resolution college on the basis of the following criteria: the need for the resolution measures taken to fully meet the objectives of the resolution; the need, where applicable, for the credit institution to have a sufficient amount of qualifying liabilities to ensure that losses can be absorbed and that the credit institution's capital requirement can be brought to the level necessary to ensure that it can continue to fulfill the conditions of its authorization and to carry out the activities for which it was authorized and so that the markets' confidence in this credit institution remains sufficient; the size, business model, financing model and risk profile of the credit institution; the negative impacts on financial stability of the default of the credit institution in question, in particular due to the contagion effect resulting from its interconnection with other institutions or with the rest of the financial system.

As the AFL resolution plan provides that a liquidation procedure be feasible and credible, in the event of foreseeable or proven failure of the AFL, the MREL requirement to be complied with is equal to the amount of loss absorption: AFL must comply at all times with a ratio of equity capital and eligible liabilities (the MREL) of 11.75% provided for in the RRD, transposed into French law by order no. 2015-1024 of August 20, 2015 and effective January 1, 2016.

The powers conferred on the resolution authorities, or the non-compliance by AFL with the MREL requirements, could have an influence on the way in which it is managed as well as on its financial position and its business plan.

Failure to comply with regulatory requirements could also force the AFL to implement one or more recovery measures or even lead to the revocation of the AFL's approval and jeopardize the long-term existence of the AFL.

2. Financial risks

A. AFL is exposed to liquidity risk in its three aspects:

- Liquidity price risk: this is the risk of a deterioration in the refinancing conditions of certain assets that could generate a loss in net banking income due to a maturity mismatch between the assets refinanced and the liabilities; this mismatch most commonly occurs with assets whose maturity is longer than the liabilities.
  At June 30, 2021, the ALT gap between AFL's assets and liabilities was -0.08 years and the NSFR ratio was 210.5%.

- Funding risk: this is the risk for the AFL of being unable to raise the liquidity needed to meet its commitments and the funding needs related to its development.
  At June 30, 2021, AFL had a liquidity reserve of €2,278 million providing it with more than 12 months of its cash flow needs[6]. The regulatory 30-day liquidity ratio (LCR) stood at 812%.

- Illiquidity risk: this is the risk of a disruption in short-term cash flow, related in particular to the risk that AFL may be unable to sell an asset on a market without loss.
  At June 30, 2021, on the only portfolio of financial assets at fair value through OCI with a net carrying amount of €788 million, the impact of gains and losses recognized directly in equity was -€67K.

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

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

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

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

Interest rate risk

Interest rate risk includes the risk that AFL will suffer losses due to unfavorable changes in interest rates due to all of its balance sheet and off-balance sheet transactions, in particular in the event of a mismatch between the interest rates generated by its assets and those arising from its liabilities.

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

AFL's interest rate hedging policy consists of micro-hedging and almost systematic macro-hedging of AFL debts, loans granted by AFL and securities held in the liquidity reserve to convert them into floating-rate instruments indexed to three-month Euribor using interest rate swaps. The hedging in place protects the AFL against a uniform rise in the yield curve and generates a liquidity risk - depending on changes in interest rates - due to margin calls as well as a credit risk on counterparty banks for swaps or the LCH Clearnet clearing house.

At June 30, 2021, the interest rate hedging strategy was reflected in an outstanding notional amount of swaps of €12.0 billion. The amount of margin calls paid, net of the amount of margin calls received, with respect to interest rate derivatives, stood at €54.7 million.

Nevertheless, there is still exposure to interest rate risk that may result in particular from (i) the use of a portion of AFL's equity capital in fixed-rate loans granted to local authorities or (ii) certain short-term positions and (iii) the difference in indexation between certain assets - in particular AFL deposits at the Banque de France paid an overnight rate and which amounted as of June 30, 2021 to €1,134 million - and the bank's liabilities.

Consequently, a change in rates could adversely impact its future net income and on the net present value of AFL.

At June 30, 2021, the sensitivity of the net present value (NPV) of AFL's equity capital was +2.3% assuming a parallel shift of more than 100 basis points and +4.6% assuming a shift of more than 200 basis points in the yield curve.

	06/30/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017	Limit
Sc. +100bp	2.3%	0.4%	-3.2%	-3.8%	-3.7%	±15%
Sc. -100bp	-2.4%	-0.3%	4.0%	4.6%	4.4%	±15%
Sc. -100bp (floor)	-0.1%	0.0%	2.0%	2.4%	2.3%	±15%
Sc. +200bp	4.6%	1.0%	-5.8%	-7.1%	-6.7%	±15%
Sc. -200bp	-4.9%	-0.3%	8.9%	10.0%	9.7%	±15%
Sc. -200bp (floor)	-0.1%	0.0%	2.0%	2.6%	2.5%	±15%

Starting in 2019, AFL implemented scenarios for calculating the sensitivity of the net present value (NPV) of its equity capital to assumptions of interest rate risk in the banking book (IRRBB). At June 30, 2021, NPV sensitivity to these various scenarios is shown in the table below.

	06/30/2021	12/31/2020	12/31/2019	12/31/2018	Limit
+200 bps parallel translation	4.6%	1.0%	-5.8%	-5.7%	±15%
-200 bps parallel translation	-4.9%	-0.3%	8.9%	8.6%	±15%
Short term interest rate increase	5.3%	3.0%	2.4%	-8.4%	±15%
Short term interest rate decrease	-5.5%	-3.1%	-2.5%	9.0%	±15%
Steepening	-3.4%	-2.7%	-5.4%	-8.2%	±15%
Flattening	4.2%	3.0%	4.8%	8.9%	±15%

During the first half of 2021, the sensitivity of AFL's net present value to various scenarios of interest rate changes remained less than 15% of equity capital.

Currency risk

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

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

At June 30, 2021, the notional outstanding amount of currency swaps stood at €473 million. The hedges implemented introduce a liquidity risk, based on margin calls sensitive to changes in currency rates, as well as a credit risk on the swap counterparty banks. The amount of margin calls received, net of margin calls paid, in respect of these hedging instruments, was €660K at June 30, 2021.

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

The credit risk of its borrowers

Pursuant to Article L. 1611-3-2 of the French General Local and Regional Authorities Code, AFL carries out its activities for the exclusive benefit of the local authorities that are shareholders of the AFL's parent company and guarantors of the debt securities issued by AFL up to the amount of their respective medium- to long-term loans outstanding (the member authorities). As of June 30, 2021, all credit commitments to local authorities carried by AFL amounted to €4,248 million.

In accordance with the Commitment and Proximity Act, the member authorities are all local and regional authorities, their associations and local public institutions.

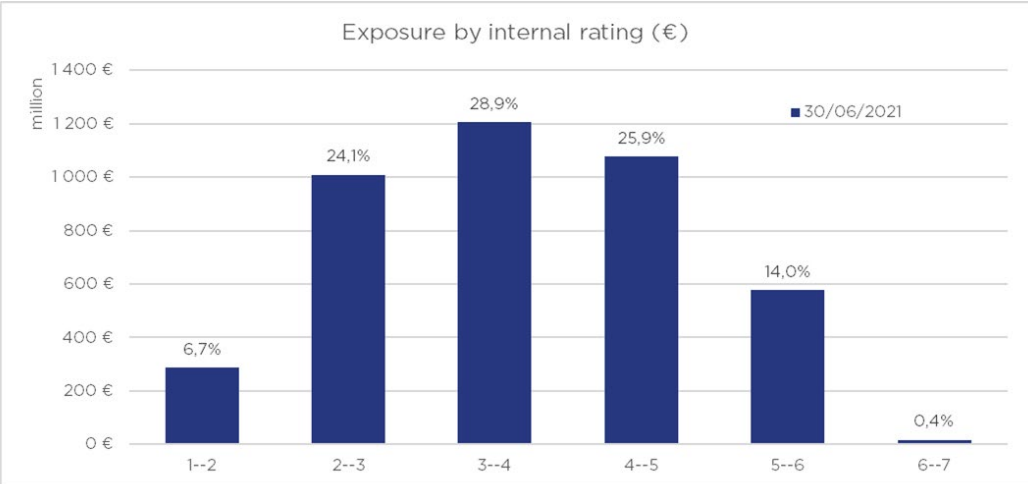
To be a member, a local authority must have a rating of more than 6 according to a methodology adopted by the Board of Directors of AFL-ST, on the proposal of the Management Board and the opinion of the Supervisory Board of AFL based on three criteria:

(i) solvency, (ii) fiscal flexibility and (iii) the debt burden of the local authority concerned. These three criteria are weighted according to their importance.

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

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

At June 30, 2021, this portfolio was more than 30% exposed to local authorities with ratings between 1 and 2.99. The five largest exposures represent 15.9% of the portfolio. The largest exposure accounts for 3.29% of the portfolio and the fifth largest for 2.56%. As of June 30, 2021, the average rating of loans made by AFL to its members, weighted by outstandings, was 3.59 on a scale of one to seven, with one being the best rating and seven being the lowest. This rating is stable over one year.



Local authorities, whether current or future members, are considered as having a very limited risk profile due to the institutional rules governing their operations, which are similar for all categories of local authority member, and consequently the credit transactions carried out by AFL have this same profile. Nevertheless, a default by a member on its obligations to AFL or on its obligations under the member guarantee cannot be ruled out. This risk has increased in the context of a deteriorated economic and financial situation such as that related to the Covid-19 epidemic. As of June 30, 2021, AFL's outstanding doubtful loans amounted to €6.46 million, i.e., 0.15% of AFL's loan portfolio. This risk has remained stable, as highlighted in the table below, in an improving economic and financial environment due to the aggressive actions taken by central banks, national governments, and donors since the onset of the Covid-19 crisis.

	30/06/2021				31/12/2020			
	Agence France Locale -SO Social - IFRS				Agence France Locale -SO Social - IFRS			
Répartition selon les catégories IFRS	Gross exposures in EUR		Provisions in EUR		Gross exposures in EUR		Provisions in EUR	
Stage 1	##########	99,7%	1 046 124	99,2%	##########	99,80%	773 362	98,92%
Stage 2	13 492 524	0,2%	6 346	0,6%	6 788 989	0,12%	5 847	0,75%
Stage 3	4 109 078	0,1%	2 452	0,2%	4 448 550	0,08%	2 623	0,34%
Total	##########	100,0%	1 054 922	100,0%	##########	100,00%	781 832	100,00%

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

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

The credit risk of its counterparties

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

The ratings of AFL's exposures are of very high quality, with over 75% of exposures rated equal to or greater than Aa2 on Moody's scale at June 30, 2021. The weighted average risk of this portfolio is 3.8%. The exposures of the liquidity reserve are heavily weighted on very low risk classes: 83% of the portfolio is invested in risk categories weighted at 0%, 15% in risk categories weighted at 20% and 2% in risk categories weighted at 50%.

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

3. Non-financial risks

AFL is exposed to non-financial risks.

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

Because of its model and the start-up context of its activities, AFL relies on a limited number of people (36 employees, including 32 permanent employees and 4 work-study students as of August 31, 2021, and one non-employee representative) to operate. The loss of one or more key persons, whether due to outside solicitation or temporary or permanent unavailability (accident, sickness) is therefore likely to have a material impact on its activity or to jeopardize its continuity. These risks have increased in the context of the Covid-19-related health crisis as mentioned in section A of the risk factors.

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

The capital requirements for operational risks amounted to €1.7 million at June 30, 2021 for the AFL Group.

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

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

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

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

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

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

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

AFL has not been the subject of any litigation with any of its counterparties during the half-year ended June 30, 2021. Nevertheless, it cannot be ruled out that litigation may arise in the context of its activities, in particular with a local authority member, which would damage AFL's reputation and could result in a loss of value for AFL.

VII. Prudential ratios and equity

1. Capital requirements

At June 30, 2021, the capital requirements that AFL-ST must meet on a consolidated basis under the solvency ratio were 9.25% - excluding countercyclical buffer requirements

- 8% applicable to all credit institutions,
- 1.25% with respect to its Pillar 2, unchanged.

A 2.5% capital conservation buffer is added to this requirement.

Since April 2, 2020 the HCSF (High Council for Financial Stability) has set the counter-cyclical buffer for France at 0%. It was previously 0.25% and was due to be raised to 0.50% from that date.

In terms of leverage ratio, AFL is a public development credit institution - within the meaning of Article 429 bis of the Regulation (EU) 2019/876 of the European Parliament and of the Council of May 20, 2019, amending Regulation (EU) No 575/2013 - is authorized to deduct from the denominator of its leverage ratio the amount of incentive loans it has granted to local authorities (see § above). On the basis of this calculation, it has been subject since June 30, 2021 to a leverage ratio requirement of 3%.

2. Prudential ratios and equity at June 30, 2021

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

At June 30, 2021, prudential capital stood at €172 million. Given the quality of credit of the assets carried by AFL, the solvency ratio reached [17%] on a consolidated basis. The AFL leverage ratio - calculated according to the methodology applicable to public development credit institutions - stood at [7%] on a consolidated basis at June 30, 2021.

Without the deduction of the incentive loans granted by AFL to French local and regional authorities, AFL's leverage ratio was [2.50%].

The solvency ratio increased from 15.13% on December 31, 2020 to [17%]. This increase is mainly due to a significant increase in the initial capital contributions paid up by the local authorities when they join the Group or paid in the following years if the local authorities opt for the gradual release of the capital. In the first half of 2021, these ICCs amounted to €23 million. The annual target was exceeded. The denominator remained stable; the increase in exposures, mainly the liquidity reserve, was offset by the increase in the quality of these assets, which reduced their average weighting to 4%.

In the future, all other things being equal, as loans are granted to new entrants, a normalization of the ratio is expected. As a reminder, the AFL has imposed a limit of 12.5% on its solvency ratio.

Solvency		
	30/06/2021	**31/12/2020**
CET1 (K€)	172 346	149 255
Solvency ratio	17,66%	15,13%
Leverage		
	30/06/2021	**31/12/2020**
Leverage ratio (CRR 2)	7,09%	8,63%
Leverage ratio (CRR)	2,62%	2,83%

VIII. Outlook for the 2021 financial year and events since the balance sheet date

In line with the 2017-2021 strategic plan, AFL continues its development with a rapid increase in the size of the balance sheet following the development of its loan activities with member local authorities and the programming of new capital increases allowing the arrival of an increasing number of new local authority members. In this regard, the health crisis did not affect the pace of new local authority members of AFL-ST. In addition to the two capital increases carried out during the first half of the year, at least one additional capital increase will be added by the end of 2021, enabling the arrival of new local authority members.

1. Financial market transactions in the second half of 2021

Since the end of the first half of the financial year, AFL has continued to implement its annual borrowing program, in particular with the completion of a private placement of SEK 2 billion with a nine year maturity, bringing the total raised in the bond markets at August 31, 2021 to €1,151.3 million.

2. Loan production in the second half of 2021

At August 31, 2021, AFL's medium- to long-term loan production amounted to €525 million for a total of €4,378 million in loan commitments. Outstanding loans on the balance sheet totaled €3,914 million and off-balance sheet financing commitments reached €464 million.

Certification of the half-yearly financial report for the six-month period ended June 30, 2021

I, the undersigned, Thiébaut Julin, acting as Chief Executive Officer, member of the Management Board, and Chief Financial Officer of Agence France Locale, certify that, to my knowledge, the financial statements for the six-month period have been prepared in accordance with the applicable accounting standards and are an accurate reflection of the assets, financial position, and net income of the Company and all of the companies included in the scope of consolidation, and that the half-yearly activity report included in this half-yearly report presents a true picture of the events that have occurred in the first six months of the year and their impact on the financial statements, and describes the principal risks and uncertainties for the remaining six months of the financial year.

Lyon, September 28, 2021,

Thiébaut Julin

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

HALF-YEARLY FINANCIAL STATEMENTS

I. Half-yearly financial statements prepared according to French GAAP

Agence France Locale S.A.

Statutory Auditors' Review Report on the interim condensed financial statements

For the six-month period ended June 30, 2021
Agence France Locale S.A.
112, rue Garibaldi 69006 Lyon

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

Agence France Locale S.A.

Registered office: 112, rue Garibaldi 69006 Lyon
Share capital: €.190 450 000

Statutory Auditors' Review Report on the interim condensed financial statements in accordance with IFRS

For the six-month period ended June 30, 2021

To the President of the Management Board,

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

- The review of the accompanying interim condensed financial statements of Agence France Locale – S.A. for the period from January 1, 2021 to June 30, 2021,
- The verification of the information presented in the half-yearly management report.

Due to the global crisis related to the Covid-19 pandemic, the condensed half-yearly consolidated financial statements have been prepared and reviewed under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of our review procedures.

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

I. Conclusion on the financial statements

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

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements do not give a true and fair view of the assets and liabilities and of the financial position of the company as at June 30, 2021, and of the results of its operations for the six-month period then ended, in accordance with the accounting rules and principles applicable in France.

II. Specific verification

We have also verified the information presented in the half-yearly management report on the interim condensed financial statements subject to our review prepared on September 13th, 2021. We have no matters to report as to its fair presentation and consistency with the interim condensed financial statements.

Paris La Défense, September 27th, 2021	Paris, September 27th, 2021
KPMG S.A.	Cailliau Dedouit et Associés
Ulrich Sarfati *Partner*	Sandrine Le Mao *Partner*

AGENCE FRANCE LOCALE

BALANCE SHEET

Assets as of 30th of June 2021

(€ '000s)	Notes	30/06/2021	31/12/2020
Cash and central banks	2	1,134,333	601,780
Government paper and similar securities	1	960,325	755,005
Receivables on credit institutions	2	165,676	196,865
Loans and advances to customers	4	3,868,014	3,681,029
Bonds and other fixed income securities	1	10,007	9,985
Equities and other variable income securities			
Investments in non-consolidated companies and other long-term investments			
Investments in consolidated companies			
Intangible assets	5	2,695	2,305
Property, plant and equipment	5	143	156
Other assets	6	54,567	50,805
Accruals	6	75,307	74,532
TOTAL ASSETS		**6,271,067**	**5,372,461**

Liabilities as of 30th of June 2021

(€ '000s)	Notes	30/06/2021	31/12/2020
Central banks		202	142
Due to banks	3	16	24
Customer borrowings and deposits			
Debt securities	7	5,977,538	5,116,009
Other liabilities	8	4,430	11,030
Accruals	8	120,264	100,119
Provisions	9	65	65
Subordinated debt			
General banking risk fund (GBRF)			
Equity (excluding GBRF)	10	**168,551**	**145,073**
Share capital		190,450	168,400
Additional paid-in capital			
Reserves and retained earnings			
Revaluation differences			
Regulated provisions and investment subsidies			
Retained earnings (+/-)		(23,327)	(26,214)
Net income for the period (+/-)		1,427	2,887
TOTAL LIABILITIES		**6,271,067**	**5,372,461**

INCOME STATEMENT

(€ '000s)	Notes	30/06/2021	30/06/2020	31/12/2020
+ Interest and similar income	12	16,349	12,725	25,759
- Interest and similar expenses	12	(10,038)	(6,504)	(14,067)
+ Income from variable income securities				
+ Fee and commission income	13	87	75	186
- Fee and commission expenses	13	(240)	(62)	(255)
+/- Net gains (losses) on held for trading portfolio	14	(2,022)	(342)	(6,531)
+/- Net gains (losses) on placement portfolio	14	1,303	521	5,820
+ Other banking income	15	2,146		3,244
- Other banking expense	15			
NET BANKING INCOME		**7,585**	**6,413**	**14,157**
- General operating expenses	16	(5,801)	(5,148)	(10,090)
+ Other operating income				
- Depreciation and amortization	5	(366)	(644)	(1,160)
GROSS OPERATING INCOME		**1,418**	**621**	**2,906**
- Cost of risk				
OPERATING INCOME		**1,418**	**621**	**2,906**
+/- Net gains (losses) on fixed assets	17	8	(21)	(21)
PRE-TAX INCOME ON ORDINARY ACTIVITIES		**1,426**	**600**	**2,886**
+/- Net extraordinary items				
- Income tax charge		1		2
+/- Net allocation to FGBR and regulated provisions				
NET INCOME		**1,427**	**600**	**2,887**
Basic earnings per share		0.75	0.40	1.71

OFF-BALANCE SHEET

(€ '000s)

COMMITMENTS GIVEN AND RECEIVED	Notes	30/06/2021	31/12/2020
Commitments given		**372,819**	**457,583**
Financing commitments		314,853	398,775
Guarantee commitments		57,966	58,808
Commitments on securities			
Commitments received		**2,155**	**2,219**
Financing commitments			
Commitments received from credit institutions			
Guarantee commitments		2,155	2,219
Commitments on securities			
Derivatives	11	**11,992,214**	**10,415,784**

NOTES TO THE HALF YEAR INDIVIDUAL ACCOUNTS

I - Publication context

The half-year financial statements were approved by the Board of Directors as of September 13, 2021.

II - Highlights from the first half year

The first half of 2021 is in line with the Company's development trajectory in accordance with the objectives of the 2017-2021 strategic plan. Production over the period with member local authorities amounted to € 288.7 million compared to € 247.5 million during the first half of 2020.

On January 14, 2021, AFL carried out a new benchmark issue for an amount of € 500 million maturing 03/20/2031 under excellent conditions. This seventh benchmark issue, since the creation of the AFL, has met with unprecedented success with a request of more than € 2.2 billion by nearly 90 investors. The securities were placed with a margin of 31 basis points against the government bond curve (OAT).

In the first half of 2021, AFL-ST, pursuing its corporate purpose, subscribed to AFL capital for an amount of € 22.05 million within two capital increases, bringing the share capital of AFL from € 168.4 million euros as of January 1, 2021 to€ 190.5 million euros as of June 30, 2021. The AFL Group now has 453 members, including 42 new communities, who joined the AFL Group during the period.

Net banking income generated by the activity stands at € 7,585K. It corresponds to an interest margin of € 6,312K, to € 608K of capital gains on the sale of investment securities after taking into account the result of termination of the hedging relationship which relate to the management of the liquidity reserve, capital gains on loan disposals of € 1,381K net of the compensation for termination of hedging swaps and commissions, and depreciation of investment securities of € -724K.

These results should be compared with those of the first half of 2020 at the end of which the NBI amounted to € 6,413K, corresponding mainly to a net interest margin of € 6,221K, to capital gains on the sale of securities of € 83K after taking into account the result of termination of the hedging relationship, to commission income of € 12K and a reversal of depreciation of investment securities of € 97K.

The interest margin of € 6,312K, realized on June 30, 2021, experienced a significant change in its composition with the arrival of negative interest rates and in particular the fall in the 3-month Euribor rate against which the largest AFL exposures are swapped. Thus during the period under review, the yield of part of the loans became negative, due to the continued decline of the 3-month Euribor into negative territory, leading to a contraction of income linked to the loan portfolio to € 1,987K once their cover is withdrawn, compared to € 3,741K on June 30, 2020. However, this contraction is only apparent because the outstanding credit continues to increase with a constant credit margin against the cost debt. This contraction should be compared with the sharp increase in income from debts on the balance sheet, which are swapped against 3-month Euribor and which amounted to € 8,692K on June 30, 2021, compared to € 4,140K on June 30, 2020, after taking into account interest on hedges. The fall in rates leads to a reversal of flows, charges becoming income and income becoming charges. As regards the income linked to the management of the liquidity reserve, they constitute an interest charge of € -4,370K €, compared to the amount of € -1,661K at June 30, 2020. This deterioration is due to the increase in the amount of the liquidity reserve and above all in the continued reduction of the 3-month Euribor rate into negative territory.

In accordance with the principle of prudence which governs the reference system of French accounting standards, depreciations on investment securities were made during the first half of 2021 in the amount of € 724K. However, these provisions are not indicators of proven counterparty risk; they represent only 0.07% of the outstandings concerned.

The heading “Other banking operating income”, which represents an amount of € 2,146K, corresponds to capital gains on loan sales. In fact, the AFL proceeded during the financial year to the sale of a few fixed-rate loans that it had for a long time kept with the aim of replacing its equity. The cost of terminating the hedging swaps for these loans for an amount of € 597K and sale commissions for an amount of € 168K must be deducted from these capital gains. These operations therefore brought in a net amount of € 1,381K over the period.

As of June 30, 2021, general operating expenses, after subtracting re-invoicing and transfers of administrative expenses, represented € 5,801K compared to € 5,148K as of June 30, 2020. They account for € 2,761K in personnel costs compared to € 2,486K for the first half of the previous year and € 3,040K for administrative expenses after transfers and re-invoicing to Société Territoriale compared to € 2,662K for the first half of 2020. This increase in administrative expenses is mainly due to the increase IT fees which go from € 801K on June 30, 2020 to € 965K on June 30, 2021 due to the entry into production of the new IT market system, and compulsory taxes, fees and bank contributions which go from € 530K on 30 June 2020 at € 604K as of June 30, 2021.

The increase in administrative expenses transfers from € 541K at June 30, 2020 to € 1,009K at June 30, 2021 is due to the increase in rating fees for debt issues due to an increase in the volume of issues carried out during of the first half of 2021 compared to the first half of 2020.

The result at June 30, 2021 takes into account depreciation charges on intangible assets which amounted to € 366K over the period against € 644K for the first half of 2020. In fact, in 2020 the AFL had completes amortization all investments made in its creation, particularly in information systems and which were necessary to start its activities.

After depreciation and amortization, gross operating income at June 30, 2021 stood at € 1,418K, compared to € 621K for the first half of 2020.

After taking into account capital gains of € 8K linked to the sale of investment securities which were close to maturity, AFL's net income as of June 30, 2021 shows a profit of € 1,426K against € 600K for the first half of the previous year.

Events after the end of the reporting period

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

III - Accounting principles and valuation methods

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

Presentation format

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

Preparation basis

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

• Ongoing concern principle,

• Segregation of accounting periods,

• Consistency of methods.

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

The accounting principles and methods applied in drawing up these half-yearly financial statements are identical to those applied at 31 December 2020.

Identity of the parent company consolidating the accounts of the Agence as of June 30, 2021

Agence France Locale – Société Territoriale

41, quai d'Orsay 75 007 Paris

IV - Notes to the Balance Sheet

Note 1 - PORTFOLIO

(€ '000s)

30/06/2021	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	958,023	10,007		968,030
Unlisted securities				-
Accrued interest	3,026	-		3,026
Impairment	(724)	-		(724)
Net carrying amount	**960,325**	**10,007**	**-**	**970,333**
Residual net Premium/Discount	18,815	(43)		18,772

31/12/2020				
Fixed or variable income securities				
Listed securities	753,823	9,985		763,808
Unlisted securities				
Accrued interest	1,182	-		1,182
Impairment	-	-		
Net carrying amount	**755,005**	**9,985**	**-**	**764,990**
Residual net Premium/Discount	5,731	(65)		5,666

Government paper and similar securities: analysis by residual maturity

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 30/06/2021	Total 31/12/2020
Government paper and similar securities								
Net amount	10,001	34,062	468,107	445,130	957,299	3,026	960,325	755,005
NET CARRYING AMOUNT	**10,001**	**34,062**	**468,107**	**445,130**	**957,299**	**3,026**	**960,325**	**755,005**
Bonds and other fixed income securities								
Net amount	-	6,180	3,827	-	10,007	-	10,007	9,985
NET CARRYING AMOUNT	**-**	**6,180**	**3,827**	**-**	**10,007**	**-**	**10,007**	**9,985**

Analysis by type of portfolio

Portfolio *(€ '000s)*	Gross amount 31/12/2020	Additions	Disposals	Transfers	Prem/Disc Amort.	Change in accrued interest	Impairment	Total 30/06/2021	Unrealized gains/(losses)
Transaction									
Held-for-sale	635,433	552,618	(385,936)		(1,496)	1,156	(724)	801,051	6,838
Investment	129,557	54,575	(15,085)		(453)	688		169,282	(367)
NET CARRYING AMOUNT	**764,990**	**607,193**	**(401,021)**	**-**	**(1,949)**	**1,844**	**(724)**	**970,333**	**6,471**
Of which Premium/Discount	5,666	16,618	(1,563)		(1,949)			18,772	

Note 2 -RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	30/06/2021	31/12/2020
Mandatory reserve deposits with central banks	1,134,333	601,780
Other deposits		
Cash and central banks	**1,134,333**	**601,780**

Receivables on credit institutions

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 30/06/2021	Total 31/12/2020
Credit institutions								
Loans and receivables								
- demand	50,517				50,517		50,517	81,754
- time	115,000				115,000	159	115,159	115,111
Securities bought under repurchase agreements								
TOTAL	**165,517**	**-**	**-**	**-**	**165,517**	**159**	**165,676**	**196,865**
Impairment								
NET CARRYING AMOUNT	**165,517**	**-**	**-**	**-**	**165,517**	**159**	**165,676**	**196,865**

Note 3 - DUE TO CREDIT INSTITUTIONS

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 30/06/2021	Total 31/12/2020
Credit institutions								
Accounts and Overdrafts								
- demand	16				16		16	24
- time								
Securities sold under repurchase agreements								
TOTAL	**16**	**-**	**-**	**-**	**16**	**-**	**16**	**24**

Note 4 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	30/06/2021	31/12/2020
Short-term credit facilities	9,118	9,265
Other loans	3,858,896	3,671,763
Customers transactions before impairment charges	**3,868,014**	**3,681,029**
Impairment		
Net carrying amount	**3,868,014**	**3,681,029**
Of which related receivables	7,032	6,852
Of which gross doubtful receivables	3,947	4,159
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 30/06/2021
Loans and advances to customers	97,773	94,177	143,154	1,101,962	2,423,916	**3,860,982**	**7,032**	**3,868,014**

Note 5 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible assets	31/12/2020	Additions	Transfers	Disposals	Amort.	Impairments	Other movements	30/06/2021
Intangible assets	**13,248**	**690**					**455**	**14,393**
Start-up costs	2,123							2,123
IT development costs	10,963	690					455	12,108
Web site	162							162
Software								-
Intangible assets in progress	**510**	**40**					**(455)**	**95**
Intangible assets amortisation	**(11,453)**				**(340)**			**(11,793)**
Net carrying amount	**2,305**	**730**			**(340)**			**2,695**

Property, plant & equipment	31/12/2020							30/06/2021
Property, plant & equipment	935	14						949
Tangible assets in progress	-							-
Tangible assets amortization	(779)				(27)			(806)
Net carrying amount	**156**	**14**			**(27)**			**143**

Note 6 - OTHER ASSETS AND ACCRUALS

(€ '000s)	30/06/2021	31/12/2020
Other assets		
Cash collateral paid	54,366	50,023
Other assets	201	782
Impairment		
Net carrying amount	**54,567**	**50,805**
Accruals		
Deferred charges on bond issues	19,961	12,031
Deferred charges on hedging transactions	40,929	43,525
Prepaid charges	486	252
Accrued interest not yet due on hedging transactions	6,287	15,601
Other deferred income	95	16
Other accruals	7,549	3,107
TOTAL	**75,307**	**74,532**

Note 7 - DEBT SECURITIES

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 30/06/2021	Total 31/12/2020
Negotiable debt securities	138,847				138,847		138,847	140,000
Bonds		750,000	2,184,331	2,901,086	5,835,417	3,274	5,838,691	4,976,009
Other debt securities					-		-	-
TOTAL	**138,847**	**750,000**	**2,184,331**	**2,901,086**	**5,974,264**	**3,274**	**5,977,538**	**5,116,009**

Note 8 - OTHER LIABILITIES and ACCRUALS

(€ '000s)	30/06/2021	31/12/2020
Other liabilities		
Cash collateral received	1,400	8,247
Miscellaneous creditors	3,030	2,783
TOTAL	**4,430**	**11,030**
Accruals		
Transaction to pay and settlement accounts	318	
Premium EMTN issue	39,477	42,512
Unrealised gains on hedging instruments	65,685	47,263
Unearned income	493	493
Accrued expenses on hedging instruments	13,019	9,851
Other accrued expenses		
Other accruals	1,273	
TOTAL	**120,264**	**100,119**

Note 9 - PROVISIONS

(€ '000s)	Balance as of 31/12/2020	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 30/06/2021
Provisions						
Financing commitment execution risks						
Provisions for other litigations						
Provisions for employee retirement and similar benefits	65	-	-	-	-	65
Provisions for other liabilities to employees						
Other provisions	-	-	-	-	-	-
TOTAL	**65**	**-**	**-**	**-**	**-**	**65**

Note 10 - CHANGES IN EQUITY

(€ '000s)	Share capital	Legal reserve	Share premiums	Statutory reserve	Translation, revaluation	Translation, revaluation subsidies	Retained earnings	Net income	Total equity
Balance as of 31/12/2019	**146,800**	**-**	**-**	**-**	**-**	**-**	**(24,501)**	**(1,713)**	**120,586**
Change in share capital	21,600								21,600
Change in share premium and reserves									
Allocation of 2019 net profit							(1,713)	1,713	
Net income as of 31/12/2020								2,887	2,887
Other changes									
Balance as of 31/12/2020	**168,400**	**-**	**-**	**-**	**-**	**-**	**(26,214)**	**2,887**	**145,073**
Dividend paid for 2020									
Change in share capital	22,050 (1)								22,050
Change in share premium and reserves									
Allocation of 2020 net profit							2,887	(2,887)	
Net income as of 30/06/2021								1,427	1,427
Other changes									
Balance as of 30/06/2021	**190,450**	**-**	**-**	**-**	**-**	**-**	**(23,327)**	**1,427**	**168,551**

(1) The share capital of Agence France Locale which amounts on 30 of June, 2021 to € 190,450,000 consists of 1,904,500 shares. The Company carried out two capital increases during during the first year-half 2021 subscribed on 23rd March 2021 to € 9,400K and on 24th June 2021 for € 12,650K.

Note 11 - DERIVATIVES

Outstanding notional and Fair value

(€ '000s)	30/06/2021				31/12/2020			
	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	**10,946,115**	**(54,776)**	**1,046,098**	**37**	**9,429,669**	**(39,449)**	**986,115**	**(182)**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**10,946,115**	**(54,776)**	**1,046,098**	**37**	**9,429,669**	**(39,449)**	**986,115**	**(182)**
Interest rate contracts	10,472,972	(54,116)	1,046,098	37	9,102,562	(47,879)	986,115	(182)
FRA								
Cross Currency Swaps	473,143	(660)			327,107	8,431		
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Exchange rate options								
Other options								
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Caps, floors								
Foreign currency option								
Crédit derivatives								
Other options								

Amount of micro-hedge transaction as of 30/06/2021	10,101,414	(€ '000s)
Amount of macro-hedge transaction as of 30/06/2021	844,701	(€ '000s)
Amount of trading transaction as of 30/06/2021	1,046,098	(€ '000s)

Notional amount by maturity

(€ '000s)	30/06/2021					
	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	**946,602**	**3,073,696**	**6,925,817**	**113,000**	**461,900**	**471,198**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts						
Other contracts						
Over-the-counter markets	**946,602**	**3,073,696**	**6,925,817**	**113,000**	**461,900**	**471,198**
Interest rate contracts	832,755	2,923,919	6,716,298	113,000	461,900	471,198
FRA						
Cross Currency Swaps	113,847	149,777	209,519			
Other contracts						
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**
Exchange rate options						
Other options						
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**
Caps, floors						
Foreign currency option						
Crédit derivatives						
Other options						

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

V - Notes to the Income statement

Note 12 - INTEREST INCOME AND EXPENSES

(€ '000s)	30/06/2021	30/06/2020	31/12/2020
Interest and similar income	**16,349**	**12,725**	**25,759**
Due from banks	91	54	133
Due from customers	4,074	5,339	10,323
Debt securities	8,785	4,373	9,939
Macro-hedge transactions	988	730	1,398
Other interest income	2,411	2,230	3,965
Interest and similar expenses	**(10,038)**	**(6,504)**	**(14,067)**
Due to banks	(2,523)	(917)	(3,182)
Bonds and other fixed income securities	(2,031)	(1,057)	(2,382)
from Held-for-sale securities	*(1,904)*	*(1,047)*	*(2,320)*
from Investment securities	*(127)*	*(10)*	*(63)*
Macro-hedge transactions	(3,075)	(2,320)	(4,583)
Other interest expenses	(2,409)	(2,210)	(3,919)
Interest margin	**6,312**	**6,221**	**11,693**

AFL adopted as of June 30, 2021, a new presentation of interest incom en expenses. From now on, interest from customers, securities portfolios and interest on debts issued are presented net of interest income and expenses on their micro-hedging swaps. Interest on Macro-hedge swaps are presented as income for swaps generating income on the net of the two legs of the instrument and as charges when the net of the two legs represents an interest charge. This shape of presentation was also applied to the comparative periods.

Note 13 - NET FEE AND COMMISSION INCOME

(€ '000s)	30/06/2021	30/06/2020	31/12/2020
Commission income	**87**	**75**	**186**
Interbank transactions			
Customer transactions	87	75	186
Securities transactions			
Forward financial instruments transactions			
Currencies transactions			
Financing commitments and guarantee			
Other commissions recieved			
Commission expenses	**(240)**	**(62)**	**(255)**
Interbank transactions	(7)	(6)	(11)
Securities transactions			
Forward financial instruments transactions	(65)	(56)	(125)
Currencies transactions			
Financing commitments and guarantee			
Other commissions paid	(168)		(118)
Net fee and commission income	**(153)**	**12**	**(69)**

Note 14 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS

(€ '000s)	30/06/2021	30/06/2020	31/12/2020
Gains/(losses) on Trading book			
Gains/(losses) on forward financial instruments	(2,024)	(342)	(6,531)
Gains/(losses) on foreign currency transactions	2	(0.4)	(0.1)
Gains or (losses) on trading portfolio	**(2,022)**	**(342)**	**(6,531)**
Gains/(losses) from disposal of held-for-sale securities	2,027	425	5,596
Other income/(expenses) from held-for-sale securities			
Impairment (charges) and reversals on held-for-sale securities	(724)	97	224
Gains or (losses) on held-for-sale portfolio	**1,303**	**521**	**5,820**

Note 15 - OTHER BANKING INCOME

(€ '000s)	31/12/2020	30/06/2020	31/12/2020
Capital gains on loan disposals	2,146		3,244
Other banking income			
Other banking income	**2,146**	**-**	**3,244**
Capital losses on loan disposals			
Other banking expense			
Other banking expense	**-**	**-**	**-**
TOTAL	**2,146**	**-**	**3,244**

Note 16 - GENERAL OPERATING EXPENSES

(€ '000s)	30/06/2021	30/06/2020	31/12/2020
Employee expenses			
Wages and salaries	1,806	1,585	3,206
Post-employment benefit expenses	179	165	347
Other expenses	775	737	1,466
Total Employee expenses	**2,761**	**2,486**	**5,018**
Operating expenses			
Taxes and duties	604	530	690
External services	3,445	2,672	5,509
Total Administrative expenses	**4,049**	**3,203**	**6,199**
Charge-backs and reclassification of administrative expenses	(1,009)	(541)	(1,127)
Total General operating expenses	**5,801**	**5,148**	**10,090**

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

(€ '000s)	30/06/2021	30/06/2020	31/12/2020
Gains on sales of Investment securities	8		
Gains on sales of tangible or intangible assets			
Reversal of impairment			
Total Gains on fixed assets	**8**	**-**	**-**
Losses on sales of Investment securities			
Losses on sales of tangible or intangible assets		(21)	(21)
Charge of impairment			
Total Losses on fixed assets	**-**	**(21)**	**(21)**
TOTAL	**8**	**(21)**	**(21)**

Note 18 - INCOME TAX CHARGE

The standard method for current tax has been chosen for report individual accounts.
Tax losses amounting to €22.1m at 2021 half-year closing were not recognised as deferred tax assets.

Note 19 - RELATED PARTIES

There are, on 30 June 2021, 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.

II. Half-yearly financial statements prepared according to IFRS

Agence France Locale S.A.

Statutory Auditors' Review Report on the interim condensed financial statements in accordance with IFRS

For the six-month period ended June 30, 2021
Agence France Locale S.A.
112, rue Garibaldi 69006 Lyon

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

Agence France Locale S.A.

Registered office: 112, rue Garibaldi 69006 Lyon
Share capital: €.190 450 000

Statutory Auditors' Review Report on the interim condensed financial statements in accordance with IFRS

For the six-month period ended June 30, 2021

To the President of the Management Board,

In our capacity as Statutory Auditors of Agence France Locale S.A. and in accordance to your request made in the context of your willingness to produce an extended financial information to investors, we conducted a review of the accompanying interim condensed financial statements of Agence France Locale S.A. prepared in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union, for the period from January 1, 2021 to June 31, 2020.

Due to the global crisis related to the Covid-19 pandemic, the condensed half-yearly consolidated financial statements have been prepared and reviewed under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of our review procedures.

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

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

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements as at June 30, 2021 are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

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

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

, September 27th, 2021	Signatory's'city, September 27th, 2021
KPMG S.A.	Office name
Partner	*Partner*

AGENCE FRANCE LOCALE IFRS GAAP

BALANCE SHEET

Assets as of June 30, 2021

(€ '000s)	Notes	30/06/2021	31/12/2020
Cash, central banks	5	1,134,267	601,746
Financial assets at fair value through profit or loss	1	15,828	20,000
Hedging derivative instruments	2	166,550	211,916
Financial assets at fair value through other comprehensive income	3	788,406	614,697
Securities at amortized cost	4	189,077	166,864
Loans and receivables due from credit institutions and similar items at amortized cost	5	220,132	246,908
Loans and receivables due from customers at amortized cost	6	3,932,525	3,831,563
Revaluation adjustment on interest rate risk-hedged portfolios		12,701	26,697
Current tax assets			
Deferred tax assets	7	5,263	5,401
Accruals and other assets	8	865	510
Intangible assets	9	2,695	2,305
Property, plant and equipment	9	1,301	1,240
Goodwill			
TOTAL ASSETS		**6,469,612**	**5,729,846**

Liabilities as of June 30, 2021

(€ '000s)	Notes	30/06/2021	31/12/2020
Central banks		202	142
Financial liabilities at fair value through profit or loss	1	15,792	20,182
Hedging derivative instruments	2	221,325	251,365
Debt securities	10	6,052,310	5,295,982
Due to credit institutions	11	1,416	8,271
Due to customers			
Revaluation adjustment on interest rate hedged portfolios			
Current tax liabilities			
Deferred tax liabilities	7	263	248
Accruals and other liabilities	12	4,553	3,847
Provisions	13	80	82
Equity		**173,670**	**149,728**
Equity, Group share		**173,670**	**149,728**
Share capital and reserves		190,450	168,400
Consolidated reserves		(19,085)	(21,380)
Reevaluation reserve			
Gains and losses recognised directly in equity		535	412
Profit (loss) for the period		1,770	2,295
Non-controlling interests			
TOTAL LIABILITIES		**6,469,612**	**5,729,846**

Income statement

(€ '000s)	Notes	30/06/2021	30/06/2020	31/12/2020
Interest and similar income	14	16,395	12,778	25,858
Interest and similar expenses	14	(10,038)	(6,504)	(14,067)
Fee & Commission Income	15	87	75	186
Fee & Commission Expense	15	(240)	(62)	(255)
Net gains (losses) on financial instruments at fair value through profit or loss	16	(1,978)	(623)	(6,804)
Net gains or losses on financial instruments at fair value through other comprehensive income	17	2,027	425	5,596
Net gains and losses on derecognition of financial assets at amortised cost	18	2,154		3,244
Income on other activities				
Expenses on other activities				
NET BANKING INCOME		**8,406**	**6,088**	**13,759**
Operating expenses	19	(5,724)	(4,918)	(9,733)
Net depreciation, amortisation and impairments of tangible and intangible assets	9	(443)	(871)	(1,514)
GROSS OPERATING INCOME		**2,239**	**299**	**2,512**
Cost of risk	20	(273)	(453)	(352)
OPERATING INCOME		**1,967**	**(155)**	**2,160**
Net gains and losses on other assets	21		(21)	(21)
INCOME BEFORE TAX		**1,967**	**(175)**	**2,139**
Income tax	22	(197)	152	156
NET INCOME		**1,770**	**(24)**	**2,295**
Non-controlling interests				
NET INCOME GROUP SHARE		**1,770**	**(24)**	**2,295**
Basic earnings per share (in EUR)		0.93	(0.02)	1.36
Diluted earnings per share (in EUR)		0.93	(0.02)	1.36

Net income and other comprehensive income

(€ '000s)	30/06/2021	30/06/2020	31/12/2020
Net income	**1,770**	**(24)**	**2,295**
Items will be reclassified subsequently to profit or loss	**264**	**(1,685)**	**1,235**
Revaluation of financial assets at fair value through other comprehensive income recyclable to income	266	(2,303)	1,604
Other items recognized through other comprehensive income recyclable to income			
Related taxes	(3)	618	(369)
Elements not recyclable in profit or loss	**(141)**	**(248)**	**744**
Revaluation in respect of defined benefit plans			
Revaluation of financial assets at fair value through to equity	(188)	(331)	991
Other items recognized through other comprehensive income not recyclable to income			
Related taxes	47	83	(248)
Total gains and losses recognized directly in equity	**123**	**(1,933)**	**1,979**
COMPREHENSIVE INCOME	**1,893**	**(1,957)**	**4,274**

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 2020	**146,800**	**-**	**(20,189)**	**(1,566)**	**-**	**-**	**-**	**(1,191)**	**123,854**	**-**	**123,854**
Increase in share capital	21,600								21,600		21,600
Elimination of treasury shares											
Allocation of profit 2019			(1,191)					1,191			
Dividends 2019 paid											
Sub-total of changes linked to transactions with shareholders	**21,600**	**-**	**(1,191)**	**-**	**-**	**-**	**-**	**1,191**	**21,600**	**-**	**21,600**
Changes in fair value through equity				953					953		953
Change in value of through profit or loss				651					651		651
Revaluation of financial assets at fair value through not recyclable equity							991		991		991
Changes in actuarial gains on retirement benefits											
Related taxes				(369)			(248)		(616)		(616)
Changes in gains and losses recognized directly in equity	**-**	**-**	**-**	**1,235**	**-**	**-**	**744**	**-**	**1,979**	**-**	**1,979**
2020 Net income								2,295	2,295		2,295
Sub-total	**-**	**-**	**-**	**1,235**	**-**	**-**	**744**	**2,295**	**4,274**	**-**	**4,274**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 31 December 2020	**168,400**	**-**	**(21,380)**	**(331)**	**-**	**-**	**744**	**2,295**	**149,728**	**-**	**149,728**
Increase in share capital	22,050 (1)								22,050		22,050
Elimination of treasury shares											
Allocation of profit 2020			2,295					(2,295)			
Dividends 2020 paid											
Sub-total of changes linked to transactions with shareholders	**22,050**	**-**	**2,295**	**-**	**-**	**-**	**-**	**(2,295)**	**22,050**	**-**	**22,050**
Changes in fair value through equity				(33)					(33)		(33)
Change in value of through profit or loss				299					299		299
Revaluation of financial assets at fair value through not recyclable equity							(188)		(188)		(188)
Changes in actuarial gains on retirement benefits											
Related taxes				(3)			47		44		44
Changes in gains and losses recognized directly in equity	**-**	**-**	**-**	**264**	**-**	**-**	**(141)**	**-**	**123**	**-**	**123**
30 June 2021 Net income								1,770	1,770		1,770
Sub-total	**-**	**-**	**-**	**264**	**-**	**-**	**(141)**	**1,770**	**1,893**	**-**	**1,893**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 30 June 2021	**190,450**	**-**	**(19,085)**	**(67)**	**-**	**-**	**603**	**1,770**	**173,670**	**-**	**173,670**

(1) The share capital of Agence France Locale which amounts on 30 of June, 2021 to € 190,450,000 consists of 1,904,500 shares. The Company carried out four capital increases during during the first year-half 2021 subscribed on 23rd March 2021 to € 9,400K and on 24th June 2021 for € 12,650K.

Cash flow statement

(€ '000s)	30/06/2021	31/12/2020
Net income before taxes	**1,967**	**2,139**
+/- Net depreciation and amortisation of tangible and intangible non-current assets	443	1,514
+/- Net provisions and impairment charges	273	95
+/- Expense/income from investing activities	(1,085)	(6,395)
+/- Expense/income from financing activities	339	605
+/- Other non-cash items	(3,189)	3,077
= Non-monetary items included in net income before tax and other adjustments	**(3,219)**	**(1,104)**
+/- Cash from interbank operations		
+/- Cash from customer operations	(186,429)	(600,773)
+/- Cash from financing assets and liabilities	19,822	(1,450)
+/- Cash from not financing assets and liabilities	(5,954)	3,664
- Income tax paid		
= Decrease/(increase) in cash from operating activities	(172,562)	(598,559)
= CASH FLOW FROM OPERATING ACTIVITIES (A)	**(173,814)**	**(597,523)**
+/- Flows linked to financial assets and investments	(205,985)	(122,154)
+/- Flows linked to investment properties		
+/- Flows linked to tangible and intangible non-current assets	(744)	(1,460)
= CASH FLOW FROM INVESTING ACTIVITIES (B)	**(206,729)**	**(123,613)**
+/- Cash from or for shareholders	22,050	21,600
+/- Other cash from financing activities	859,808	1,201,862
= CASH FLOW FROM FINANCING ACTIVITIES (C)	**881,858**	**1,223,462**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)		
Increase/(decrease) in cash equivalents (A + B+ C + D)	**501,316**	**502,325**
Cash flow from operating activities (A)	(173,814)	(597,523)
Cash flow from investing activities (B)	(206,729)	(123,613)
Cash flow from financing activities (C)	881,858	1,223,462
Effect of changes in exchange rates on cash and cash equivalents (D)		
Cash and cash equivalents at the beginning of the period	**683,534**	**181,209**
Cash and balances with central banks (assets & liabilities)	601,780	165,609
Interbank accounts (assets & liabilities) and loans/deposits at sight	81,754	15,600
Cash and cash equivalents at the end of the period	**1,184,850**	**683,534**
Cash and balances with central banks (assets & liabilities)	1,134,333	601,780
Interbank accounts (assets & liabilities) and loans/deposits at sight	50,517	81,754
CHANGE IN NET CASH	**501,316**	**502,325**

NOTES TO THE YEAR END FINANCIAL STATEMENTS ACCORDING TO IFRS STANDARDS

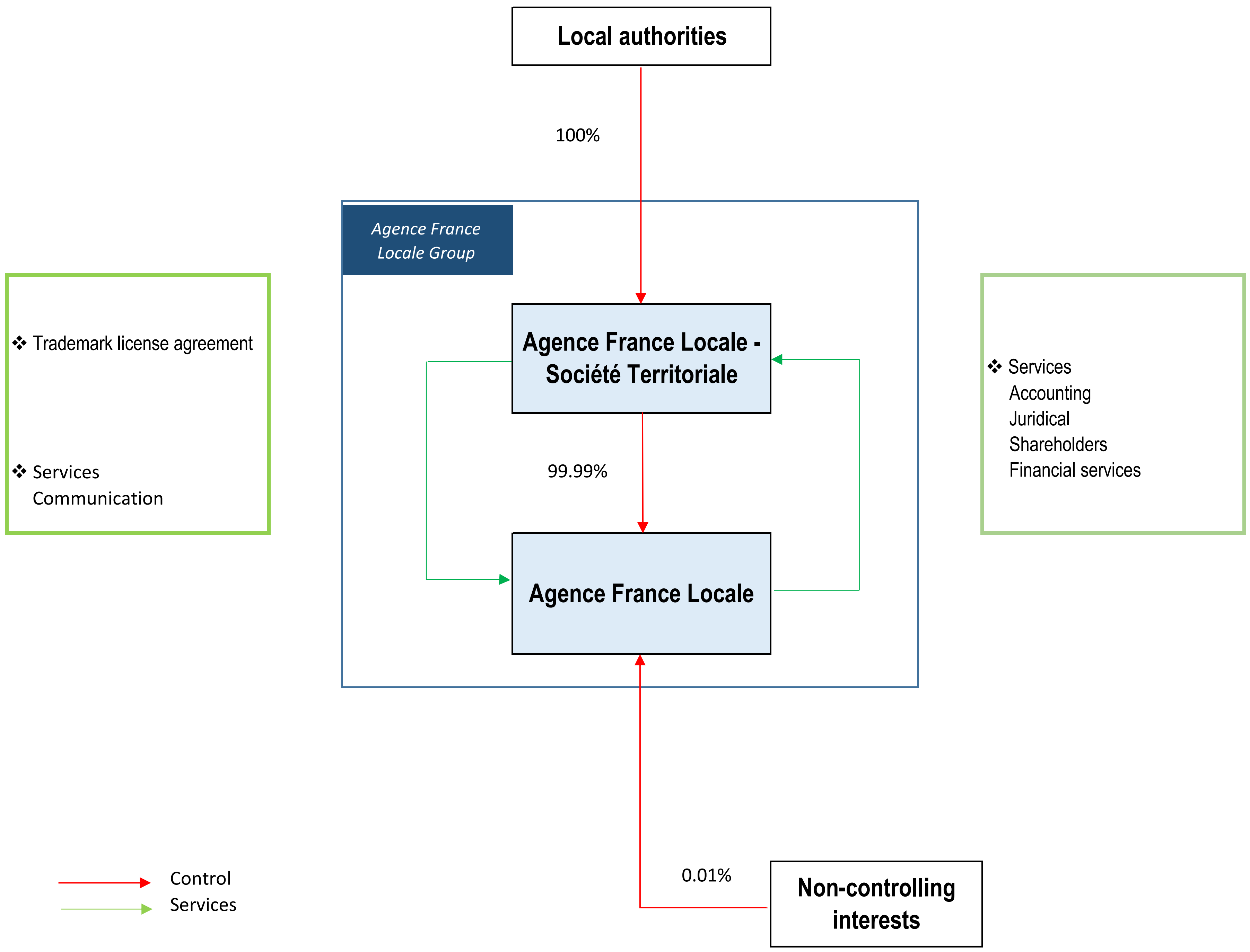
General framework

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 half-year financial statements were approved by the Board of Directors as of September 13, 2021.

II - Highlights from the first half year

The first half of 2021 is in line with the Company's development trajectory in accordance with the objectives of the 2017-2021 strategic plan. Production over the period with member local authorities amounted to € 288.7 million compared to € 247.5 million during the first half of 2020.

On January 14, 2021, AFL carried out a new benchmark issue for an amount of € 500 million maturing 03/20/2031 under excellent conditions. This seventh benchmark issue, since the creation of the AFL, has met with unprecedented success with a request of more than € 2.2 billion by nearly 90 investors. The securities were placed with a margin of 31 basis points against the government bond curve (OAT).

During the first half of 2020, the AFL-ST, pursuing its corporate purpose, subscribed to AFL's capital for an amount of 22.05 million euros in the context of two capital increases during the first half of the year 2021, thus bringing the AFL's share capital to € 168.4 million on January 1, 2021 to € 190.5 million on June 30, 2021. The AFL Group now has 453 members, including 42 new communities, who joined the AFL Group during the past semester.

Net banking income generated by the activity stands at € 8,406K. It corresponds to an interest margin of € 6,357K, to € 608K of capital gains on the sale of OCI investment securities after taking into account the result of termination of the hedging relationship which relate to the management of the liquidity reserve, capital gains on loan disposals of € 1,381K net of the compensation for termination of hedging swaps and commissions, and positive result of revaluations of hedges of € 44K.

These results should be compared with those of the first half of 2020 at the end of which the NBI amounted to € 6,088K, corresponding mainly to a net interest margin of € 6,274K, to capital gains on the sale of securities of € 83K, to commission charges of € 12K and a negative hedge revaluation result of € 281K.

The interest margin of € 6,357K, realized on June 30, 2021, experienced a significant change in its composition with the arrival of negative interest rates and in particular the fall in the 3-month Euribor rate against which the largest AFL exposures are swapped. Thus during the period under review, the yield of part of the loans became negative, due to the continued decline of the 3-month Euribor into negative territory, leading to a contraction of income linked to the loan portfolio to € 1,987K once their cover is withdrawn, compared to € 3,741K on June 30, 2020. However, this contraction is only apparent because the outstanding credit continues to increase with a constant credit margin against the cost debt. This contraction should be compared with the sharp increase in income from debts on the balance sheet, which are swapped against 3-month Euribor and which amounted to € 8,692K on June 30, 2021, compared to € 4,138K on June 30, 2020, after taking into account interest on hedges. The fall in rates leads to a reversal of flows, charges becoming income and income becoming charges. As regards the income linked to the management of the liquidity reserve, they constitute an interest charge of € -4,322K, compared to the amount of € -1,605K at June 30, 2020. This deterioration is due to the increase in the amount of the liquidity reserve and above all in the continued reduction of the 3-month Euribor rate into negative territory.

During the first half of the year, portfolio management of the liquidity reserve generated € 2,027K of income on the sale of securities at fair value by OCI and € 1,417K in charges on termination of interest rate hedging instruments interest on securities that have been sold, ie a net amount of capital gains on disposals of € 600K. To this amount should be added € 8k of capital gain on the sale of securities at amortized cost.

The net result of hedge accounting amounts to € -1,979K. It comes from two items. First of all, it comes first of all from termination of interest rate hedges linked to the disposals of securities and loans mentioned above for € -1,426K € and € -597K respectively, i.e. a total of € -2,023K and secondly € 44K which represents, for instruments still in portfolio at the reporting date, the sum related to unrealized valuation differences between hedged items and hedging instruments. Among these differences, € -230K relate to valuation differential charges on instruments classified as macro-hedges and € 247K 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 the components of which 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 unrealized income.

As of June 30, 2021, general operating expenses represented € 5,724K compared to € 4,918K as of June 30, 2020. They account for € 2,761K in personnel costs compared to € 2,486K for the first semester of the previous year. General operating expenses also include administrative expenses, which amount to € 2,962K after transfers and re-invoicing to Société Territoriale compared to € 2,432K as of June 30, 2020. In this regard, we note the increase in taxes, which went from € 530K on June 30, 2020 to € 604K on June 30, 2021, mainly due to the increase in contributions to regulatory authorities.

Depreciation charges at June 30, 2021 amounted to € 443K compared to € 871K at June 30, 2020, i.e a decrease of € 426K. In fact, in 2020 the AFL had completes amortization all investments made in its creation, particularly in information systems and which were necessary to start its activities. The depreciation charges take into account the application of IFRS 16 on the commercial lease between AFL and Société Territoriale for the AFL offices at 112 rue Garibaldi in Lyon.

After depreciation and amortization, gross operating income at June 30, 2021 stood at € 2,239K compared to € 299K for the first half of the previous year.

The cost of risk relating to ex ante depreciations for expected credit losses (ECL) on financial assets under IFRS 9 represents a charge of € 273K over the first half of 2021 compared to € 453K in the first half of 2020. This decrease mainly comesfrom the modification of the assumptions used for the construction of the macroeconomic scenarios by asset class in order to take into account a context of exiting the COVID crisis. The stock of impairments stood at € 1,049K as of June 30, 2021.

After deducting the cost of risk resulting from the application of IFRS 9, the operating income stands at € 1,967K, June 30, 2021, compared to € -155K at June 30, 2020. Finally after taking taking into account the deferred taxes on temporary differences, the net result amounts to € 1,770K compared to € -24K at June 30, 2020.

Subsequent events

No significant subsequent events occurred on the beginning of the second half 2021 after the accounts closure date has to be reported.

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

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

The condensed interim financial statements for the half-year ended June 30, 2021 were prepared in accordance with IAS 34, Interim financial reporting wich identify accounting and valuation principles to be applied to a half-year financial report.

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

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

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

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

IV - Accounting principles

Application of IFRS basis

In accordance with IFRS 1 "First-time Adoption of IFRS" and pursuant to European Regulation 1606/2002 of July 19, 2002, the financial statements for first year-half 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

The accounting principles and methods used to prepare the interim financial statements are identical to those applied at 31 December 2020.

V - Notes to the Balance Sheet

Note 1 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30/06/2021		31/12/2020	
(€ '000s)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Financial assets held for trading	15,828	15,792	20,000	20,182
Financial assets at fair value option through profit or loss				
Total financial assets at fair value through profit or loss	**15,828**	**15,792**	**20,000**	**20,182**

Financial assets held for trading

	30/06/2021		31/12/2020	
(€ '000s)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Equity instruments				
Debt securities				
Loans and advances				
Derivatives	15,828	15,792	20,000	20,182
Total Financial assets held for trading	**15,828**	**15,792**	**20,000**	**20,182**

	30/06/2021				31/12/2020			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**523,049**	**523,049**	**15,828**	**15,792**	**451,940**	**451,940**	**20,000**	**20,182**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**523,049**	**523,049**	**15,828**	**15,792**	**451,940**	**451,940**	**20,000**	**20,182**
Interest rate contracts	523,049	523,049	15,828	15,792	451,940	451,940	20,000	20,182
FRA								
Cross Currency Swaps								
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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

Note 2 - HEDGING DERIVATIVES

Analysis by type of hedge

	30/06/2021		31/12/2020	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Derivatives designated as fair value hedges	158,363	199,780	207,981	220,174
Derivatives designated as cash flow hedges				
Derivatives designated as portfolio hedges	8,187	21,545	3,936	31,191
Total Hedging derivatives	**166,550**	**221,325**	**211,916**	**251,365**

Detail of derivatives designated as fair value hedges

	30/06/2021				31/12/2020			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**5,951,375**	**4,150,039**	**158,363**	**199,780**	**4,961,649**	**3,838,625**	**207,981**	**220,174**
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	**5,951,375**	**4,150,039**	**158,363**	**199,780**	**4,961,649**	**3,838,625**	**207,981**	**220,174**
Interest rate contracts	5,552,111	4,076,160	149,783	190,541	4,780,000	3,693,167	194,277	214,901
FRA								
Cross Currency Swaps	399,264	73,879	8,579	9,239	181,649	145,458	13,704	5,273
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	-	-	-	-	-	-	-	-

Detail of derivatives designated as interest rate hedged portfolios

	30/06/2021				31/12/2020			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**155,360**	**689,341**	**8,187**	**21,545**	**98,160**	**613,470**	**3,936**	**31,191**
Organised markets	-	-	-	-	-	-	-	-
Interest rate contracts								
Other contracts								
Over-the-counter markets	**155,360**	**689,341**	**8,187**	**21,545**	**98,160**	**613,470**	**3,936**	**31,191**
Interest rate contracts	155,360	689,341	8,187	21,545	98,160	613,470	3,936	31,191
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)	30/06/2021	31/12/2020
Government paper and similar securities	788,406	614,697
Bonds		
Other fixed income securities		
Net amount in balance sheet	**788,406**	**614,697**
Including depreciation	(630)	(374)
Including net unrealised gains and losses	6,649	14,424

Expected credit losses on debt instruments	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 31st December 2020	**(374)**	**-**	**-**	**-**
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	**(256)**	**-**	**-**	**-**
Acquisitions	(377)			
Re-estimate of parameters	11			
Bad debts written off				
On sales	110			
Expected losses as of 30th of June 2021	**(630)**	**-**	**-**	**-**

Fixed-income securities - Analysis by contreparty

(€ '000s)	30/06/2021	31/12/2020
Local public sector	635,839	599,801
Financial institutions and other financial corporations	133,175	14,896
Non-financial corporations	19,391	-
Net amount in balance sheet	**788,406**	**614,697**

Fixed income securities held on Financial institutions include € 69,043K 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 31/12/2020	Additions	Disposals	Change in fair value recognised in equity	Change in accrued interest	Prem/Disc Amort.	Total amount as of 30/06/2021
Government paper and similar securities	614,697	552,618	(372,593)	(6,029)	1,217	(1,503)	788,406
Bonds	-	-	-	-	-	-	-
Other fixed income securities	-	-	-	-	-	-	-
TOTAL	**614,697**	**552,618**	**(372,593)**	**(6,029)**	**1,217**	**(1,503)**	**788,406**

Note 4 - SECURITIES AT AMORTIZED COST

Fixed-income securities - Analysis by nature

(€ '000s)	30/06/2021	31/12/2020
Government paper and similar securities	179,013	156,791
Bonds	10,065	10,073
Other fixed income securities		
Net amount in balance sheet	**189,077**	**166,864**
Including expected credit losses on debt instruments	(187)	(176)

Expected credit losses on securities at amortized cost	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 31st December 2020	**(176)**	**-**	**-**	**-**
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	**(11)**	**-**	**-**	**-**
Acquisitions	(60)			
Re-estimate of parameters	15			
Bad debts written off				
On sales	34			
Expected losses as of 30th of June 2021	**(187)**	**-**	**-**	**-**

Fixed-income securities - Analysis by contreparty

(€ '000s)	30/06/2021	31/12/2020
Local public sector	166,875	144,578
Financial institutions and other financial corporations	22,202	22,285
Non-financial corporations		
Net amount in balance sheet	**189,077**	**166,864**

Fixed income securities held on Financial institutions include € 8,123K of securities guaranteed by States of the European Economic Area.

Changes in securities at amortized cost

(€ '000s)	Total amount as of 31/12/2020	Additions	Disposals	Interest rate Reevaluation	Change in accrued interest	Prem/Disc Amort.	Expected credit losses change	Total 30/06/2021
Government paper and similar securities	156,791	54,575	(30,191)	(2,306)	627	(466)	(17)	179,013
Bonds	10,073	-	-	(37)	-	22	6	10,065
Other fixed income securities	-	-	-	-	-	-	-	-
TOTAL	**166,864**	**54,575**	**(30,191)**	**(2,343)**	**627**	**(444)**	**(11)**	**189,077**

Note 5 - RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	30/06/2021	31/12/2020
Mandatory reserve deposits with central banks	1,134,333	601,780
Other deposits		
Cash and central banks	**1,134,333**	**601,780**
Impairment	(66)	(35)
Net amount in balance sheet	**1,134,267**	**601,746**

Receivables on credit institutions

(€ '000s)	30/06/2021	31/12/2020
Loans and receivables		
- on demand and short notice	50,517	81,754
- term	115,348	115,253
Cash collateral paid	54,296	49,954
Securities bought under repurchase agreements		
TOTAL	**220,162**	**246,960**
Impairment for expected losses	(29)	(52)
NET CARRYING AMOUNT	**220,132**	**246,908**

Note 6 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	30/06/2021	31/12/2020
Short-term credit facilities	9,118	9,265
Other loans	3,923,539	3,822,430
Customers transactions before impairment charges	**3,932,657**	**3,831,695**
Impairment	(132)	(132)
Net carrying amount	**3,932,525**	**3,831,563**
Of which individual impairment	(132)	(132)
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 31st December 2020	**(210)**	**(9)**	**-**	**-**
Transfers from 12-month to maturity	0.4	(0.4)		
Transfers from maturity to 12-month	(4)	4		
Transfers from expected to incurred losses				
Total transfer movment	**(4)**	**4**	**-**	**-**
Movment attributable to financial instruments recognized over the period	**(3)**	**(4)**	**-**	**-**
Production and acquisition	(23)	(2)		
Re-estimate of parameters	13	(3)		
Bad debts written off				
Repayments	6	0.2		
Expected losses as of 30th of June 2021	**(218)**	**(9)**	**-**	**-**

SUMMARY OF PROVISIONS ON SECURITIES, LOANS AND FINANCING COMMITMENTS

(€ '000s)	31/12/2020	Depreciation charges	Reversals amounts not used	Net charge	Utilised	30/06/2021
Financial assets at fair value through other comprehensive income						
Depreciations on performing assets	374	366	(110)	**256**		**630**
Depreciations on non-performing assets						**-**
Depreciations on doubtfull assets						**-**
Total	**374**	**366**	**(110)**	**256**		**630**
Financial assets at amortized cost						
Depreciations on performing assets	386	55	(37)	**18**		**404**
Depreciations on non-performing assets	9	4	(4)	**0.3**		**10**
Depreciations on doubtfull assets						**-**
Total	**395**	**59**	**(41)**	**18**		**413**

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	1,134,333			(66)			**1,134,267**
Financial assets at fair value through other comprehensive income	789,037			(630)			**788,406**
Securities at amortized cost	189,264			(187)			**189,077**
Loans and receivables due from credit institutions at amortized cost	220,162			(29)			**220,132**
Loans and receivables due from customers at amortized cost	3,915,226	13,489	3,942	(123)	(6)	(2)	**3,932,525**

Note 7 - DEFERRED TAX

The movement on the deferred tax account is as follows:

(€ '000s)	30/06/2021	31/12/2020
Net asset as at 1st of january	**5,154**	**5,616**
Of which deferred tax assets	5,401	5,635
Of which deferred tax liabilities	248	19
Recognised in income statement	**(198)**	**154**
Income statement (charge) / credit	(198)	154
Recognised in equity	**44**	**(616)**
Financial assets at fair value through other comprehensive income	(3)	(369)
Cash flow hedges	47	(248)
Other		
Net asset as at	**5,000**	**5,154**
Of which deferred tax assets	5,263	5,401
Of which deferred tax liabilities	263	248

Deferred tax are attributable to the following items:

(€ '000s)	30/06/2021	31/12/2020
Financial assets at fair value through other comprehensive income	233	235
Cash flow hedges		
Losses carried forward	5,031	5,031
Other temporary differences		135
TOTAL DEFERRED TAX ASSETS	**5,263**	**5,401**

(€ '000s)	30/06/2021	31/12/2020
Financial assets at fair value through other comprehensive income		
Cash flow hedges	201	248
Other temporary differences	63	
TOTAL DEFERRED TAX LIABILITIES	**263**	**248**

Note 8 - OTHER ASSETS AND ACCRUALS

(€ '000s)	30/06/2021	31/12/2020
Other assets		
Deposits	70	70
Other assets	201	96
Impairment		
Total	**271**	**166**
Accruals		
Prepaid charges	486	252
Other deferred income	95	16
Transaction to recieve and settlement accounts		58
Other accruals	13	19
Total	**594**	**344**
TOTAL OTHER ASSETS AND ACCRUALS	**865**	**510**

Note 9 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible fixed assets	31/12/2020	Additions	Transfers	Disposals	Amort. and provisions	Other	30/06/2021
Intangible fixed assets							
IT development costs	10,963	690				455	12,108
Other intangible assets	162						162
Intangible assets in progress	510	40				(455)	95
Intangible fixed assets gross amount	**11,635**	**730**	**-**	**-**	**-**	**-**	**12,366**
Depreciation and allowances - Intangible fixed assets	(9,331)				(340)		(9,670)
Intangible fixed assets net carrying amount	**2,305**	**730**	**-**	**-**	**(340)**	**-**	**2,695**

Tangible fixed assets	31/12/2020	Additions	Transfers	Disposals	Amort. and provisions	Other	30/06/2021
Commercial leases	1,232					151	1,382
Property, plant & equipment	935	14					949
Tangible fixed assets gross amount	**2,166**	**14**	**-**	**-**	**-**	**151**	**2,331**
Depreciation and allowances - Tangible fixed assets	(927)				(103)		(1,030)
Tangible fixed assets net carrying amount	**1,240**	**14**	**-**	**-**	**(103)**	**151**	**1,301**

Note 10 - DEBT SECURITIES

(€ '000s)	30/06/2021	31/12/2020
Negotiable debt securities	138,841	140,071
Bonds	5,913,469	5,155,912
Other debt securities		
TOTAL	**6,052,310**	**5,295,982**

NOTE 11 - DUE TO CREDIT INSTITUTIONS

(€ '000s)	30/06/2021	31/12/2020
Loans and receivables		
- on demand and short notice	16	24
- term		
Cash collateral paid	1,400	8,247
Securities bought under repurchase agreements		
TOTAL	**1,416**	**8,271**

Note 12 - ACCRUALS AND OTHER LIABILITIES

(€ '000s)	30/06/2021	31/12/2020
Other liabilities		
Miscellaneous creditors	3,366	2,974
Total	**3,366**	**2,974**
Accruals		
Transaction to pay and settlement accounts	318	
Other accrued expenses	842	844
Unearned income		
Other accruals	26	28
Total	**1,187**	**872**
TOTAL ACCRUALS AND OTHER LIABILITIES	**4,553**	**3,847**

Note 13 - PROVISIONS

(€ '000s)	Balance as of 31/12/2020	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 30/06/2021
Provisions						
Financing commitment execution risks	7	5		(7)		5
Provisions for litigations						
Provisions for employee retirement and similar benefits	75					75
Provisions for other liabilities to employees						
Other provisions						
TOTAL	**82**	**5**	**-**	**(7)**	**-**	**80**

OFF-BALANCE SHEET

(€ '000s)	30/06/2021	31/12/2020
Commitments given	**372,819**	**457,583**
Financing commitments	314,853	398,775
For credit institutions		
For customers	*314,853*	*398,775*
Guarantee commitments	57,966	58,808
For credit institutions		
For customers	*57,966*	*58,808*
Commitments on securities		
Securities to be delivered to the issuance		
Other securities to be delivered		
Commitments received	**2,155**	**2,219**
Financing commitments		
From credit institutions		
Guarantee commitments	2,155	2,219
From credit institutions		
From customers	*2,155*	*2,219*
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 31st December 2020	7	-	-	-
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	5			
Utilised				
Reversal untilised	(7)			
Expected losses as of 30th of June 2021	5	-	-	-

VI - Notes to the Income Statement

Note 14 - INTEREST INCOME AND EXPENSES

(€ '000s)	30/06/2021	30/06/2020	31/12/2020
Interest and similar income	**16,395**	**12,778**	**25,858**
Due from banks	139	109	236
Due from customers	4,074	5,339	10,323
Debt securities	8,783	4,370	9,935
Macro-hedge transactions	988	730	1,398
Other interest income	2,411	2,230	3,965
Interest and similar expenses	**(10,038)**	**(6,504)**	**(14,067)**
Due to banks	(2,523)	(917)	(3,182)
Bonds and other fixed income securities	(2,031)	(1,057)	(2,382)
Financial assets at fair value through other comprehensive income	*(1,954)*	*(1,047)*	*(2,320)*
Securities at amortized cost	*(77)*	*(10)*	*(63)*
Macro-hedge transactions	(3,075)	(2,320)	(4,583)
Other interest expenses	(2,409)	(2,210)	(3,919)
Interest margin	**6,357**	**6,274**	**11,791**

The AFL adopted as of June 30, 2021, a new presentation of interest incom en expenses. From now on, interest from customers, securities portfolios and interest on debts issued are presented net of interest income and expenses on their micro-hedging swaps. Interest on Macro-hedge swaps are presented as income for swaps generating income on the net of the two legs of the instrument and as charges when the net of the two legs represents an interest charge. This shape of presentation was also applied to the comparative periods.

Note 15 - NET FEE AND COMMISSION INCOME

(€ '000s)	30/06/2021	30/06/2020	31/12/2020
Fee & Commission Income	**87**	**75**	**186**
Interbank transactions			
Customer transactions	0.2	0.03	36
Securities transactions			
Forward financial instruments transactions			
Currencies transactions			
Financing commitments and guarantee	87	75	150
Other commissions recieved			
Fee & Commission Expense	**(240)**	**(62)**	**(255)**
Interbank transactions	(7)	(6)	(11)
Securities transactions			
Forward financial instruments transactions	(65)	(56)	(125)
Currencies transactions			
Financing commitments and guarantee			
Other commissions paid	(168)		(118)
Net Fee and Commission income	**(153)**	**12**	**(69)**

Note 16 - NET RESULT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(€ '000s)	30/06/2021	30/06/2020	31/12/2020
Gains/(losses) on Trading book	(0.4)	0.5	0.1
Net result of hedge accounting	(1,979)	(623)	(6,802)
Net result of foreign exchange transactions	1	(0.4)	(2)
TOTAL	**(1,978)**	**(623)**	**(6,804)**

Analysis of net result of hedge accounting

(€ '000s)	30/06/2021	30/06/2020	31/12/2020
Fair value hedges			
Fair value changes in the hedged item attributable to the hedged risk	726	49,050	34,297
Fair value changes in the hedging derivatives	(452)	(50,213)	(35,147)
Hedging relationship disposal gain	(2,024)	(342)	(6,531)
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	(15,043)	13,732	13,479
Fair value changes in the hedging derivatives	14,814	(12,850)	(12,901)
Net result of hedge accounting	**(1,979)**	**(623)**	**(6,802)**

Note 17 - NET GAINS (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(€ '000s)	30/06/2021	30/06/2020	31/12/2020
Gains from disposal of fixed income securities	2,107	656	5,878
Losses from disposal of fixed income securities	(80)	(232)	(282)
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	**2,027**	**425**	**5,596**

Note 18 - NET GAINS AND LOSSES ON DERECOGNITION OF FINANCIAL ASSETS AT AMORTISED COST

(€ '000s)	30/06/2021	30/06/2020	31/12/2020
Gains on derecognition of fixed income securities at amotised cost	8		
Losses on derecognition of fixed income securities at amotised cost			
Gains on loans sold	2,146		3,244
Losses on loans sold			
Total Net gains and losses on derecognition of financial assets at amortised cost	**2,154**	**-**	**3,244**

Note 19 - GENERAL OPERATING EXPENSES

(€ '000s)	30/06/2021	30/06/2020	31/12/2020
Employee expenses			
Wages and salaries	1,806	1,585	3,206
Post-employment benefit expenses	179	165	347
Other expenses	775	737	1,466
Total Employee expenses	**2,761**	**2,486**	**5,018**
Operating expenses			
Taxes and duties	604	530	690
External services	2,438	1,952	4,147
Total Administrative expenses	**3,042**	**2,483**	**4,837**
Charge-backs and reclassification of administrative expenses	(79)	(51)	(122)
Total General operating expenses	**5,724**	**4,918**	**9,733**

Note 20 - COST OF RISK

(€ '000s)	**30/06/2021**	**30/06/2020**	**31/12/2020**
Net charge to provisions	(275)	(447)	(348)
for financial assets at fair value through other comprehensive income	*(256)*	*(169)*	*(129)*
for financial assets at amortized cost	*(18)*	*(279)*	*(219)*
Net charge to provisions	2	(6)	(4)
for financing commitments	*2*	*(6)*	*(4)*
for guarantee commitments			
Irrecoverable loans written off not covered by provisions			
Recoveries of bad debts written off			
Total Cost of risk	**(273)**	**(453)**	**(352)**

Note 21 - NET GAINS AND LOSSES ON OTHER ASSETS

(€ '000s)	**30/06/2021**	**30/06/2020**	**31/12/2020**
Gains on sales of Investment securities			
Gains on sales of tangible or intangible assets			
Reversal of impairment			
Total Gains on other assets	**-**	**-**	**-**
Losses on sales of Investment securities			
Losses on sales of tangible or intangible assets		(21)	(21)
Charge of impairment			
Total Losses on other assets	**-**	**(21)**	**(21)**

Note 22 - INCOME TAX

(€ '000s)	**30/06/2021**	**30/06/2020**	**31/12/2020**
Expense and income of current tax	1		2
Expense and income of differed tax	(198)	152	154
Ajustement on previous period			
Total Income tax	**(197)**	**152**	**156**

VII - Notes to Risk exposure

A - Fair value of financial instruments

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

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

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

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

Fair value of instruments carried at fair value:

	30/06/2021			
	Total	Measured using		
(€ '000s)		Level 1	Level 2	Level 3
Financial assets				
Financial assets at fair value through profit or loss	**15,828**	-	15,828	-
Hedging derivative instruments	**166,550**	-	166,550	-
Government paper and similar securities	788,406	748,353	-	40,053
Bonds	-	-	-	-
Other fixed income securities	-	-	-	-
Total Financial assets at fair value through other comprehensive income	**788,406**	**748,353**	**-**	**40,053**
Total Financial assets	**970,784**	**748,353**	**182,378**	**40,053**
Financial liabilities				
Financial liabilities at fair value through profit or loss	**15,792**	-	15,792	-
Hedging derivative instruments	**221,325**	-	221,325	-
Total Financial liabilities	**237,117**	**-**	**237,117**	**-**

Fair values of instruments carried at amortised cost:

	30/06/2021				
	Net Carrying value	Fair value	Measured using		
(€ '000s)			Level 1	Level 2	Level 3
Financial assets					
Cash, central banks and issuing institutions	**1,134,267**	**1,134,267**	-	-	1,134,267
Government paper and similar securities	179,013	178,099	121,034	-	57,065
Bonds	10,065	10,054	10,054	-	-
Other fixed income securities	-	-	-	-	-
Total Securities at amortized cost	**189,077**	**188,153**	131,088	-	57,065
Loans and receivables due from credit institutions	**220,132**	220,132	-	-	220,132
Loans and advances to customers (*)	**3,945,227**	3,945,227	-	-	3,945,227
Total Financial assets	**5,488,703**	**5,487,779**	**131,088**	**-**	**5,356,691**
Financial liabilities					
Debt securities	**6,052,310**	6,073,412	5,194,556	740,015	138,841
Total Financial liabilities	**6,052,310**	**6,073,412**	**5,194,556**	**740,015**	**138,841**

(*) 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 30 June 2021 for financial assets with exposure to credit risk, without taking account of collateral held or other credit risk mitigation.

(€ '000s)	Performing assets	Past due but not impaired	Impairment allowance	Total 30/06/2021
Cash, central banks	1,134,333		(66)	**1,134,267**
Financial assets at fair value through profit or loss	15,828			**15,828**
Hedging derivative instruments	166,550			**166,550**
Financial assets at fair value through other comprehensive income	788,406			**788,406**
Securities at amortized cost	189,264		(187)	**189,077**
Loans and receivables due from credit institutions	220,162		(29)	**220,132**
Loans and advances to customers	3,928,715	3,942	(132)	**3,932,525**
Revaluation adjustment on interest rate hedged portfolios	12,701			**12,701**
Current tax assets				**-**
Other assets	271			**271**
Sub-total Assets	**6,456,229**	**3,942**	**(413)**	**6,459,758**
Financing commitments given	314,853			**314,853**
TOTAL Credit risk exposure	**6,771,082**	**3,942**	**(413)**	**6,774,610**

Exposure analysis by counterparty

(€ '000s)	Total 30/06/2021
Central banks	1,134,267
Local public sector	5,062,796
Credit institutions guaranteed by the EEA States	77,167
Credit institutions	428,183
Other financial corporations guaranteed by the EEA States	
Other financial corporations	52,608
Non-financial corporations guaranteed by the EEA States	
Non-financial corporations	19,591
Total Exposure by counterparty	**6,774,610**

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

Exposure analysis by geographic area

(€ '000s)	Total 30/06/2021
France	6,079,701
Supranational	296,309
Canada	89,679
Finland	50,554
Belgium	40,053
South Korea	39,785
Switzerland	34,218
Austria	26,232
New Zealand	26,022
Japan	23,690
Germany	20,255
Netherland	14,652
China	13,988
Denmark	13,870
Sweden	5,602
Total Exposure by geographic area	**6,774,610**

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 30/06/2021
Cash, central banks	1,134,267				**1,134,267**			**1,134,267**
Financial assets at fair value through profit or loss		223	7,138	8,467	**15,829**	**(0.5)**		**15,828**
Hedging derivative instruments	1,915	4,208	34,326	123,758	**164,207**	**2,343**		**166,550**
Financial assets at fair value through other comprehensive income								
Government paper and similar securities	10,001	30,052	404,709	334,937	779,698	2,058	6,649	788,406
Bonds								
Total Financial assets at fair value through other comprehensive in	**10,001**	**30,052**	**404,709**	**334,937**	**779,698**	**2,058**	**6,649**	**788,406**
Securities at amortized cost								
Government paper and similar securities		4,007	63,551	110,587	178,145	968	(101)	179,013
Bonds		6,175	3,824		10,000		65	10,065
Total Securities at amortized cost		**10,183**	**67,376**	**110,587**	**188,145**	**968**	**(36)**	**189,077**
Loans and receivables due from credit institutions	104,786		115,000		**219,786**	347		**220,132**
Loans and advances to customers	97,773	237,199	1,101,962	2,423,916	**3,860,850**	**7,032**	**64,643**	**3,932,525**
Revaluation adjustment on interest rate hedged portfolios							**12,701**	**12,701**
Current tax assets								**-**
Other assets	271				**271**			**271**
TOTAL ASSETS								**6,459,758**

Central banks						**202**		**202**
Financial assets at fair value through profit or loss		223	7,138	8,467	**15,828**	**(36)**		**15,792**
Hedging derivative instruments	1	90	17,855	194,269	**212,215**	**9,110**		**221,325**
Debt securities	138,841	749,565	2,179,813	2,925,562	**5,993,781**	**3,274**	**55,255**	**6,052,310**
Due to credit institutions	1,416				**1,416**			**1,416**
Revaluation adjustment on interest rate hedged portfolios								**-**
Other liabilities	3,366				**3,366**			**3,366**
TOTAL LIABILITIES								**6,294,411**

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. The rate risk management policy and its implications on the first half of 2021 are described into the financial report as at 30th June 2021.