AFL
La banque
des collectivités

financial report

For the six-month period
ended June 30, 2020

Outstanding credit on the balance sheet

€3,411 millions

Net interest margin

€6,274K

Deposits in central banks and credit institutions

€588 millions

Operating expenses

€5,789K

Gross operating income

€299K

Common Equity Tier 1 ratio

15.30%

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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
RAC	Audit and Risk Committee
ICC	Internal Control Committee
CET1	Common Equity Tier One
FGTC	French General Tax Code
GRC	Global Risk Committee
ALT	Average lifetime
EAPB	European Association of Public Banks
ECP	Euro Commercial Paper
EMTN	Euro Medium Term Notes
EPCI	Groupings of municipalities (Établissement public de coopération intercommunale)
HQLA	High Quality Liquid Assets
DTA	Deferred tax asset
IMR	Initial margin requirement
LCR	Liquidity Coverage Ratio
LGFA	Local government funding agency
NIM	Net interest margin
ESM	European Stability Mechanism
NSFR	Net Stable Funding Ratio
PEPP	Pandemic Emergency Purchase Programme
OAT	Obligations Assimilables du Trésor (French Treasury bonds)
NBI	Net banking income
GOP	Gross operating income
NI	Net income
RRD	Recovery and Resolution Directive
RWA	Risk Weighted Asset
OIR	Opportunity interest rate
NDS	Negotiable debt securities
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 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.

[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.

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

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

    - As a result, almost 30% of the total amount of borrowings issued by AFL on the markets are retained, both to ensure AFL's liquidity in accordance with its regulatory obligations and good management practices, and to offer cash loans to members under the conditions and within the limits set by AFL's financial policies;

- On the other hand, the "ST Guarantee" granted by AFL-ST to any financial creditor of AFL, which allows creditor(s) to call on AFL-ST directly as guarantor. The ceiling of the "ST Guarantee" is set by the Board of Directors. It was increased from €5 billion to €10 billion by the Board of Directors on September 28, 2018. It covers all of the commitments of its AFL subsidiary to its beneficiary creditors.

This two-part mechanism allows the beneficiaries of these guarantees[2] to have both the option of (i) calling on the local authorities that are Group members as guarantors, and/or (ii) being able to operate the "ST Guarantee" which offers the advantage of simplicity in the form of a one-stop shop.
It should also be noted that, in compliance with its statutory provisions, the "ST Guarantee" may be called on behalf of the creditors at the request of AFL under the terms of a protocol between the two companies. The main purpose of this 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 operational activities, in particular lending activities, for a period of twelve months; this reserve is largely made up of liquid assets that can be mobilized 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, public issues in foreign currencies, private placements, etc.) as well as the diversity of the investor base, both by type and geographical area;
- In order to reduce its liquidity price risk, AFL strictly monitors the maturity gaps. It has made a commitment to limit mismatches in average maturities between its assets and its liabilities to 1.5 years until 2022, the year of repayment of its first benchmark issue, and to 1 year thereafter, and to respect the net stable funding ratio (NSFR).

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 ST. 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. Since then, long-term and short-term ratings have remained unchanged.
AFL also received a long-term AA- rating, stable outlook, and a short-term A-1+ rating, stable outlook, from S&P Global Ratings Europe Limited (S&P) on May 20, 2019.
AFL's bond issue program is also rated by Moody's and S&P. The rating of AFL bonds is at the top echelon for quality of credit ("high grade"), with, at the time of this report, an Aa3 rating with a stable outlook from Moody's, and an AA- rating with a stable outlook form S&P.

II. Review of activities in the first half of 2020 and significant events

1. Developments in the health crisis situation

Organization in response to the health crisis:

Starting March 16, all AFL employees were put on teleworking schedules until the end of the official confinement period. At the same time, a crisis unit was set up, and it met on a regular basis to keep abreast of current events and ensure that measures evolve in line with events and government instructions.

Due to the move initially planned for March 27, 2020 to a Flex office-type structure and to strategic organizing choices for IT systems in SaaS (software as a service) mode, all employees had the ability to connect without difficulty to all of their business applications from the morning of March 16. As a result, the bank did not experience any malfunctions during that period. No specific actions have had to be taken due to the fact that all employees are teleworking.

On May 11, 2020, at the request of some employees, the Company decided to open the offices in the Tour Oxygène. Initially only 10 workstations with strict barrier measures were available, and then, starting June 2, 2020, all employees who wanted to return to the office were allowed to do so.

In light of the complex organizational structure for employees with school-age children, the Company announced that a physical return to the office would not be mandatory before September 1, 2020, and it reactivates the teleworking charter, which provides for the option of teleworking one day per week for any person who so requests.

Suspension of forecasts

In a press release published on June 10, 2020, AFL announced that, given the uncertainties surrounding the economic and financial conditions following the Covid-19 crisis and their severity and duration, it was difficult at this stage to accurately estimate the impact of the crisis on its future financial statements. For this reason, since all effects caused by the crisis are not necessarily known, and in anticipation of better visibility, AFL has suspended its forecasts for 2020. In that press release, however, AFL also said that no major consequences were expected for H1 2020 earnings because, for a stable level of expenses, earrings come mainly from interest, net of hedging, generated by existing outstanding credit.

European initiatives to support business recovery

Even though the first measures following the health crisis were initially taken at the national level by each country in Europe depending on specific situations, Europe was very quickly able to develop initiatives at several levels in response to the unprecedented effects of the health crisis on economies and capital markets.

From a monetary, fiscal and budgetary standpoint, Europe has thus been able to demonstrate its responsiveness and its ability to support citizens, businesses and all member countries.

First, on March 18, the European Central Bank launched the €750 billion Pandemic Emergency Purchase Programme, an initiative to prevent any liquidity and refinancing risk for the euro zone caused by the dislocation of the capital markets. Faced with the cessation of activity of many companies and the risk of bankruptcy faced by some of them, the ECB intended to use this program to support banking systems and encourage them to maintain their loans to businesses and households. The ECB will conduct this program at least until the end of 2020, ensuring that all sectors of the economy can benefit from financial support to absorb the shock of the Covid-19 pandemic. The program was later increased to a total of €1,350 billion.

Very quickly, this ECB initiative was followed by a joint support plan by the European Commission, the European Investment Bank and the European Stability Mechanism (ESM), for a total of €540 billion to support the populations, businesses and countries of the Union through financial assistance to unemployment benefits, liquidity lines and guarantees to businesses, funding for research and development of vaccines and health care related to the pandemic and emergency financial support in case of need to member countries.

Also, since the economic shock is much more severe than what was initially anticipated by the IMF, which forecasts a 10.2% contraction of European Union countries' gross domestic products in 2020, on July 17 to 21, the European Council adopted a €750 billion recovery plan to help member states following a proposal by German Chancellor Angela Merkel and French President Emmanuel Macron. This recovery plan will be divided between direct grants to member states amounting to €390 billion and loans totaling €360 billion. These financial resources, which will supplement the Community budget by €1,074 billion over the period 2021-2027, will primarily target the countries most affected by the Covid-19 crisis. This plan, which was hailed as a historic decision and significantly reinforces the solidarity between European Union member countries through transfers from the richest countries to those most affected by the consequences of the pandemic, should contribute to reestablishing and sustaining economic growth from 2021.

Creation of a €1.5 billion loan package to local authorities by the AFL

Given the major role that local authorities have to play in France's economic recovery, their sound financial health ahead of the pandemic, and the need to take into account the drop in revenue that this crisis generates, so that they can make investments that will benefit various local actors, AFL has mobilized to ensure total continuity in the financing of its member authorities, and in April, it created a 12-month loan package of €1.5 billion, an important financial resource that is needed to supplement the government's recovery plan.

2. Broadening of the AFL-ST shareholder base

Article 67 of Law No. 2019-1461 of December 27, 2019 respecting involvement in local life and the proximity of public action amends Article L.1611-3-2 of the French General Local Authorities Code, stating that "local and regional authorities, groupings thereof and local public entities" can now be members of AFL.

This provision thus broadens the scope of local authorities that may join AFL, which has hitherto been limited to municipalities, departments, regions, groupings of municipalities (EPCIs) with their own tax system and territorial public entities (EPTs).

Decree No. 2020-556 of May 11, 2020 published on May 12, 2020 defines the eligibility criteria for new AFL shareholders, with thresholds that apply to the financial position and level of indebtedness of any entity that has become an AFL shareholder since its publication date.

The AFL General Meeting of May 7, 2020 and the AFL-ST General Meeting of May 28, 2020 amended the articles of association of both companies to include the public entities in the scope of the new local authorities that may join AFL. As a result, AFL welcomed the first inter-municipal public entity to its membership on June 29, 2020, the Syndicat Intercommunal des Eaux of L'Euron Mortagne (54), near Nancy.

It will be proposed at a subsequent Extraordinary General Meeting to extend membership to other public entities beyond that first circle. Work is underway within AFL teams to sequence and prepare for this expansion.

3. Increase in capital contribution

As part of the review of the number of shares to be acquired by new members, on June 29, 2020, the Strategic Committee recommended increasing the amount of the ICC by increasing the k-factor. This increase was approved by the Board of Directors on June 30, 2020, and, starting January 1, 2021, will result in an increase in the amount of the ICC for new members to 0.9% of outstanding debt, and to 0.30% of actual operating revenues, if those are used for the calculation of the ICC.

4. Adoption of a corporate purpose

The corporate purpose:

In line with the provisions of the Pacte Law and grounded in its member authorities' need for strong policies, starting in late 2019, AFL launched an initiative to reaffirm its identity in the local authority financing landscape. This collective approach directly involves all of its stakeholders (local authorities, employees, representatives of shareholder local and regional authorities, partners and suppliers), and it led to the adoption of a corporate purpose on May 28, 2020 by the AFL-ST General Meeting of Shareholders.

This corporate purpose is: "Embody responsible finance and empower local authorities to respond to the present and future needs of their inhabitants". This corporate purpose articulates the uniqueness of the Group and gives expression to its governing ethos as defined by its founders.
It is in the form of a manifesto and a new visual identity. It is part of the AFL-ST Articles of Association, and the AFL Supervisory Board decided that it would also be proposed for inclusion in the AFL Articles of Association at its next General Meeting of Shareholders.

This purpose is accompanied by a "local authority manifesto", a text initiated by the member authorities that recapitulates the essence of the banking institution:

"By creating the first bank that we wholly own and manage, we, the French local authorities, have taken a strong political step toward decentralization. Our institution, Agence France Locale, is not a financial institution like the others. Created by and for local authorities, it acts in a local context to strengthen our freedom, our ability to develop projects and our responsibility as public actors. Its culture of prudence protects us from the dangers of the complexity and richness of its governance, and from abuses related to conflicts of interest. Its fundamental objective is to offer local authorities access to resources under the best conditions and with complete transparency. The principles of solidarity and equity guide us. Convinced that we will go further together, we wanted an agile institution that would appeal to all authorities, from the largest regions to the smallest towns. We see profit as a means to optimize public spending, not as an end in itself. Through AFL, we support a local environment committed to addressing social, economic and environmental challenges. The AFL strengthens our power to act, to carry out projects locally, for today and tomorrow, for the good of the people who live there. We are proud to have a bank that expresses growth as we see it, ever more responsible and sustainable. We are Agence France Locale."

A new visual identity, a graphic embodiment of the corporate purpose:

On May 28, 2020, AFL Group unveiled a new visual identity in the form of a new logo symbolizing the affirmation of its corporate purpose. A more modern logo emphasizing AFL's local roots was in use in the following weeks in all of its communication tools.

5. AFL's activities on the capital markets

i. Annual Base Prospectus update relating to the Company's bond issuance program

The Company conducted the annual update of its debt issuance program (Euro Medium Term Notes), which was approved by the Autorité des Marchés Financiers on June 9, 2020 following the closing of the 2019 financial statements.

This program includes two major new features:

- It reflects the broadening of the base of local authorities that may become shareholders of AFL-ST and guarantors of the securities issued by the AFL to inter-municipal associations and mixed associations;

- In addition, the program now gives AFL the option to issue Sustainable Bonds to finance or refinance all or part of the capital expenditure of member local authorities dedicated to projects with a social, environmental or sustainable impact. This means that their investments in access to essential and basic social services, energy and ecological transition, sustainable infrastructure, community development or regional cohesion will be eligible for this type of financing, in accordance with the AFL Sustainable Bond Issuance Facility.

The finalization of this update will enable the Company to carry out new bond issues in 2020 with the authorization of its Management Board within the limit of a maximum volume of medium- to long-term issues under the EMTN program of €1.2 billion authorized by the Supervisory Board on December 12, 2019.

ii. Launch of sustainable bonds

To formalize and make public its overall contribution to sustainable development goals, AFL launched a project to issue Sustainable Bonds in 2019. This project contributes to the financing of sustainable development, to which French local authorities are highly committed, while at the same time responding to a strong demand from investors for transparency of the assets financed by AFL. This project led to the implementation in January 2020 of a Sustainable Bond framework in accordance with the Green Bond Principles, Social Bond Principles and 2018 Sustainability Bond Guidelines developed and promoted by the International Capital Markets Association (ICMA). This plan was reviewed by Vigéo, the social and environmental rating agency, which on January 9, 2020 issued a reasonable assurance rating (the highest level of assurance) for AFL's commitments and the contribution of the Framework Document to sustainable development, with the exception of 2 of the 10 eligible categories ("Prevention and reduction of pollution" and "Accessible and sustainable infrastructures") for which Vigéo issued a moderate assurance rating (the second-highest level of assurance). On July 13, 2020, at the end of the period under review, the first sustainable bond of €500 million was issued by AFL.

iii. Other bond issues as part of the EMTN program

As part of the new EMTN program, AFL carried out three issues constituting immediately fungible contributions to existing bonds in January 2020. The first transaction, for AUD 65 million (€40.2 million), complements an existing issue maturing in June 2030 with an issue spread of 19 basis points above the OAT (French Treasury bonds) curve. The second transaction, in an amount of €100 million, complements an existing bond maturing in June 2026, and was carried out with an issue margin 27.3 basis points above OAT. The third transaction, for €60 million, is a new top-up of the euro-denominated issue maturing in June 2028, carried out with an issue margin 26.3 basis points above OAT.

During the financial crisis, on April 9, 2020, AFL also made a €60 million contribution to the 2028 bond issue with a margin of 35 basis points against the OAT curve, which represents a very attractive level given the conditions then prevailing on the markets.

These contributions help to strengthen the liquidity of AFL's public and euro-denominated issues, whose outstandings as of June 30, 2020 totaled €3,660 million.

In the first half of 2020, AFL raised €260.3 million on the bond market, corresponding to 22% of the annual financing program for 2020, at a weighted average margin of 27.6 basis points above the OAT curve and with a weighted average maturity of 7.5 years. This fundraising, supplemented by new transactions carried out in July 2020, including the benchmark issue of €500 million and two private placements of €50 million each, allows the AFL to have a very comfortable liquidity situation in anticipation of the demand for credit expected from its borrowers, especially in the second part of the year.

The AFL's medium- and long-term borrowing program for 2020, which was approved by the Supervisory Board on December 12, 2019, for a maximum amount of €1.2 billion, is supplemented by an authorization to draw down €400 million for issues of debt securities under the ECP program for fiscal year 2020.

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

In the first half of 2020, despite temporarily deteriorated market conditions, AFL remained active in the money market, regularly drawing on commercial paper denominated in dollars, euros and pounds sterling as part of its ECP short-term issuance program. ECP average outstandings over the period totaled €230 million.

v. Access to Central Bank refinancing

On June 11, 2020, AFL launched the central bank loan mobilization system (TRiCP – TRaitement Informatique des Créances Privées (Computer Processing of Credit Claims)), which provides it with a potential line of credit available at any time from the Banque de France for 70% of its outstanding medium and long-term loans, or €2,279 million as of June 30, 2020.

6. Production of credits

As regards the production of medium- and long-term loans for 2020, AFL is pursuing a target set at €800 million. As of June 30, 2020, production over the period with member local authorities amounted to €247.5 million, for 68 loan agreements with an average maturity of 16.8 years. In addition, €52.8 million in cash loans were generated.

At the end of the period, outstanding customer loans, expressed under French GAAP, amounted to €3,262.2 million in loans made available and €280.5 million in financing commitments, for total commitments of €3,542.7 million, which also includes cash loans.

Although seasonal in nature, the use of borrowing by local authorities was more dynamic in the first half of 2020 than in previous years, despite the Covid crisis and the municipal elections held in the first half of 2020, which generally result in lower investment and hence lower financing requirements. Note the first loan, made to a water syndicate in Meurthe et Moselle, which recently decided to join AFL. Although loan activity is slightly higher than last year at the same time, AFL does not infer from this that annual production should be higher than the target of €800 million initially announced for 2020.

7. Membership

During the first half of the 2020 financial year, the AFL Group closed two capital increases, in which 17 new local authorities acquired a stake in AFL-ST, raising the number of shareholders of the Group's parent company to 369.

These 17 new member authorities include two groupings of municipalities and 15 municipalities.

At June 30, 2020, the share capital of AFL-ST rose to €158,991,500 and the share capital of AFL rose to €151,000,000. On the same date, the committed capital reached €181.3 million for a target of €200 million at the end of the 2017-2021 strategic plan.

The table below presents a breakdown of the share capital and voting powers by category of local authority as at June 30, 2020, following the 24th capital increase.

Data in thousands of euros	Number	Committed capital	Paid-up	Voting powers
Region	3	25 979	15 239	9,66%
Department	8	25 630	18 546	11,75%
Municipality	277	49 358	46 381	29,39%
EPCI (groupings of municipalities)	81	80 323	78 825	49,95%
including Metropolitan areas	*12*	*64 080*	*64 080*	*40,61%*
Territorial public entities	*4*	*4 292*	*3 582*	*2,27%*
Urban communities	*5*	*3 546*	*3 467*	*2,20%*
Suburban communities	*22*	*7 023*	*6 358*	*4,03%*
Municipality communities	*38*	*1 381*	*1 338*	*0,85%*
TOTAL	**369**	**181 290**	**158 992**	**100%**

8. Governance

- *Renewal of the members of the Management Board*

At its meeting of March 26, 2020, the Supervisory Board approved the renewal and conditions of renewal of all terms of office of the members of the Management Board (Yves Millardet, Thiébaut Julin, Ariane Chazel), for a term expiring, in accordance with the provisions of the articles of association, at the end of the Ordinary General Meeting called to approve the financial statements for fiscal year 2025 to be held in 2026.

- *Change of permanent representative of the Department of Seine-Saint-Denis*

At its meeting of June 30, 2020, the Board of Directors of Société Territoriale noted the appointment of Daniel Guiraud as permanent representative of the Department of Seine-Saint-Denis, replacing Stéphane Troussel, with immediate effect.

Following this change of representative, the AFL-ST Board of Directors is composed of 15 members, including 2 individuals who serve as chairman and vice-chairman and the 13 local authority shareholders, as follows:

	Specialized committees	
	Audit and Risk Committee	Appointments, Remuneration and Corporate Governance Committee
Jacques Pélissard Chairman of the Board		
Richard Brumm Vice-Chairman of the Board		
Pays de la Loire Region Represented by Laurent Dejoie		
Occitanie Region Represented by Claire Fita		
Department of Essonne Represented by Dominique Echaroux	■	
Department of Savoie Represented by Luc Berthoud		◊
Department of Seine-Saint-Denis Represented by Daniel Guiraud		
Municipality of Conches-en-Ouche Represented by Jérôme Pasco	◊	
City of Grenoble Represented by Hakim Sabri		
Greater Nancy Metropolitan Area Represented by Pierre Boileau	◊	
Lille European Metropolitan Area Represented by Michel Colin		
Lyon Metropolitan Area Represented by Karine Dognin-Sauze		◊
Strasbourg European Metropolitan Area Represented by Caroline Barrière	◊	
Municipality of Roquefort-sur-Soulzon Represented by Bernard Sirgue		■
Toulouse Metropolitan Area Represented by Sacha Briand		

■ Chairman of the Commitee

◊ Committee members

vi. Transfer of the head office

The relocation of AFL's operational teams was initially scheduled for March 27, 2020, and the transfer of the head office was to follow, effective March 31, 2020. The move had to be postponed due to regulatory confinement measures.

On March 26, 2020, the Supervisory Board authorized the transfer of the head office and the resulting changes, while delegating to the Chairman of the Board of Directors the power to set the effective date.

In his decision of June 15, 2020, the Chairman of the Executive Board transferred the head office to 112 rue Garibaldi with effect from June 22, 2020. The decision to transfer the head office will be subject to ratification by the next Ordinary General Meeting of Shareholders.

The reception of employees in the offices and the transfer of the head office to 112 rue Garibaldi, 69006 Lyon took place on June 22, 2020.

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.

AFL has decided to prepare voluntarily financial statements according to IFRS for the period ending on June 30, 2020, for which comments are given in this report.

1. Individual AFL financial statements according to French GAAP

The first half of 2020 marks a further increase in net banking income related to the lending activity, which is in line with the Company's development path according to his 2017-2021 strategic plan. The net banking income generated by the activity amounted to €6,413K. It corresponds to an interest margin of €6,221K, net capital gains on investment securities disposal of €83K after taking into account the result of hedging accounting, which relates to the management of the liquidity reserve, commission expenses of €12K and a reversal on impairment of investment securities of €97K.

These results are comparable to those of the first half of 2019, after which the net banking income amounted to €5,279K, mainly corresponding to a net interest margin of €4,643K, and capital gains on the investment securities of €409K after taking into account the result of hedge accounting, expenses from commissions of €10K and impairment of investment securities of €237K.

The interest margin of €6,221K as of June 30, 2020 comes from three items:

- Income of €3,741K from the loan portfolio once restated to hedge accounting;
- Negative income of -€1,661K from the management of the cash reserve, in a context of deep negative interest rates during the period; and
- Interest income on debt and collateral in the amount of €4,140K, after taking into account interest on hedges.

During the first half of the year, the portfolio management of the liquidity reserve generated €425K income on the sale of investment securities and €342K in the loss on the cancellation of interest rate hedging instruments on securities which have been the subject of disposals, i.e. a net amount of gains of disposals of €83K which breaks down into €207K of capital losses on disposals and €290K of capital gains on disposals.

At June 30, 2020, general operating transfer, after deducting recharges of administrative expenses, amounted to €5,148K compared to €5,042K as at June 30, 2019. They amounted to €2,486K in personnel costs, compared to €2,458K for the first half of the previous fiscal year, and €2,662K for administrative expenses after transfers and re-invoicing to Société Territoriale, compared to €2,584K for the first half of 2019. This slight increase in administrative expenses can be explained by the increase in taxes and duties, which rose from €410K at June 30, 2019 to €530K at June 30, 2020.

The decrease in the transfer of administrative expenses from €749K at June 30, 2019 to €541K is explained by lower debt issue rating fees due to a lower volume of issues during the first half of 2020 compared to the first half of 2019.

Income at June 30, 2020 includes depreciation charges of €644K for the period compared with €1,030K for the first half of 2019, which corresponds to the end of the amortization of the first tranche of the IT system, but which nevertheless incorporates new depreciation charges related to AFL's investment expenditure in its information system.

After depreciation and amortization, operating income at June 30, 2020 stood at -€621K compared to -€793K for the first half of 2019.

After the scrapping of €21K of intangible assets, AFL's net income as at June 30, 2020 shows a profit of €600K compared to a loss of €793K for the first half of the previous fiscal year, a period that was characterized by non-recurring capital gains on the disposal of shares of €409K.

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 the two standards (French GAAP and IFRS) relates mainly to deferred tax assets not recognized in French GAAP, the inefficiencies of interest rate and currency hedging, the recognition of ex-ante impairments of the securities and loan portfolio and the recognition of leases.

Transition from French GAAP to IFRS

In thousand euros	June 30, 2019
Net profit – French GAAP	**600**
IFRS restatements	
Cancellation of impairment losses/reversals of impairment losses on investment securities	-97
Provisions for impairment IFRS 9	-453
Hedging inefficiency of financial instruments	-281
Activation of deferred tax on other time differences	152
Other restatements	55
Net profit under IFRS	**-24**

2. AFL financial statements according to IFRS

The first half of 2020 marks a further increase in net banking income related to the lending activity, which is in line with the Company's development path according to his 2017-2021 strategic plan. The net banking income generated by the activity amounted to €6,088K. This corresponds to a net margin of interest of €6,274K, net gains on disposals of shares at fair value by OCI of €83K after taking into account the result of the termination of hedging relationships relating to the management of the liquidity reserve, commission income of €12K and negative income from hedging revaluations of €281K.

These results are comparable to those of the first half of 2019, after which the net banking income amounted to €4,936K, mainly corresponding to a net interest margin of €4,639K, and capital gains on the investment securities of € 409K, income from commissions of €10K and a result of negative hedge revaluations of €103K.

The interest margin of €6,274K as of June 30, 2020 comes from three items:

- Income of €3,741K from the loan portfolio once restated to hedge accounting;
- Negative income of -€1,605K from the management of the cash reserve, in a context of ongoing deep negative interest rates during the period; and

- Interest income on debt and collateral in the amount of €4,138K, after taking into account interest on hedges.

During the first half of the year, the portfolio management of the liquidity reserve generated €425K income on the sale of investment securities and €342K in the loss on the cancellation of interest rate hedging instruments on securities which have been the subject of disposals, i.e. a net amount of gains of disposals of €83K which breaks down into €207K of capital losses on disposals and €290K of capital gains on disposals.

Net income from hedge accounting comes from two items. First of all, it comes from the sale of interest rate hedging of fixed-income securities for -€342K and secondly -€281K 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, €882K relate to valuation differential charges on interest rate hedge instruments classified as macro-hedges and -€867K of products relate to valuations of euro-denominated interest rate hedge instruments classified as micro-hedges. As a hedging ineffectiveness, there are still unrealized differences in valuations between the hedged items and the hedging instruments, one of whose components comes from a market practice that results in a valuation asymmetry between hedging instruments collateralized daily and discounted on an Eonia curve and hedged items discounted on a Euribor curve. However, it should be noted that this corresponds to latent income.

At June 30, 2020, general operating expenses, after deducting transfer of administrative expenses, amounted to €4,918K compared to €4,887K as at June 30, 2019. They amounted to €2,486K in personnel costs compared to €2,458K for the first half of the previous financial year. General operating expenses also include administrative expenses for €2,432K net of rebillings compared with €2,429K for the first half of 2019. In this respect, it is worth noting the increase in taxes from €410K at June 30, 2019 to €530K at June 30, 2020.

Depreciation and amortization at June 30, 2020 amounted to €871K, compared to €1,146K at June 30, 2019, a decrease of €275K, which corresponds to the end of the amortization of the first tranche of the information system and which also includes the application of IFRS 16 following AFL's decision to occupy new offices, with the implementation of a new commercial lease after the vacating of its former offices in the Tour Oxygène.

After depreciation and amortization, operating income at June 30, 2020 stood at -€299K compared to -€1,097K for the first half of 2019.

The cost of risk relating to ex ante impairment for expected credit losses (ECL) on financial assets under IFRS 9 is -€453K for the first half of 2020, reflecting an increase in impairment. Given the nature of the assets carried in AFL's balance sheet, the increase in impairment mainly stems from the effects of the health crisis and changes in the assumptions used to construct macroeconomic scenarios by asset class.

After allocation of the cost of risk in accordance with IFRS 9, operating income at June 30, 2020 amounted to -€155K compared to -€1,104K at June 30, 2019.

Finally, after the scrapping of €21K of intangible assets and the capitalization of deferred tax on positive assets of €152K related to IFRS restatements, the first half of 2020 resulted in a net loss of €24K compared to a loss of €1,030K for the first half of the previous fiscal year, a period that, as indicated above, was characterized by capital gains on the disposal of shares at a non-recurring level of €409K.

IV. Assets as at June 30, 2020 (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, 2020, AFL's assets consisted mostly of loans to member local authorities. The significant increase in deposits made by the AFL with the Banque de France is the result of several fund-raising operations carried out during the period, pending future disbursements as part of loan production. As a result, the percentage of liquidity net of undisbursed credit commitments compared to the balance sheet total amounted to 20% as at June 30, 2020 compared to 14% as at December 31, 2019.

Excerpts of main assets (IFRS)

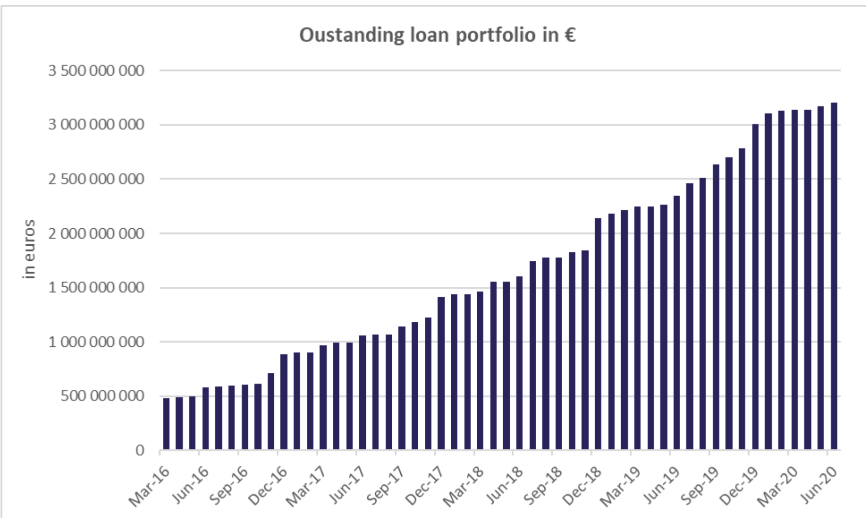
In thousands of euros	30/06/2020	30/06/2019
Loans and customer transactions	3 411 437	2 502 043
Securities at fair value through other comprehensive income	518 012	661 649
Assets held at amortized cost	190 546	149 051
Loans and receivables due from credit institutions	0	104 828
Margin calls	88 630	88 165
Cash and central banks	448 057	413 476
Hedging derivative instruments	179 899	118 321

1. Loans to local authorities

AFL exclusively lends to French local authorities that are shareholders of Société Territoriale. As at June 30, 2020, the loan portfolio recognized among assets on AFL's balance sheet represents an outstanding amount of €3,411 million compared to €3,161 million at December 31, 2019 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. At June 30, 2020, the amount of financing commitments recorded in the off-balance sheet totaled €280.5 million compared to €317.7 million at December 31, 2019. Accordingly, at June 30, 2020, the total loan commitments to local authorities carried by AFL amounted to €3,691.9 million compared to €3,478.2 million at December 31, 2019.

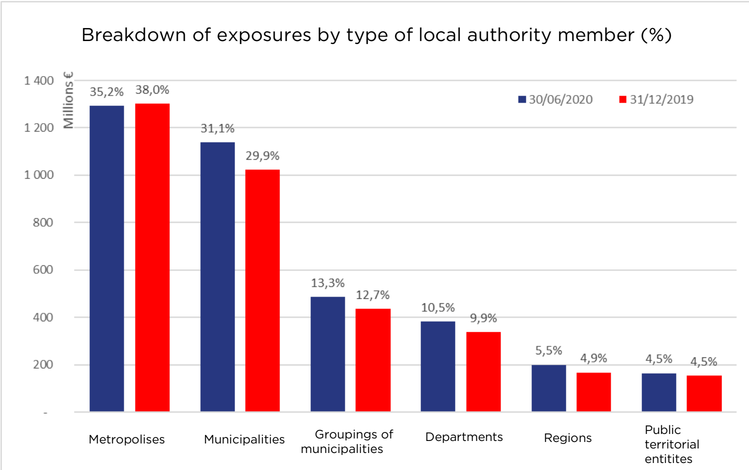
The monthly change in the outstanding principal of the medium- and long-term loan portfolio is shown in the graph below.

Growth in outstanding loans



As at June 30, 2020, 79.6% of the loan portfolio consisted of exposures to the entire municipal block, compared with 80.6% at December 31, 2019 and 84.3% at June 30, 2019. Exposure to departments increased from 8.7% at June 30, 2019 to 9.9% at December 31, 2019 and 10.5% at June 30, 2020, and exposure to regions went from 6% at June 30, 2019 to 4.9% at December 31, 2019 and 5.5% at June 30, 2020. Lastly, exposure to EPTs increased from 1% at June 30, 2019 to 4.5% at December 31, 2019 and June 30, 2020.

Breakdown of exposures by type of local authority member (%)



As of June 30, 2020, the residual maturity of outstanding loans was 15 years.

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, 2020, the assets comprising the liquidity reserve amounted to €1,296.5 million, compared to €947.5 million at December 31, 2019, an amount corresponding to more than 12 months of cash flow requirements. This liquidity reserve is divided into three main segments:

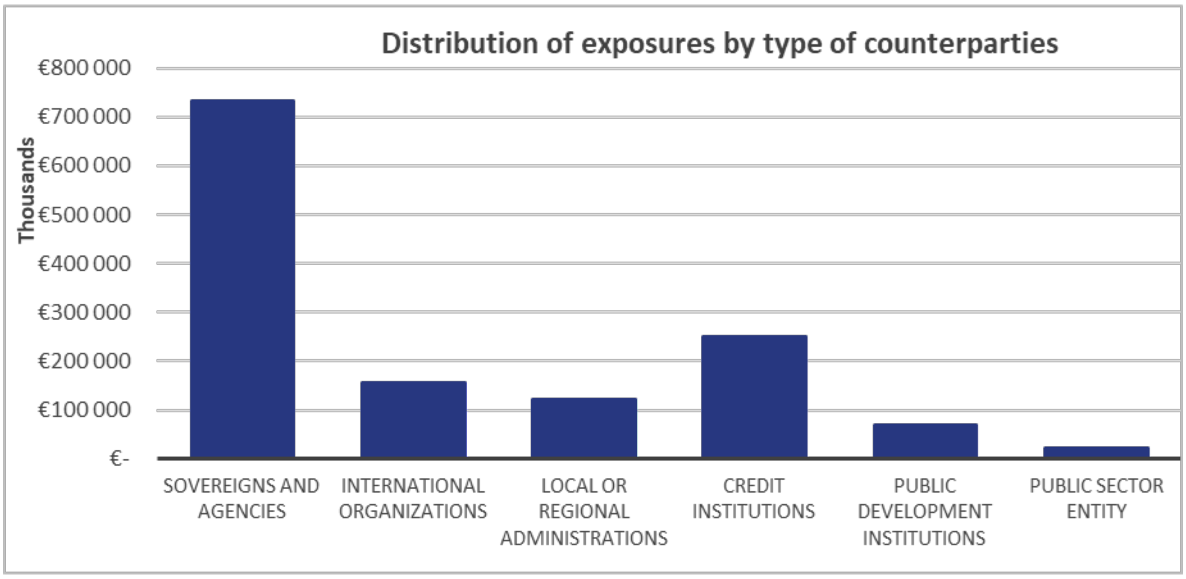
- One segment invested in very short-term instruments, and mainly comprising deposits on nostro accounts with Banque de France of €472.8 million; and
- One-month term deposits totaling €115.1 million; and
- One segment consisting mainly but not exclusively of HQLA[3]-accredited securities, due to their high rating and high degree of liquidity of €708.6 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, 2020, 86.3% of the liquidity reserve

[3] High Quality Liquid Assets.

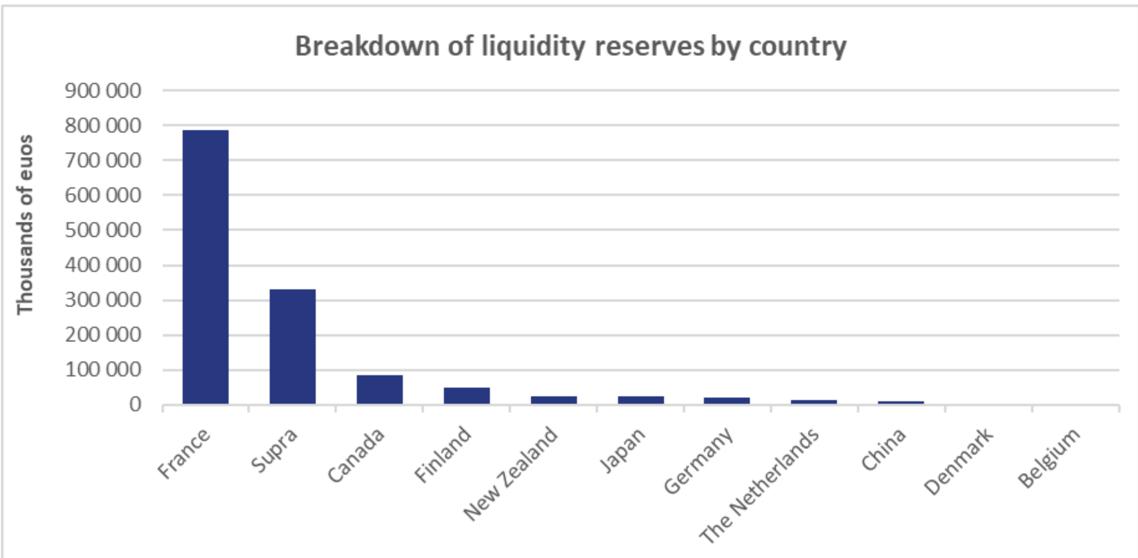
comprised so-called “HQLA” assets mainly on sovereigns and public agencies issuers as shown in the graph below. The other exposures consisted mainly of nostro accounts and a few exposures in securities on the banking sector. The securities acquired as part of the liquidity reserve are issued or guaranteed 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.



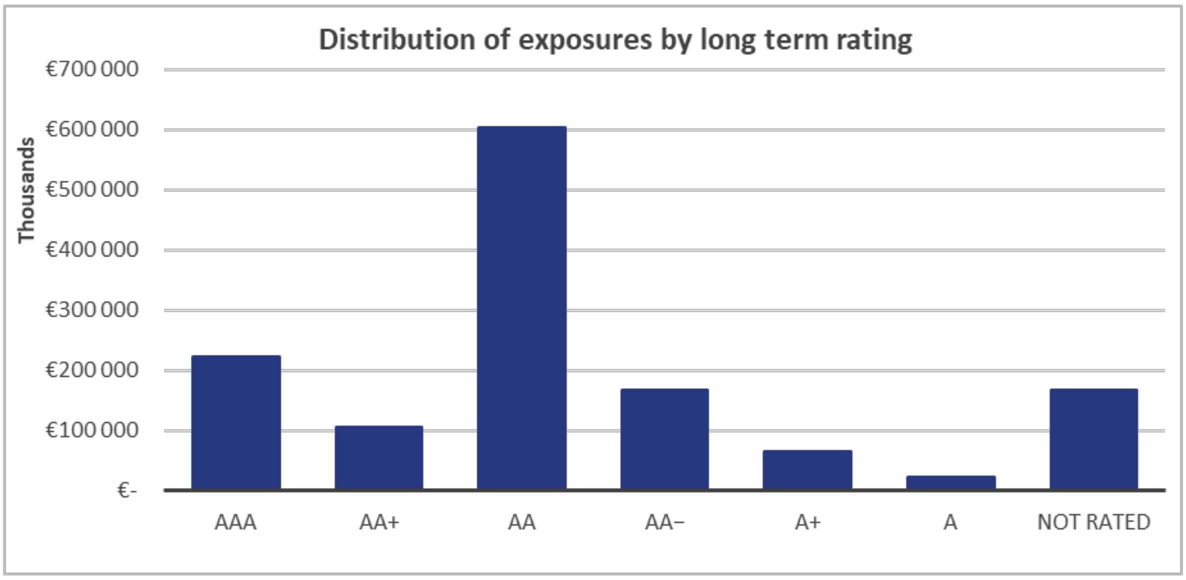
As shown by the graph below, the assets in the liquidity reserve mainly relate to French issuers, and also European and international issuers, thus contributing to the good resilience of the portfolio in a situation of significant volatility of financial markets.

Breakdown of liquidity reserve exposures by country



The rating of all exposures that AFL carries in its liquidity reserve remains very high.

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 €87.06 million at June 30, 2020 compared to €79.2 million at December 31, 2019. This amount increased significantly due to the balance sheet's greater natural sensitivity to falling interest rates and the flattening of the curve, as well as sensitivity to the rise in the euro against other currencies with respect to currency swaps. This amount must also be increased by security deposits (IMR) with the clearing house in the amount of €44.2 million at June 30, 2020, initially covered in cash and now covered by securities from the liquidity reserve with a value at June 30 of €59 million. At the same date, margin calls received amounted to €1.6 million compared to €4.2 million at December 31, 2019.

As at June 30, 2020, the fair value of AFL's hedging swaps broke down as follows:

	30/06/2020	
(In thousands of euros)	nominal value	Mark to market value
Interest-rate swaps	8 799 782	-81 163
Cross Currency Swaps	704 833	-2 890
Total	9 504 616	-84 053

- **Securitization**

AFL has no exposure to securitization.

V. Debts and capital as at June 30, 2020 (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, 2020, AFL's outstanding debt consisted of five medium- and long-term public issues denominated in euros, for an outstanding amount of €3,660 million, of four private placements denominated in euros for a total of €250 million, one US dollar-denominated private placement of USD 100 million, one Swedish crown-denominated private placement of SEK 500 million and one Australian dollar-denominated private placement of AUD 80 million.

In addition to these medium- and long-term debt instruments, short-term debt securities denominated in US dollars and pounds sterling were outstanding for a total of €354 million at June 30, 2020.

As at June 30, 2020, the debt book value stood at €4,618 million, after taking into account, in the amortized cost, the consequences of the changes in interest rates since the day of issue, under the rules of hedge accounting. The book value of the debt portfolio as of December 31, 2019 was €4,037 million. This increase reflects the increase in the balance sheet following the growth of AFL's activities as well as AFL's cautious strategy of fundraising in anticipation of the credit production period.

At the end of the two capital increases carried out after 17 new local authorities became AFL-ST members during the first half of 2020, the amount of AFL subscribed capital totaled €151,000,000 at June 30, 2020 compared to €146,800,000 at December 31, 2019.

Excerpts of the main liabilities

In thousands of euros	June 30, 2020	December 31, 2019
Debt securities issued	4,618,804	4,036,974
Equity	126,098	123,854

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 above, 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.

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 spread in many countries before becoming a pandemic in March 2020. Very significant health measures (border closures, travel bans, containment measures, etc.) have been taken in many countries to fight the spread of the virus. At the time this report was written, the pandemic has not been contained and new measures were being introduced.

Due to the globalization of economies, the considerable weight of trade and global supply chains, the spread of the virus and the health measures taken have had and will continue to have a significant impact on economies and financial markets worldwide, and thus could adversely impact AFL's activity and results.

Both the decline in consumption and trade and the fall in production have led to a sharp recession in France, as well as in many other countries. The IMF estimates this at -10.2%, on a full-year basis for Euro Zone countries. According to the OECD[4], the GDP will decline by -11.4% in France in 2020, resulting in an increase in unemployment to 12.3% of the working population and an 18% surge in public sector debt to nearly 120% of GDP. However, at the date of this report, forecasts are expected to improve.

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. This was in particular the objective of introducing a recovery plan for Europe and approving the 2021-2027 budget at the end of the Council of Heads of State on July 21, 2020, under the terms of which a comprehensive package of measures was adopted. This package of measures was intended to help European Union countries rebuild after the Covid-19 pandemic and support investment, particularly in the green and digital transitions. These measures should help anchor the economic recovery in the medium- and long-term, following the bold actions taken by the ECB starting in March 2020 to avoid market dislocation and restore the functioning of economies.

The consequences of this crisis for AFL are three-fold:

- During the first half of 2020, the French local public sector financing market, which is the market on which AFL carries out all of its lending transactions, was significantly impacted by the health crisis related to the Covid-19 epidemic, which led in particular to the postponement of the second round of municipal elections. The recession in France should be reflected in a partial contraction of the local authorities' tax and tariff revenues, which could reduce their cash flow in the short- and medium-term and therefore their investment expenditure and potentially their need to borrow, even if this is traditionally less supported at the beginning of the

[4] OECD economic forecasts, June 2020 - OECD.

municipal block's term of office. According to the assignment led by the deputy Jean René CAZENEUVE, local authority revenues, all categories combined, could decline by around €7.5 billion in 2020, with this figure likely to be updated during the year. French local authorities, the sole borrowers and shareholders of the AFL Group, have been and will continue to be asked to support their populations and the economic recovery, which will have repercussions on local spending, the amounts of which, however, cannot yet be assessed. These amounts will vary depending on the different segments of the local authorities and according to their initial individual financial position and could change the behavior of local public borrowers. It should be remembered that before the crisis, the financial health of local authorities was solid overall and that the emergency measures taken (LFR3) and those upcoming (PLF2021) were intended to reduce the impact for the weakest and most impacted in particular.

- The significant increase in public debt in France, as a result of government spending to support households and businesses, has resulted and could result in a further increase in the cost of refinancing on the markets for French public sector lenders, including AFL, as this cost is closely linked to the price at which the French government itself borrows from investors. French central government public debt and to a lesser extent that of local authorities could see an increase in future years as part of the counter-cyclical stimulus plans that have been launched, which could adversely impact the credit quality of France and local authorities.

- Beyond France, the high level of State indebtedness resulting from the budgetary support policies that have been implemented could have negative repercussions on the financial markets on which credit institutions - including AFL - operate, as well as on the quality of these counterparties.

In the first half of 2020, AFL's medium- and long-term loan production was strong at €247.5 million in the environment described above. AFL resumed its refinancing transactions in April 2020. At June 30, 2020, it had a liquidity reserve covering more than a year of operating needs. In the future and to the extent the pandemic is not controlled, it cannot however guarantee these trends will continue.

This environment has led to a significant increase in AFL's cost of risk in the first half. This increase reflects the impact of ex-ante provisioning for expected losses under IFRS 9 related to the health crisis. The cost of risk stood at €453,000 at June 30, 2020 and is equal to 1.8 basis points of exposure for every 1 basis point at December 31, 2019. To the extent the pandemic is not controlled, the level of provisioning is likely to increase in the future.

In addition to this impact, AFL's results and financial position at June 30, 2020 have been affected by the increase in spreads which impacted the cost of refinancing transactions carried out by AFL starting in April 2020. The interest margin on loans granted to member local authorities increased at the same time. The negative impact of the increase in credit spreads for issuers of securities held in the liquidity reserve on equity capital was mitigated by the so-called "CRR quick fix" measures.

The uncertainty regarding the duration and extent of the Covid-19 pandemic makes it difficult to forecast the impacts. The consequences on AFL will depend on the duration of the pandemic, the measures taken by governments and central banks and changes in the health, but also the economic, financial and social environment.

The containment measures led AFL to rely extensively on remote working. The way of working increased operational risks, in particular the risk of cyber-attack. In addition, all staff individually remain subject to health risks, with potential impacts in terms of organization and business continuity in the event of prolonged absence from work.

B. The French economic, financial, political, institutional and health environment, in which AFL acts as a lender, as well as the areas in which AFL funds itself, may have a material impact on AFL's financial position and on its results.

As AFL is a financial institution dedicated to financing French local authorities, its activity is sensitive to changes in the French and European economic, political, institutional and health environment and to the momentum of the French local public sector.

Any adverse change in the French economic outlook could slow down local authority investments, which could be likely to decrease AFL's loan production.

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.

The local public sector financing market in which AFL operates could also shrink for institutional or political reasons specific to France, in the form of checks and/or constraints imposed by the French central government on local authority indebtedness, or if local authorities face legal and/or budgetary uncertainties.

AFL, which funds itself on the international financial markets, is sensitive to significant deterioration in market conditions and the global economic environment, which could result from crises affecting the capital or credit markets, liquidity constraints, regional or global recessions, significant interest rate or exchange rate volatility, a sovereign default, the downgrading of France's credit rating, on which the credit ratings of local authority members depend, both as guarantors of AFL's borrowings on the financial markets and as counterparties for the medium- to long-term loans granted to them and as counterparties for AFL, Brexit, pandemics or climate change.

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 the AFL's financing 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 results of 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.

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.

The Covid-19-related situation is an exacerbating risk factor. It is detailed in section A.

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 increasing competition in the local public sector financing market could lead (i) to a sharp reduction in AFL's profit margins and (ii) to a very limited new loan production for AFL, which would negatively impact its 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 2019, AFL had an estimated market share of nearly 40% of its members' financing needs and, at the national level, AFL's new medium- to long-term loan production had an estimated market share of 5.3% for local authorities overall.

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.

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 agreement is essential to carry out AFL's activity. Through this agreement, AFL is subject to various 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 therefore impact its results.

Among the recent regulations which have a significant influence on the Group are:

- In order to benefit from the provisions of Article 429 (bis) paragraph 1. item d) of Regulation (EU) 575/2013 as amended by Regulation (EU) 2019/876 providing for a differentiated definition of the leverage ratio for public development credit institutions, which allows the exclusion of certain assets from the denominator of the ratio, such as receivables from central, regional or local governments or from public sector entities in connection with public investments, AFL has applied to the ACPR for qualification as a public development credit institution. If AFL did not qualify as a public development credit institution, it could be forced (i) to slow its local authority loan production, which would likely affect its financial position and results, or (ii) to seek additional external capital contributions on terms that might not be favorable.

E. AFL is exposed to financial risks.

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, 2020, the ALT gap between AFL's assets and liabilities was 1.39 years and the NSFR ratio was 197%.

- 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, 2020, AFL had a liquidity reserve of €1,296.5 million providing it with more than 12 months of its cash flow needs.[5] The regulatory 30-day liquidity ratio (LCR) stood at 626%.

- 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.

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

At June 30, 2020, the net carrying amount of financial assets measured at fair value through equity amounted to €518 million and the impact of gains and losses recognized directly in other comprehensive income to -€3.3 million.

The current high volatility in the financial markets related to the Covid-19 epidemic and the sudden fall in oil prices have led to an overall significant fall in the price of financial instruments and pressure in the bond market.

AFL resumed its refinancing transactions in April 2020 and 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.

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 or quasi-systematic macro-hedging AFL's debts and the loans it granted in order to transform them into variable-rate debts or loans indexed to 3-month Euribor reference through the use of interest rate swaps. The hedges implemented introduce a liquidity risk - based on interest rate changes - due to margin calls, as well as a credit risk on the swap counterparty banks or the LCH Clearnet clearing house.

At June 30, 2020, the interest rate hedging strategy was reflected in an outstanding notional amount of swaps of €8.8 billion. The amount of margin calls paid, net of the amount of margin calls received, with respect to interest rate derivatives, stood at €84.31 million.

Nevertheless, an exposure to interest rate risk remains which may result in particular from (i) the use of part of AFL's equity capital in fixed-rate loans granted to local authorities or (ii) certain short-term positions. A change in interest rates could have an adverse impact on AFL's net present value and on future results.

At June 30, 2020, the sensitivity of the net present value (NPV) of AFL's equity capital was +0.5% assuming a parallel shift of more than 100 basis points and +1.3% assuming a shift of more than 200 basis points in the yield curve.

	6/30/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016	Limit
Sc. +100bp	0,5%	-3,2%	-3,8%	-3,7%	-7,9%	±15%
Sc. -100bp	-0,2%	4,0%	4,6%	4,4%	9,0%	±15%
Sc. -100bp (floor)	0,0%	2,0%	2,4%	2,3%	2,2%	±15%
Sc. +200bp	1,3%	-5,8%	-7,1%	-6,7%	-11,8%	±15%
Sc. -200bp	0,0%	8,9%	10,0%	9,7%	15,7%	±15%
Sc. -200bp (floor)	0,0%	2,0%	2,6%	2,5%	2,2%	±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, 2020, NPV sensitivity to the various scenarios is shown in the table below.

	6/30/2020	12/31/2019	12/31/2018	Limit
+200 bps parallel translation	1,3%	-5,8%	-5,7%	±15%
-200 bps parallel translation	0,0%	8,9%	8,6%	±15%
Short term interest rate increase	4,2%	2,4%	-8,4%	±15%
Short term interest rate decrease	-4,4%	-2,5%	9,0%	±15%
Steepening	-3,9%	-5,4%	-8,2%	±15%
Flattening	4,3%	4,8%	8,9%	±15%

During the first half of 2020, the sensitivity of AFL's net present value to various scenarios of interest rate changes remained less than 15% of equity capital.

In addition, market concerns about the impact of the Covid-19 epidemic on the economy could lead to pressures on short-term rates likely to impact AFL's position.

Lastly, it should be noted that the market authorities are considering replacing or changing the methodology of monetary indices (the Euribor index in particular), some of which are used by AFL either in its interest rate hedging transactions or in medium- to long-term loans, to alternative indices based more on transactions than on the fixings of market participants. While market authorities working on these changes are aware of the potential systemic impacts related to these changes and seek to avoid them, this change could generate a loss in net banking income and/or impact AFL's 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, 2020, the notional outstanding amount of currency swaps stood at €705 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 paid, net of the amount of margin calls received, with respect to these hedging instruments, stood at €2.75 million at June 30, 2020.

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).

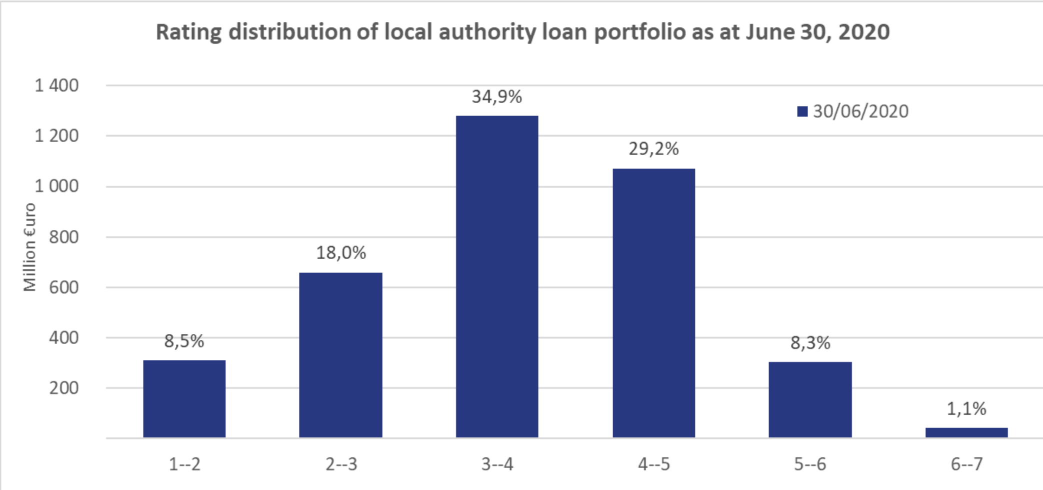
The local and regional authority members are local authorities within the meaning of article 72 of the Constitution, i.e. EPCIs (groupings of municipalities) with their own tax system, with legal personality, legal financial autonomy and the power to freely administer themselves under the conditions pursuant to the law, regional public institutions referred to in article L. 5219-2 of the French General Local and Regional Authorities Code and in accordance with the Law on Commitment and Proximity, in force since May 2020 for unions.

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 the ST, on the proposal of the Management Board and the opinion of the Supervisory Board of AFL based on three criteria: (i) solvency, (ii) budgetary 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, 2020, this portfolio was more than 26% exposed to local authorities with ratings between 1 and 2.99. The five largest exposures accounted for 13.4% of assets. The largest exposure accounted for 2.8% of assets and the fifth-largest for 2.6%. At June 30, 2020, the average rating of loans granted by AFL to its members, weighted by outstanding amount, stood at 3.65 (on the basis of 2018 accounting data for the local authorities. 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.

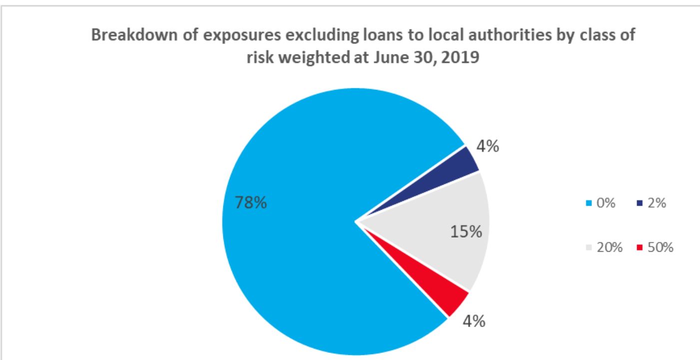
To the extent that AFL grants loans only to local authority members, AFL naturally shows a high concentration of its credit risk on a unique type of market participant. AFL is therefore exposed to the potential deterioration of this sector's situation (see also risk factor B).

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 68% of exposures rated equal to or greater than Aa2 on Moody's scale at June 30, 2020. The weighted average risk of this portfolio is 5%. The exposures of the liquidity reserve are heavily weighted on very low risk classes: 78% of the portfolio is invested in risk categories weighted at 0%, 4% in risk categories weighted at 2%, 15% in risk categories weighted at 20% and 4% 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.

Doubtful receivables, disputed claims, provisions

At June 30, 2020, the amount of doubtful or disputed loans was €6.8 million, or 0.1% of the AFL's loan portfolio, which demonstrates its very good quality. Under French GAAP, no collective impairment or specific impairment was recorded on loans granted to local authorities or on other assets at June 30, 2020.

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

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

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

Stage 3 covers credit-impaired assets and commitments.

Impairments are calculated on these three categories with respect to expected credit losses. They are based on one-year expected credit losses (stage 1) or at the asset's maturity (stages 2 and 3). Impairments are based on future economic scenarios, with a probability of occurrence.

	6/30/2020				12/31/2019			
IFRS 9 stages distribution	Agence France Locale - SO Consolidated - IFRS				Agence France Locale - SO Consolidated - IFRS			
	Gross exposures in EUR		Provisions in EUR		Gross exposures in EUR		Provisions in EUR	
Stage 1	4 942 730 985	99,6%	444 263	98,0%	4 059 110 566	99,9%	8 502	114,0%
Stage 2	12 055 351	0,2%	6 592	1,5%	4 306 811	0,1%	1 043	-14,0%
Stage 3	6 839 689	0,1%	2 430	0,5%	-	0,0%	-	0,0%
Total	4 961 626 025	100%	453 275	100%	4 063 417 377	100%	7 459	100%

The cost of risk in the first half of 2020 stood at €453,000 compared to a cost of risk recognized in the first half of 2019 of €7,500. This significant increase concerns outstanding amounts in stage 1 and corresponds to the change in the weighting of the underlying macroeconomic scenarios in the model, due to the health crisis linked to the Covid-19 epidemic.

Furthermore, it should be noted that some loans were reclassified as stage 2 and two new loans were reclassified as stage 3 with no effect on the overall level of provisions given the high recovery rate expected for these loans. Lastly, given the credit quality of the liquidity reserve assets and the absence of any credit events on these assets during the period, the "low risk" nature of the liquidity reserve assets was maintained.

The provisioning rate increased from less than 1 bp of outstanding amounts at December 31, 2019 to 1.8 bp at June 30, 2020.

F. AFL is exposed to non-financial risks.

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

Due to its business model and in view of the context its activities were started in, AFL relies on a limited number of people (29 employees at June 30, 2020) to conduct its operations. 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 health crisis related to the Covid-19 epidemic as mentioned in risk factor A.

- *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 communication and information systems are key to the activity and to AFL's ability to operate due to its activity 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 risk factor A.

- *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. 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 subject to any litigation during the half-year ended June 30, 2020. 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, 2020, the capital requirements on a consolidated basis that AFL-ST must comply with in terms of the solvency ratio were 9.25% - excluding counter-cyclical buffer requirements:

8% applicable to all credit institutions,

1.25% with respect to its Pillar 2, unchanged.

Due to the health crisis, credit institutions are authorized by their supervisors to use the 2.5% capital conservation buffer usually imposed.

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.

2. Methods of calculating capital ratios

On June 24, 2020 the European Parliament and the Council published Regulation 2020/873 amending Regulations 575/2013 (CRR) and 2019/876 (CRR2) to allow institutions to smooth the impacts of the crisis related to the Covid-19 epidemic over time.

AFL used two measures from this regulation, called "CRR Quick Fix":

- The add-back of unrealized capital losses on sovereign securities at fair value recognized since January 1, 2020 into prudential capital,
- The deduction of central bank exposures from the denominator of the leverage ratio.

These changes are applicable as of June 24, 2020; the add-back of unrealized capital gains on sovereign securities is 100% in 2020, 70% in 2021 and 40% in 2022. The deduction of central bank exposures is authorized for 1 year.

In addition and in accordance with regulation 2019/876 (CRR 2), AFL applied to the French Prudential Supervision and Resolution Authority (ACPR) on March 10, 2020 to be granted the status of a public development credit institution and for its loans granted to French local authorities to be recognized as incentive loans.

As a reminder, the status of a public development credit institution is very close to that of a development bank (Commission Delegated Regulation (EU) 2015/63 of October 21, 2014 supplementing Directive 2014/59/EU of the European Parliament and of the Council concerning ex ante contributions to the financing arrangements for the resolution) which allow it to make a reduced contribution to the single resolution fund. AFL is a development bank with respect to this regulation.

Obtaining the status of a public development credit institution would enable AFL to deduct the loans granted to French local authorities from the denominator of the leverage ratio.

This measure would be applicable as of the official implementation of the leverage ratio, i.e. the closing date of June 30, 2021 for Agence France Locale.

3. Prudential and capital ratios at June 30, 2020

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, 2020, prudential capital stood at €128.1 million. Given the quality of credit of the assets carried by AFL, the solvency ratio reached 15.30% on a consolidated basis. The leverage ratio stood at 2.80% on that same date.

Solvency				
	6/30/2020	12/31/2019	12/31/2018	12/31/2017
CET1 (KEUR)	128 090	123 768	115 642	114 232
Solvency ratio	15,30%	15,78%	18,89%	24,00%
Leverage				
	6/30/2020	12/31/2019	12/31/2018	12/31/2017
Leverage ratio (CRR:	9,46%	11,98%	11,69%	10,41%
Leverage ratio (CRR	2,80%	2,78%	3,28%	4,17%
*in the event that the AFL is recognized as a public development lending institution				

In the event that AFL is eligible for the status of public development credit institution allowing the deduction of incentive loans from the assets on its balance sheet, the leverage ratio would amount to 9.46% at June 30, 2020.

Implementation of the "CRR Quick Fix" measures in Regulation 2020/873 had two impacts of AFL's equity ratios:

- On one hand, the €1.2 million increase in CET 1 due to the add-back of 100% of the unrealized capital gains recognized on sovereign securities during the health crisis[6],
- On the other hand, the deduction of €448 million in central bank exposures from the denominator of the leverage ratio.

The table below shows the prudential ratios and equity before and after the impact of the "CRR Quick Fix" regulation:

Solvency as of 6/30/2020		
	"CRR Quick Fix" applied*	"CRR Quick Fix" not applied
CET1 (KEUR)	128 090	126 882
Solvency ratio	15,30%	15,16%
Leverage as of 6/30/2020		
	"CRR Quick Fix" applied*	"CRR Quick Fix" not applied
Leverage ratio (CRR2)	9,46%	9,37%
Leverage ratio (CRR)	2,80%	2,53%
*in the event that the AFL is recognized as a public development lending institution		

VIII. Outlook for the 2020 financial year and events since the balance sheet date

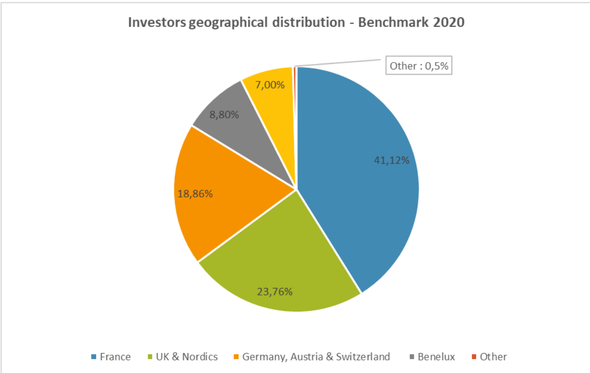
In line with the 2017-2021 strategic plan, AFL continues its development with a rapid increase in the size of the balance sheet following the development of its loan activities with member local authorities and the programming of new capital increases allowing the arrival of an increasing number of new 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, there will be several capital increases before the end of the year allowing the arrival of new local authority members. In addition, the resilience of the local authority agency funding model, despite the troubled economic and financial situation, should make it possible to resume earnings forecasts when the results for the first half of 2020 are announced.

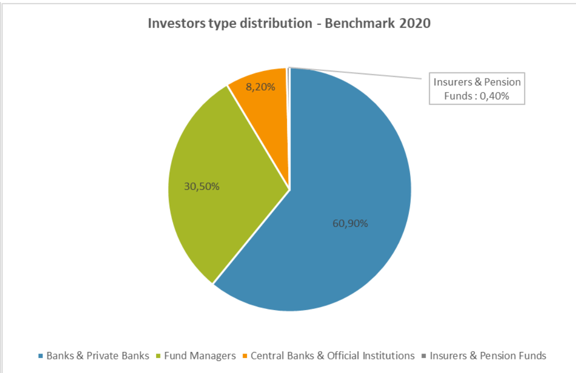
[6] After taking into account deferred tax assets, the reintegration will be 70% in 2021 and 40% in 2022.

1. Financial market transactions in the second half of 2020

Since the end of the first half of the financial year, AFL has continued to carry out its annual funding program and on July 13, 2020 issued its first "Sustainable" (bond issue) for €500 million with a 7-year maturity at a margin of 35 basis points over the French Government bond (OAT) curve. Traded on the regulated market of the Paris Stock Exchange (Euronext), this issue was characterized in particular by very broad investor participation.

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





In addition, two private placements, each for €50 million and with maturities of 20 years, were issued at margins of 31.5 and 33 basis points over the OAT curve, respectively. These transactions are advantageous as a complement to the borrowing program for 2020 by increasing the liquidity available for AFL's credit activity while extending the average life of its liabilities.

At August 31, 2020, AFL had completed 72% of its loan program for 2020.

2. Loan production in the second half of 2020

At August 31, 2020, AFL's loan commitments totaled €3,700 million and medium- to long-term loan production to member local authorities since the beginning of the financial year totaled €434.5 million.

Following its first sustainable bond issue on July 13, 2020, AFL announced on July 15 that it would make €500 million of sustainable financing available through loans to local authority members. Thanks to this innovative approach, AFL can finance or refinance the eligible local and environmental investments of its members.

To this end, the AFL has listed the expenditure of its local authority shareholders in three main investment categories:

1. Access to essential social and basic services;
2. The energy and ecology transition; and
3. Sustainable infrastructure, cities and regional cohesion.

Matched with one or more of the UN's sustainable development goals, this system makes it possible to evaluate, for each local authority, a portion of the investment expenditure eligible for AFL's "sustainable financing", without having to provide specific information related to the project specifications.

3. Membership in the second half of 2020

AFL-ST's Board of Directors opened a 26th capital increase on September 25, 2020 for €5 587 700. At the same time, AFL's Management Board opened a 26th capital increase on September 25, 2020 for €5 500 000 euros.

4. Forecasts

In a press release published on June 10, 2020, AFL suspended its forecasts in view of the health crisis and its economic and financial consequences, while specifying that no major consequences were expected on its results for the first half of 2020 to the extent that, given a stable level of expenses, its results come mainly from the interest, net of hedging, generated by the outstanding loans on the Company's balance sheet.

In addition, AFL considers that the set of measures that have been taken at both the French governmental and European Union levels will enable it to once again forecast its results for 2020 and 2021 on the basis of realistic and cautious assumptions. Although these forecasts have been prepared on the basis of assumptions and estimates[7] deemed reasonable by AFL, no commitment can be given that it will achieve these forecasts, likely to be affected by the occurrence of both endogenous and exogenous factors, known or unknown, and over which AFL does not necessarily have control.

(i) Forecasts of the main balance sheet items 2020-2021 (in € million)

	2020	2021
Loans and advances to customers	3,589	4,193
Liquidity reserve[8]	1,185	1,544
Debt securities issued	4,732	5,695
Equity capital (including the results for the financial year)	137	149

(ii) Components of results calculation, 2020-2021 projections (in € million)

	2020	2021
Net banking income	11,585	13,019
Operating expenses	11,362	10,914
Gross operating income	223	2 105

[7] The assumptions considered include in particular the overall volume of the borrowing market, the Issuer's market share, the increase in shareholders' equity, loan production, refinancing conditions, the return on liquidity reserve assets and forecasts of operating expenses, it being understood that these may vary from the position set out in this paragraph.

[8] This line corresponds to part of the proceeds of the debt issued by AFL, whose purpose is to fund its liquidity reserve to meet prudential requirements and its operating needs.

Certification of the half-yearly financial report for the six-month period ended June 30, 2020

I, the undersigned, Thiébaut Julin, acting in my capacity as Chief Executive Officer, member of the Management Board, and Chief Financial Officer of Agence France Locale, certify that, to my knowledge, the [summary or complete] 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 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 financial report presents a true picture of the events 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 year.

Lyon, September 28, 2020,

Thiébaut Julin

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

HALF-YEARLY FINANCIAL STATEMENTS

I. Half-yearly financial statements prepared according to IFRS

AGENCE FRANCE LOCALE IFRS GAAP

BALANCE SHEET

Assets as of june 30, 2020

(€ '000s)	Notes	30/06/2020	31/12/2019
Cash, central banks	5	448,057	165,604
Financial assets at fair value through profit or loss	1	17,775	15,962
Hedging derivative instruments	2	179,899	130,957
Financial assets at fair value through other comprehensive income	3	518,012	535,900
Securities at amortized cost	4	190,546	135,387
Loans and receivables due from credit institutions and similar items at amortized cost	5	228,513	189,822
Loans and receivables due from customers at amortized cost	6	3,411,437	3,160,500
Revaluation adjustment on interest rate risk-hedged portfolios		26,812	14,284
Current tax assets			
Deferred tax assets	7	6,468	5,635
Accruals and other assets	8	615	381
Intangible assets	9	1,861	2,098
Property, plant and equipment	9	1,288	171
Goodwill			
TOTAL ASSETS		**5,031,283**	**4,356,701**

Liabilities as of June 30, 2020

(€ '000s)	Notes	30/06/2020	31/12/2019
Central banks		127	26
Financial liabilities at fair value through profit or loss	1	17,823	15,476
Hedging derivative instruments	2	263,953	173,597
Debt securities	10	4,618,004	4,036,974
Due to credit institutions	11	1,587	4,236
Due to customers			
Revaluation adjustment on interest rate hedged portfolios			
Current tax liabilities			
Deferred tax liabilities	7		19
Accruals and other liabilities	12	3,580	2,310
Provisions	13	113	207
Equity		**126,097**	**123,854**
Equity, Group share		**126,097**	**123,854**
Share capital and reserves		151,000	146,800
Consolidated reserves		(21,380)	(20,189)
Reevaluation reserve			
Gains and losses recognised directly in equity		(3,499)	(1,566)
Profit (loss) for the period		(24)	(1,191)
Non-controlling interests			
TOTAL LIABILITIES		**5,031,283**	**4,356,701**

Income statement

(€ '000s)	Notes	30/06/2020	30/06/2019	31/12/2019
Interest and similar income	14	43,790	37,006	77,822
Interest and similar expenses	14	(37,516)	(32,367)	(67,747)
Fee & Commission Income	15	75	35	178
Fee & Commission Expense	15	(62)	(45)	(105)
Net gains (losses) on financial instruments at fair value through profit or loss	16	(623)	(2,567)	(2,444)
Net gains or losses on financial instruments at fair value through other comprehensive income	17	425	2,874	3,363
Income on other activities				
Expenses on other activities				
NET BANKING INCOME		**6,088**	**4,936**	**11,066**
Operating expenses	18	(4,918)	(4,887)	(9,354)
Net depreciation, amortisation and impairments of tangible and intangible assets	9	(871)	(1,146)	(2,221)
GROSS OPERATING INCOME		**299**	**(1,097)**	**(508)**
Cost of risk	19	(453)	(7)	5
OPERATING INCOME		**(155)**	**(1,104)**	**(503)**
Net gains and losses on other assets	20	(21)		(461)
INCOME BEFORE TAX		**(175)**	**(1,104)**	**(964)**
Income tax	7	152	74	(227)
NET INCOME		**(24)**	**(1,030)**	**(1,191)**
Non-controlling interests				
NET INCOME GROUP SHARE		**(24)**	**(1,030)**	**(1,191)**
Basic earnings per share (in EUR)		(0.02)	(0.71)	(0.81)
Diluted earnings per share (in EUR)		(0.02)	(0.71)	(0.81)

Net income and other comprehensive income

(€ '000s)	30/06/2020	30/06/2019	31/12/2019
Net income	**(24)**	**(1,030)**	**(1,191)**
Items will be reclassified subsequently to profit or loss	**(1,685)**	**278**	**(156)**
Revaluation of financial assets at fair value through other comprehensive income recyclable to income	(2,303)	366	(213)
Other items recognized through other comprehensive income recyclable to income			
Related taxes	618	(88)	57
Elements not recyclable in profit or loss	**(248)**	**(9)**	**(9)**
Revaluation in respect of defined benefit plans		(9)	(9)
Revaluation of financial instruments at fair value through other comprehensive income not recyclable to income	(331)		
Other items recognized through other comprehensive income not recyclable to income			
Related taxes	83		
Total gains and losses recognized directly in equity	**(1,933)**	**269**	**(164)**
COMPREHENSIVE INCOME	**(1,957)**	**(760)**	**(1,356)**

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 2019	**138,700**	**-**	**(18,468)**	**(1,411)**	**-**	**-**	**-**	**(1,712)**	**117,109**	**-**	**117,109**
Increase in share capital	8,100								8,100		8,100
Elimination of treasury shares											
Allocation of profit 2018			(1,712)					1,712			
Dividends 2018 paid											
Sub-total of changes linked to transactions with shareholders	**8,100**	**-**	**(1,712)**	**-**	**-**	**-**	**-**	**1,712**	**8,100**	**-**	**8,100**
Changes in fair value through equity				(397)					(397)		(397)
Change in value of through profit or loss				184					184		184
Changes in actuarial gains on retirement benefits			(9)						(9)		(9)
Related taxes				57					57		57
Changes in gains and losses recognized directly in equity	**-**	**-**	**(9)**	**(156)**	**-**	**-**	**-**	**-**	**(164)**	**-**	**(164)**
2019 Net income								(1,191)	(1,191)		(1,191)
Sub-total	**-**	**-**	**(9)**	**(156)**	**-**	**-**	**-**	**(1,191)**	**(1,356)**	**-**	**(1,356)**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 31 December 2019	**146,800**	**-**	**(20,189)**	**(1,566)**	**-**	**-**	**-**	**(1,191)**	**123,854**	**-**	**123,854**
Increase in share capital	4,200 (1)								4,200		4,200
Elimination of treasury shares											
Allocation of profit 2019			(1,191)					1,191			
Dividends 2019 paid											
Sub-total of changes linked to transactions with shareholders	**4,200**	**-**	**(1,191)**	**-**	**-**	**-**	**-**	**1,191**	**4,200**	**-**	**4,200**
Changes in fair value through equity				(2,487)					(2,487)		(2,487)
Change in value of through profit or loss				184					184		184
Revaluation of financial instruments at fair value through other comprehensive income not recyclable to income							(331)		(331)		(331)
Changes in actuarial gains on retirement benefits											
Related taxes				618			83		701		701
Changes in gains and losses recognized directly in equity	**-**	**-**	**-**	**(1,685)**	**-**	**-**	**(248)**	**-**	**(1,933)**	**-**	**(1,933)**
30 June 2020 Net income								(24)	(24)		(24)
Sub-total	**-**	**-**	**-**	**(1,685)**	**-**	**-**	**(248)**	**(24)**	**(1,957)**	**-**	**(1,957)**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 30 June 2020	**151,000**	**-**	**(21,380)**	**(3,251)**	**-**	**-**	**(248)**	**(24)**	**126,097**	**-**	**126,097**

(1) The share capital of Agence France Locale - which amounts on 30 of June, 2020 to € 151,000,000 consists of 1,510,000 shares. The Company carried out two capital increases during the first year-half 2020 for the benefit of the Territorial Company, its parent company, they were subscribed on 19th March, 2020 for € 3,200k and on 15th June, 2020 for € 1,000k.

Cash flow statement

(€ '000s)	30/06/2020	31/12/2019
Net income before taxes	**(175)**	**(964)**
+/- Net depreciation and amortisation of tangible and intangible non-current assets	871	2,221
+/- Net provisions and impairment charges	274	113
+/- Expense/income from investing activities	(839)	(6,024)
+/- Expense/income from financing activities	290	474
+/- Other non-cash items	671	(615)
= Non-monetary items included in net income before tax and other adjustments	**1,268**	**(3,831)**
+/- Cash from interbank operations		
+/- Cash from customer operations	(181,452)	(857,188)
+/- Cash from financing assets and liabilities	(21,853)	(36,808)
+/- Cash from not financing assets and liabilities	(2,544)	4,236
- Income tax paid		
= Decrease/(increase) in cash from operating activities	(205,850)	(889,759)
= CASH FLOW FROM OPERATING ACTIVITIES (A)	**(204,758)**	**(894,555)**
+/- Flows linked to financial assets and investments	(51,368)	(24,639)
+/- Flows linked to investment properties		
+/- Flows linked to tangible and intangible non-current assets	(470)	(748)
= CASH FLOW FROM INVESTING ACTIVITIES (B)	**(51,837)**	**(25,387)**
+/- Cash from or for shareholders	4,200	8,100
+/- Other cash from financing activities	544,053	964,293
= CASH FLOW FROM FINANCING ACTIVITIES (C)	**548,253**	**972,393**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)		
Increase/(decrease) in cash equivalents (A + B+ C + D)	**291,658**	**52,452**
Cash flow from operating activities (A)	(204,758)	(894,555)
Cash flow from investing activities (B)	(51,837)	(25,387)
Cash flow from financing activities (C)	548,253	972,393
Effect of changes in exchange rates on cash and cash equivalents (D)		
Cash and cash equivalents at the beginning of the period	**181,209**	**128,757**
Cash and balances with central banks (assets & liabilities)	165,609	121,654
Interbank accounts (assets & liabilities) and loans/deposits at sight	15,600	7,103
Cash and cash equivalents at the end of the period	**472,867**	**181,209**
Cash and balances with central banks (assets & liabilities)	448,082	165,609
Interbank accounts (assets & liabilities) and loans/deposits at sight	24,784	15,600
CHANGE IN NET CASH	**291,658**	**52,452**

NOTES TO THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

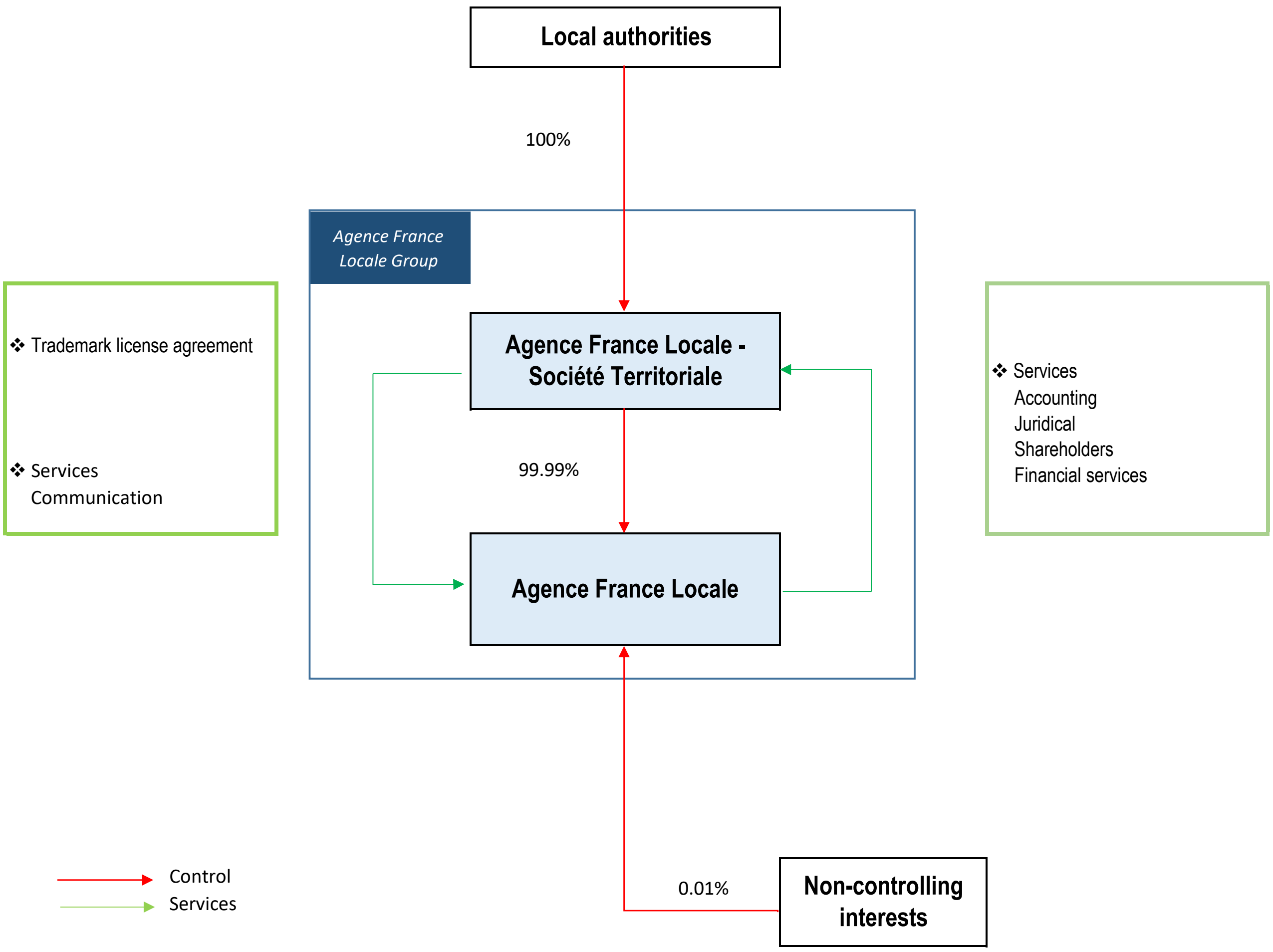
General framework

AFL (« Agence ») presentation

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

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

The diagram below shows the structure of the AFL group:



I - Publication context

The half-year financial statements were approved by the Board of Directors as of September 7, 2020.

II - Highlights from the first half year

AFL is pursuing an annual target of 800 million euros. As of June 30, 2020, production over the period with member amounted to € 247.5 million compared to € 166.3 million during the first half of 2019, for 68 credit contracts with an average maturity of 16.8 years. To this is added a production of € 52.8 million short-termfacilities. Although seasonal, the use of borrowing by local authorities was more dynamic in the first half of 2020 than it had been in previous years, despite the municipal elections held in the first half of 2020, and which generally result in a decrease in investments and hence in financing needs.

In January 2020, the AFL performed three EMTN issues constituting contributions immediately fungible with existing bond issues. The first is an Australian dollar denominated issue with a size of AUD 65 million, or 40.2 million euros equivalent, matches an existing issue maturing in June 2030 at an issue margin of 19 basis points above the Obligations Assimilables du Trésor (OAT) curve. The second transaction for an amount of 100 million euros, which is a fungible issue of June 2026 maturity debt, was made at OAT plus 27.3 basis points. Finally, two transactions of 60 million euros each, topping up the stock in euros due June 2028, carried out at 26.3 and 35 basis points above the OAT.

On June 11, 2020, the AFL originated the central bank loan mobilization system (TRiCP - Data Processing of Private Claims) which provides it with a line of credit, available at any time, from the Banque de France for' an amount of 70% of its medium-to-long-term loan balance sheet, i.e. € 2,279 million as of June 30, 2020.

During the first half of 2020, the AFL-ST, pursuing its corporate purpose, subscribed to AFL's capital for an amount of 4.2 million euros in the context of two capital increases during the first half of the year 2020 for the benefit of Société Territoriale, its parent company. They were subscribed on March 19, 2020 for € 3,200K and on June 15, 2020 for € 1,000K.

The first half of 2020 marks a further increase in net banking income related to the loan business, 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 € 6,088K. It corresponds to an interest margin of € 6,274K, to capital gains on the sale of investment securities of € 83K after taking into account the result of ending hedging relationship which relates to the management of the liquidity reserve, commission income of € 12K and a reversal on the depreciation of investment securities of € 281K.

These results should be compared with those of the first half of 2019 at the end of which the NBI amounted to € 4,936K, corresponding mainly to a net interest margin of € 4,639K, to capital gains on the sale of securities of € 409K after taking into account the result of ending hedging relationship, to commission charges of € 10K and a reversal of depreciation of investment securities of € 103K.

The interest margin of € 6,274K, realized on June 30, 2020, originates mainly from the following three elements:

• Income related to the loan portfolio in the amount of € 3,741K, once their hedging has been restated;

• Income related to the management of the liquidity reserve, negative € 1,605K, due to interest rates deeply in negative territory during the period; and

• The interest charge on the debt and collateral, which for the reasons indicated above, represents a source of income amounting to € 4,138K, once the income from its coverage is taken into account.

During the first half of the year, portfolio management of the liquidity reserve led to € 425K in income on sales of investment securities and € 342K in loss on termination of interest rate hedging instruments for securities that were dispoed, ie a net amount of capital gains on disposals of € 83K which breaks down into € 207K of capital losses on disposals and € 290K of capital gains on disposals.

Net income from hedge accounting comes from two items. First of all, it comes from the sale of interest rate hedging of fixed-income securities for €-342K and secondly €-281K 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, € 882K relate to valuation differential charges on instruments classified as macro-hedges and €-867K 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, 2020, general operating expenses represented € 4,918K compared to € 4,887K as of June 30, 2019. They account for € 2,486K in personnel costs compared to 2,458K € for the first semester of the previous year and € 2,483K for administrative expenses against € 2,480K for the first half of 2019. This slight increase in administrative expenses can be explained by the increase in taxes, which went from € 410K to June 30, 2019 at 530K € as of June 30, 2020.

Depreciation charges at June 30, 2020 amounted to € 807K compared to € 1,146K at June 30, 2019, a decrease of € 339K which corresponds to the end of the depreciation of the first tranche of the information system and which includes also the application of IFRS 16 following the AFL's decision to occupy new premises, notably with the establishment of a new commercial lease, after leaving its former offices at the Tour Oxygene.

After depreciation and amortization, gross operating income at June 30, 2020 stood at € 299K, compared to € -1,097K for the first half of 2019.

The cost of risk relating to ex ante depreciation for expected losses on financial assets under IFRS 9 is negative over the first half of 2020 of € 453K, reflecting an increase in provisions. In fact, given the nature of the assets carried on the AFL's balance sheet, the increase in provisions comes from the effects of the health crisis and from the change of the assumptions made for macroeconomic scenarios by asset class. In addition, we will note the requalification in stage 2 of a few credits and the transition to stage 3 of 2 new credits without any effect on the level of provisions given the high expectation of recovery of these credits. Finally, given the credit quality of the assets in the liquidity reserve and the absence of any credit event during the period on them, the "low risk" character of the assets in the liquidity reserve is maintained.

After cost of risk related to IFRS 9, the operating income as of June 30, 2020 stands at -155K €, compared to -1,104K € on 30 June 2019.

Finally, after the scrapping of € 21K of intangible assets and the activation of deferred tax assets of € 152K related to IFRS restatements, the first half of fiscal year 2020 thus ended in negative net income of 24K € compared to a loss of 1,030K € for the first half of the previous year, a period which, as indicated above, was characterized by capital gains on the sale of securities of a non-recurring level of 409K € .

Subsequent events

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

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

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

The condensed interim financial statements for the half-year ended June 30, 2020 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 2019.

Health crisis linked to Covid-19

In December 2019, a new form of coronavirus (Covid-19) appeared in China. The virus has spread out to many countries becoming pandemic in March 2020. Very important health measures have been taken at national level in most countries to prevent the transmission of the virus (border closing, travel ban, containment measures, etc.). To date, however, the pandemic is still not contained and new measures are being implemented on the date of closing of the half-yearly accounts.

Due to the internationalisation of economies, the considerable weight of trade and the internationalisation of supply chains, the effects of the pandemic affect all countries and economies without exception.

The consequences of this crisis for AFL are mainly at three levels:

• During the first half of 2020, the French local public sector financing market, which constitutes the market in which AFL realises all of its credit operations, was significantly affected by the health crisis linked to the Covid-19 epidemic, which notably resulted in the postponement of the second round of municipal elections. The recession in France should result in a contraction of part of the tax and revenues of local authorities, which could reduce in the short and medium term their self-financing capacity and hence their investment expenditure and possibly their borrowing needs even if it is traditionally less supported at the start of the mandate at the municipal level.

• The considerable increase in public debt in France, as a result of government expenditure to support households and businesses, will lead AFL to an increase in its cost of market refinancing, this being strongly linked to the price at which the French government itself borrows from investors. Beyond the public debt in France, the high level of State debt in general, following the budgetary support policies that have been implemented, could have significant negative impact on the situation of the financial markets on which AFL operates as well as on the quality of these counterparties, on which AFL is largely dependent because of its business model.

However, in the environment described above, AFL's medium and long-term loan production was dynamic with 247.5 million euros for the first half of 2020 and AFL was able to resume its refinancing operations from April 2020.

Otherwise, given the measures taken by the French State to support economic activity in these exceptional circumstances, the public debt of the French State and the local authorities should experience a significant increase, which could lead to a deterioration in the quality of credit from France, the local authorities and consequently AFL. AFL's financial position has already been affected at the margin by the increase in spreads which impacted the cost of the refinancing, which could at this stage be passed to the borrowers.

This context of deteriorating economic conditions led to a significant increase in the cost of risk for AFL in the first half of the year. However, this increase in ex-ante provisions for expected losses under IFRS 9 is essentially the result of changes in the weighting of macroeconomic scenarii by asset class following the pandemic crisis, although the quality of assets on the balance sheet remains very high. The cost of risk amounted to € 453k at June 30, 2020 corresponding to 1.8 basis point of exposures for 1bp at December 31, 2019.

The current context of high volatility in financial markets linked to the Covid-19 pandemic and the sharp fall in oil prices have led to a generalized significant drop in the price of financial instruments and to tensions in the bond market. AFL's liquidity reserve was affected by the increase in spreads of securities in fair value which could have had a more negative impact on prudential capital without the so-called "CRR quick fix" measures. It should be mentioned that as of June 30, 2020, AFL has a liquidity reserve of € 1,778m allowing it to meet more than 12 months of its cash flow needs and the regulatory liquidity ratio at 30 days LCR is 626%. AFL can also count on the central bank loan mobilization system which provides it with a line of credit, available at any time, from the Banque de France for an amount of 70% of its outstanding medium & long term loan portfolio , i.e. € 2,279 million as of June 30, 2020.

V - Notes to the Balance Sheet

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

	30/06/2020		31/12/2019	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Financial assets held for trading	17,775	17,823	15,962	15,476
Financial assets at fair value option through profit or loss				
Total financial assets at fair value through profit or loss	**17,775**	**17,823**	**15,962**	**15,476**

Financial assets held for trading

	30/06/2020		31/12/2019	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Equity instruments				
Debt securities				
Loans and advances				
Derivatives	17,775	17,823	15,962	15,476
Total Financial assets held for trading	**17,775**	**17,823**	**15,962**	**15,476**

	30/06/2020				31/12/2019			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**439,928**	**439,928**	**17,775**	**17,823**	**493,058**	**493,058**	**15,962**	**15,476**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**439,928**	**439,928**	**17,775**	**17,823**	**493,058**	**493,058**	**15,962**	**15,476**
Interest rate contracts	357,050	357,050	17,775	17,823	411,050	411,050	15,336	15,476
FRA								
Cross Currency Swaps	82,878	82,878			82,008	82,008	626	
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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

Note 2 - HEDGING DERIVATIVES

Analysis by type of hedge

	30/06/2020		31/12/2019	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Derivatives designated as fair value hedges	175,938	232,857	125,690	152,729
Derivatives designated as cash flow hedges				
Derivatives designated as portfolio hedges	3,961	31,096	5,267	20,868
Total Hedging derivatives	**179,899**	**263,953**	**130,957**	**173,597**

Detail of derivatives designated as fair value hedges

	30/06/2020				31/12/2019			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**4,660,233**	**3,317,088**	**175,938**	**232,857**	**3,924,974**	**3,148,740**	**125,690**	**152,729**
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	**4,660,233**	**3,317,088**	**175,938**	**232,857**	**3,924,974**	**3,148,740**	**125,690**	**152,729**
Interest rate contracts	4,121,154	3,317,088	168,357	222,385	3,690,000	3,148,740	121,793	151,022
FRA								
Cross Currency Swaps	539,078		7,581	10,472	234,974		3,897	1,707
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	-	-	-	-	-	-	-	-

Detail of derivatives designated as interest rate hedged portfolios

	30/06/2020				31/12/2019			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**87,010**	**560,430**	**3,961**	**31,096**	**87,910**	**515,504**	**5,267**	**20,868**
Organised markets	-	-	-	-	-	-	-	-
Interest rate contracts								
Other contracts								
Over-the-counter markets	**87,010**	**560,430**	**3,961**	**31,096**	**87,910**	**515,504**	**5,267**	**20,868**
Interest rate contracts	87,010	560,430	3,961	31,096	87,910	515,504	5,267	20,868
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)	30/06/2020	31/12/2019
Government paper and similar securities	518,012	535,900
Bonds		
Other fixed income securities		
Net amount in balance sheet	**518,012**	**535,900**
Including depreciation	(413)	(245)
Including net unrealised gains and losses	16,735	13,248

Expected credit losses on debt instruments	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 31 December 2019	**(245)**	**-**	**-**	**-**
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	**(169)**	**-**	**-**	**-**
Acquisitions				
Re-estimate of parameters	(172)			
Bad debts written off				
On sales	4			
Expected losses as of 30 June 2020	**(413)**	**-**	**-**	**-**

Fixed-income securities - Analysis by contreparty

(€ '000s)	30/06/2020	31/12/2019
Local public sector	503,274	521,278
Financial institutions and other financial corporations	14,738	14,621
Non-financial corporations	-	-
Net amount in balance sheet	**518,012**	**535,900**

Fixed income securities held on Financial institutions include € 14,738k 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 31/12/2019	Additions	Disposals	Change in fair value recognised in equity	Change in accrued interest	Prem/Disc Amort.	Total amount as of 30/06/2020
Government paper and similar securities	535,900	393,047	(414,262)	3,335	163	(171)	518,012
Bonds	-	-	-	-	-	-	-
Other fixed income securities	-	-	-	-	-	-	-
TOTAL	**535,900**	**393,047**	**(414,262)**	**3,335**	**163**	**(171)**	**518,012**

Note 4 - SECURITIES AT AMORTIZED COST

Fixed-income securities - Analysis by nature

(€ '000s)	30/06/2020	31/12/2019
Government paper and similar securities	178,880	107,216
Bonds	11,666	28,171
Other fixed income securities		
Net amount in balance sheet	**190,546**	**135,387**
Including expected credit losses on debt instruments	(198)	(75)

Expected credit losses on securities at amortized cost	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 31 December 2019	**(75)**	**-**	**-**	**-**
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	**(123)**	**-**	**-**	**-**
Acquisitions	(124)			
Re-estimate of parameters	(15)			
Bad debts written off				
On sales	16			
Expected losses as of 30 June 2020	**(198)**	**-**	**-**	**-**

Fixed-income securities - Analysis by contreparty

(€ '000s)	30/06/2020	31/12/2019
Local public sector	141,157	48,083
Financial institutions and other financial corporations	49,389	87,304
Non-financial corporations		
Net amount in balance sheet	**190,546**	**135,387**

Fixed income securities held on Financial institutions include € 8,182k of securities guaranteed by States of the European Economic Area.

Changes in securities at amortized cost

(€ '000s)	Total amount as of 31/12/2019	Additions	Disposals	Interest rate Reevaluation	Change in accrued interest	Prem/Disc Amort.	Expected credit losses change	Total 30/06/2020
Government paper and similar securities	107,216	105,676	(35,612)	1,704	485	(464)	(124)	178,880
Bonds	28,171	-	(16,534)	4	-	23	2	11,666
Other fixed income securities	-	-	-	-	-	-	-	-
TOTAL	**135,387**	**105,676**	**(52,146)**	**1,707**	**485**	**(441)**	**(123)**	**190,546**

Note 5 - RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	30/06/2020	31/12/2019
Mandatory reserve deposits with central banks	448,082	165,609
Other deposits		
Cash and central banks	**448,082**	**165,609**
Impairment	(26)	(6)
Net amount in balance sheet	**448,057**	**165,604**

Receivables on credit institutions

(€ '000s)	30/06/2020	31/12/2019
Loans and receivables		
- on demand and short notice	24,786	15,601
- term	115,151	95,064
Cash collateral paid	88,630	79,190
Securities bought under repurchase agreements		
TOTAL	**228,566**	**189,855**
Impairment for expected losses	(54)	(33)
NET CARRYING AMOUNT	**228,513**	**189,822**

Note 6 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	30/06/2020	31/12/2019
Short-term credit facilities	38,619	9,971
Other loans	3,372,995	3,150,593
Customers transactions before impairment charges	**3,411,614**	**3,160,563**
Impairment	(177)	(63)
Net carrying amount	**3,411,437**	**3,160,500**
Of which individual impairment	(177)	(63)
Of which collective impairment		

Expected credit losses on loans and financing commitments	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 31 December 2019	**(94)**	**(7)**	**-**	**-**
Transfers from 12-month to maturity	0.2	(0.2)		
Transfers from maturity to 12-month				
Transfers from expected to incurred losses				
Total transfer movment	**0.2**	**(0.2)**	**-**	**-**
Movment attributable to financial instruments recognized over the period	**(147)**	**(9)**	**-**	**-**
Production and acquisition	(37)	(1)		
Re-estimate of parameters	(112)	(8)		
Bad debts written off				
Repayments	3	0.3		
Expected losses as of 30 June 2020	**(241)**	**(16)**	**-**	**-**

SUMMARY OF PROVISIONS ON SECURITIES, LOANS AND FINANCING COMMITMENTS

(€ '000s)	31/12/2019	Depreciation charges	Reversals amounts not used	Net charge	Utilised	30/06/2020
Financial assets at fair value through other comprehensive income						
Depreciations on performing assets	245	169		**169**		**413**
Depreciations on non-performing assets						**-**
Depreciations on doubtfull assets						**-**
Total	**245**	**169**		**169**		**413**
Financial assets at amortized cost						
Depreciations on performing assets	169	289	(19)	**270**		**439**
Depreciations on non-performing assets	7	9	(0.3)	**9**		**16**
Depreciations on doubtfull assets						**-**
Total	**176**	**298**	**(19)**	**279**		**455**

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	448,082			(26)			**448,057**
Financial assets at fair value through other comprehensive income	518,426			(413)			**518,012**
Securities at amortized cost	190,744			(198)			**190,546**
Loans and receivables due from credit institutions at amortized cost	228,566			(54)			**228,513**
Loans and receivables due from customers at amortized cost	3,394,109	11,024	6,480	(162)	(12)	(4)	**3,411,437**

Note 7 - DEFERRED TAX

The movement on the deferred tax account is as follows:

(€ '000s)	30/06/2020	31/12/2019
Net asset as at 1st of january	**5,616**	**5,671**
Of which deferred tax assets	5,635	5,671
Of which deferred tax liabilities	19	
Recognised in income statement	**152**	**(227)**
Income statement (charge) / credit	152	(227)
Recognised in equity	**701**	**172**
Financial assets at fair value through other comprehensive income	618	57
Cash flow hedges	83	
Other		114
Net asset as at	**6,468**	**5,616**
Of which deferred tax assets	6,468	5,635
Of which deferred tax liabilities		19

Deferred tax are attributable to the following items:

(€ '000s)	30/06/2020	31/12/2019
Financial assets at fair value through other comprehensive income	1,222	604
Cash flow hedges	83	
Losses carried forward	5,031	5,031
Other temporary differences	133	
TOTAL DEFERRED TAX ASSETS	**6,468**	**5,635**

(€ '000s)	30/06/2020	31/12/2019
Financial assets at fair value through other comprehensive income		
Cash flow hedges		
Other temporary differences		19
TOTAL DEFERRED TAX LIABILITIES	**-**	**19**

Note 8 - OTHER ASSETS AND ACCRUALS

(€ '000s)	30/06/2020	31/12/2019
Other assets		
Deposits	70	70
Other assets	88	76
Impairment		
Total	**158**	**146**
Accruals		
Prepaid charges	372	206
Other deferred income	61	
Transaction to recieve and settlement accounts	0.4	
Other accruals	24	30
Total	**458**	**236**
TOTAL OTHER ASSETS AND ACCRUALS	**615**	**381**

Note 9 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible fixed assets	31/12/2019	Additions	Transfers	Disposals	Amort. and provisions	Other	30/06/2020
Intangible fixed assets							
IT development costs	10,031	242				103	10,376
Other intangible assets	550			(388)			162
Intangible assets in progress	122	144				(103)	163
Intangible fixed assets gross amount	**10,703**	**387**	**-**	**(388)**	**-**	**-**	**10,702**
Depreciation and allowances - Intangible fixed assets	(8,606)			368	(603)		(8,841)
Intangible fixed assets net carrying amount	**2,098**	**387**	**-**	**(20)**	**(603)**	**-**	**1,861**

Tangible fixed assets	31/12/2019	Additions	Transfers	Disposals	Amort. and provisions	Other	30/06/2020
Commercial leases	206	1,232					1,438
Property, plant & equipment	841	83		(32)		(13)	879
Tangible fixed assets gross amount	**1,047**	**1,315**	**-**	**(32)**	**-**	**(13)**	**2,316**
Depreciation and allowances - Tangible fixed assets	(876)			32	(268)	84	(1,028)
Tangible fixed assets net carrying amount	**171**	**1,315**	**-**	**(0.4)**	**(268)**	**71**	**1,288**

Note 10 - DEBT SECURITIES

(€ '000s)	30/06/2020	31/12/2019
Negotiable debt securities	353,453	88,923
Bonds	4,264,550	3,948,052
Other debt securities		
TOTAL	**4,618,004**	**4,036,974**

NOTE 11 - DUE TO CREDIT INSTITUTIONS

(€ '000s)	30/06/2020	31/12/2019
Loans and receivables		
- on demand and short notice	17	9
- term		
Cash collateral paid	1,569	4,228
Securities bought under repurchase agreements		
TOTAL	**1,587**	**4,236**

Note 12 - ACCRUALS AND OTHER LIABILITIES

(€ '000s)	30/06/2020	31/12/2019
Other liabilities		
Miscellaneous creditors	2,990	1,618
Total	**2,990**	**1,618**
Accruals		
Transaction to pay and settlement accounts		
Other accrued expenses	561	661
Unearned income		
Other accruals	29	31
Total	**590**	**692**
TOTAL ACCRUALS AND OTHER LIABILITIES	**3,580**	**2,310**

Note 13 - PROVISIONS

(€ '000s)	Balance as of 31/12/2019	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 30/06/2020
Provisions						
Financing commitment execution risks	3	9		(3)		9
Provisions for litigations						
Provisions for employee retirement and similar benefits	75					75
Provisions for other liabilities to employees						
Other provisions	129		(37)	(64)		29
TOTAL	**207**	**9**	**(37)**	**(67)**	**-**	**113**

OFF-BALANCE SHEET

(€ '000s)	30/06/2020	31/12/2019
Commitments given	**339,506**	**317,666**
Financing commitments	280,511	317,666
For credit institutions		
For customers	*280,511*	*317,666*
Guarantee commitments	58,996	
For credit institutions		
For customers	*58,996*	
Commitments on securities		
Securities to be delivered to the issuance		
Other securities to be delivered		
Commitments received	**2,282**	**2,345**
Financing commitments		
From credit institutions		
Guarantee commitments	2,282	2,345
From credit institutions		
From customers	*2,282*	*2,345*
Commitments on securities		
Securities receivable		

EXPECTED LOSSES ON COMMITMENTS

Expected credit losses on loans and financing commitments	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 31 December 2019	**3**	**-**	**-**	**-**
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	6			
Charge	9			
Utilised				
Reversal untilised	(3)			
Expected losses as of 30 June 2020	**9**	**-**	**-**	**-**

VI - Notes to the Income Statement

Note 14 - INTEREST INCOME AND EXPENSES

(€ '000s)	30/06/2020	30/06/2019	31/12/2019
Interest and similar income	**43,790**	**37,006**	**77,822**
Due from banks	109	8	88
Due from customers	16,275	13,394	28,405
Bonds and other fixed income securities	1,050	1,129	2,024
Financial assets at fair value through other comprehensive income	*953*	*1,284*	*2,050*
Securities at amortized cost	*96*	*(155)*	*(26)*
Income from interest rate instruments	26,356	22,475	47,304
Other interest income			
Interest and similar expenses	**(37,516)**	**(32,367)**	**(67,747)**
Due to banks	(919)	(484)	(1,171)
Due to customers			
Debt securities	(12,399)	(10,717)	(23,451)
Expense from interest rate instruments	(24,198)	(21,166)	(43,125)
Other interest expenses			
Interest margin	**6,274**	**4,639**	**10,076**

Note 15 - NET FEE AND COMMISSION INCOME

(€ '000s)	30/06/2020	30/06/2019	31/12/2019
Fee & Commission Income	**75**	**35**	**178**
Interbank transactions			
Customer transactions	0.03	0.3	59
Securities transactions			
Forward financial instruments transactions			
Currencies transactions			
Financing commitments and guarantee	75	35	118
Other commissions recieved			
Fee & Commission Expense	**(62)**	**(45)**	**(105)**
Interbank transactions	(6)	(2)	(5)
Securities transactions			
Forward financial instruments transactions	(56)	(43)	(100)
Currencies transactions			
Financing commitments and guarantee			
Other commissions paid			
Net Fee and Commission income	**12**	**(10)**	**72**

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

(€ '000s)	30/06/2020	30/06/2019	31/12/2019
Gains/(losses) on Trading book	0.5	1	1
Net result of hedge accounting	(623)	(2,568)	(2,444)
Net result of foreign exchange transactions	(0.4)	(0.5)	(2)
TOTAL	**(623)**	**(2,567)**	**(2,444)**

Analysis of net result of hedge accounting

(€ '000s)	30/06/2020	30/06/2019	31/12/2019
Fair value hedges			
Fair value changes in the hedged item attributable to the hedged risk	49,050	10,233	13,724
Fair value changes in the hedging derivatives	(50,213)	(10,864)	(13,736)
Hedging relationship disposal gain	(342)	(2,466)	(2,862)
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	13,732	14,410	11,835
Fair value changes in the hedging derivatives	(12,850)	(13,882)	(11,404)
Net result of hedge accounting	**(623)**	**(2,568)**	**(2,444)**

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

(€ '000s)	30/06/2020	30/06/2019	31/12/2019
Gains from disposal of fixed income securities	656	2,972	3,734
Losses from disposal of fixed income securities	(232)	(98)	(371)
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	**425**	**2,874**	**3,363**

Note 18 - GENERAL OPERATING EXPENSES

(€ '000s)	30/06/2020	30/06/2019	31/12/2019
Employee expenses			
Wages and salaries	1,585	1,592	2,991
Post-employment benefit expenses	165	160	324
Other expenses	737	706	1,417
Total Employee expenses	**2,486**	**2,458**	**4,732**
Operating expenses			
Taxes and duties	530	410	495
External services	1,952	2,070	4,228
Total Administrative expenses	**2,483**	**2,480**	**4,723**
Charge-backs and reclassification of administrative expenses	(51)	(51)	(101)
Total General operating expenses	**4,918**	**4,887**	**9,354**

Note 19 - COST OF RISK

(€ '000s)	30/06/2020	30/06/2019	31/12/2019
Net charge to provisions	(447)	(9)	4
for financial assets at fair value through other comprehensive income	*(169)*	*(14)*	*(16)*
for financial assets at amortized cost	*(279)*	*5*	*20*
Net charge to provisions	(6)	2	2
for financing commitments	*(6)*	*2*	*2*
for guarantee commitments			
Irrecoverable loans written off not covered by provisions			
Recoveries of bad debts written off			
Total Cost of risk	**(453)**	**(7)**	**5**

Note 20 - NET GAINS AND LOSSES ON OTHER ASSETS

(€ '000s)	30/06/2020	30/06/2019	31/12/2019
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)		(461)
Charge of impairment			
Total Losses on other assets	**(21)**	**-**	**(461)**

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:

	30/06/2020			
	Total	Measured using		
(€ '000s)		Level 1	Level 2	Level 3
Financial assets				
Financial assets at fair value through profit or loss	**17,775**	-	17,775	-
Hedging derivative instruments	**179,899**	-	179,899	-
Government paper and similar securities	518,012	518,012	-	-
Bonds	-	-	-	-
Other fixed income securities	-	-	-	-
Total Financial assets at fair value through other comprehensive income	**518,012**	**518,012**	**-**	**-**
Total Financial assets	**715,686**	**518,012**	**197,674**	**-**
Financial liabilities				
Financial liabilities at fair value through profit or loss	**17,823**	-	17,823	-
Hedging derivative instruments	**263,953**	-	263,953	-
Total Financial liabilities	**281,775**	**-**	**281,775**	**-**

Fair values of instruments carried at amortised cost:

	30/06/2020				
	Net Carrying value	Fair value	Measured using		
(€ '000s)			Level 1	Level 2	Level 3
Financial assets					
Cash, central banks and issuing institutions	**448,057**	**448,057**	-	-	448,057
Government paper and similar securities	178,880	178,041	120,942	-	57,098
Bonds	11,666	11,611	11,611	-	-
Other fixed income securities	-	-	-	-	-
Total Securities at amortized cost	**190,546**	**189,651**	132,553	-	57,098
Loans and receivables due from credit institutions	**228,513**	228,513	-	-	228,513
Loans and advances to customers (*)	**3,438,249**	3,438,249	-	-	3,438,249
Total Financial assets	**4,305,365**	**4,304,470**	**132,553**	**-**	**4,171,917**
Financial liabilities					
Debt securities	**4,618,004**	4,600,021	3,786,064	460,504	353,453
Total Financial liabilities	**4,618,004**	**4,600,021**	**3,786,064**	**460,504**	**353,453**

(*) 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 2020 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 30/06/2020
Cash, central banks	448,082		(26)	**448,057**
Financial assets at fair value through profit or loss	17,775			**17,775**
Hedging derivative instruments	179,899			**179,899**
Financial assets at fair value through other comprehensive income	518,012			**518,012**
Securities at amortized cost	190,744		(198)	**190,546**
Loans and receivables due from credit institutions	228,566		(54)	**228,513**
Loans and advances to customers	3,405,134	6,480	(177)	**3,411,437**
Revaluation adjustment on interest rate hedged portfolios	26,812			**26,812**
Current tax assets				**-**
Other assets	158			**158**
Sub-total Assets	**5,015,183**	**6,480**	**(455)**	**5,021,208**
Financing commitments given	280,511			**280,511**
TOTAL Credit risk exposure	**5,295,693**	**6,480**	**(455)**	**5,301,719**

Exposure analysis by counterparty

(€ '000s)	Total 30/06/2020
Central banks	448,057
Local public sector	4,363,193
Credit institutions guaranteed by the EEA States	22,920
Credit institutions	383,137
Other financial corporations guaranteed by the EEA States	
Other financial corporations	84,310
Non-financial corporations guaranteed by the EEA States	
Non-financial corporations	103
Total Exposure by counterparty	**5,301,719**

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

Exposure analysis by geographic area

(En milliers d'euros)	Total 30/06/2020
France	4,732,923
Supranational	332,981
Canada	85,363
Finland	50,889
New Zealand	26,075
Japan	25,516
Germany	20,656
Netherlands	14,738
China	9,049
Denmark	3,529
Exposition totale par zone géographique	**5,301,719**

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 30/06/2020
Cash, central banks	448,057				**448,057**			**448,057**
Financial assets at fair value through profit or loss		62	6,740	9,853	**16,655**	**1,120**		**17,775**
Hedging derivative instruments	8	2,468	44,679	130,459	**177,614**	**2,285**		**179,899**
Financial assets at fair value through other comprehensive income								
Government paper and similar securities			230,126	270,029	500,155	1,122	16,735	518,012
Bonds								
Total Financial assets at fair value through other comprehensive income			**230,126**	**270,029**	**500,155**	**1,122**	**16,735**	**518,012**
Securities at amortized cost								
Government paper and similar securities	20,653	5,020	51,674	98,843	176,190	752	1,939	178,880
Bonds	1,594		9,947		11,541		125	11,666
Total Securities at amortized cost	**22,248**	**5,020**	**61,621**	**98,843**	**187,731**	**752**	**2,064**	**190,546**
Loans and receivables due from credit institutions	128,363		100,000		**228,363**	150		**228,513**
Loans and advances to customers	101,363	244,193	899,852	2,009,329	**3,254,736**	**7,298**	**149,403**	**3,411,437**
Revaluation adjustment on interest rate hedged portfolios							**26,812**	**26,812**
Current tax assets					**-**			**-**
Other assets	158				**158**			**158**
TOTAL ASSETS								**5,021,208**
Central banks						**127**		**127**
Financial assets at fair value through profit or loss		62	6,739	9,852	**16,653**	**1,169**		**17,823**
Hedging derivative instruments	5,337	5,696	14,070	230,276	**255,380**	**8,573**		**263,953**
Debt securities	148,498	294,240	2,247,089	1,773,851	**4,463,678**	**2,303**	**152,022**	**4,618,004**
Due to credit institutions	1,587				**1,587**			**1,587**
Revaluation adjustment on interest rate hedged portfolios					**-**			**-**
Other liabilities	2,990				**2,990**			**2,990**
TOTAL LIABILITIES								**4,904,483**

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 2020 are described into the financial report as at 30th June 2020.

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, 2020
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 : €.151,000,000

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

For the six-month period ended June 30, 2020

To the Shareholders,

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, 2020 to June 30, 2020.

These interim condensed financial statements are the responsibility of the Management Board on September 7, 2020 on the basis of the information available at that date in the evolving context of the crisis related to Covid-19 and of difficulties in assessing its impact and future prospects. 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, 2020 are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

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

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

Paris La Défense, September 28th, 2020	Paris, September 28th, 2020
KPMG S.A.	Cailliau Dedouit et Associés
Ulrich Sarfati *Partner*	Laurent Brun *Partner*

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

AGENCE FRANCE LOCALE

BALANCE SHEET

Assets as of 30th of june 2020

(€ '000s)	Notes	30/06/2020	31/12/2019
Cash and central banks	2	448,082	165,609
Government paper and similar securities	1	678,274	629,454
Receivables on credit institutions	2	139,843	110,627
Loans and advances to customers	4	3,262,212	3,080,412
Bonds and other fixed income securities	1	11,557	28,064
Equities and other variable income securities			
Investments in non-consolidated companies and other long-term investments			
Investments in consolidated companies			
Intangible assets	5	1,861	2,098
Property, plant and equipment	5	126	92
Other assets	6	88,788	79,336
Accruals	6	47,704	51,547
TOTAL ASSETS		**4,678,446**	**4,147,239**

Liabilities as of 30th of june 2020

(€ '000s)	Notes	30/06/2020	31/12/2019
Central banks		127	26
Due to banks	3	17	9
Customer borrowings and deposits			
Debt securities	7	4,452,175	3,937,455
Other liabilities	8	3,882	6,300
Accruals	8	96,716	82,542
Provisions	9	142	322
Subordinated debt			
General banking risk fund (GBRF)			
Equity (excluding GBRF)	10	**125,386**	**120,586**
Share capital		151,000	146,800
Additional paid-in capital			
Reserves and retained earnings			
Revaluation differences			
Regulated provisions and investment subsidies			
Retained earnings (+/-)		(26,214)	(24,501)
Net income for the period (+/-)		600	(1,713)
TOTAL LIABILITIES		**4,678,446**	**4,147,239**

INCOME STATEMENT

(€ '000s)	Notes	30/06/2020	30/06/2019	31/12/2019
+ Interest and similar income	12	43,751	37,023	77,819
- Interest and similar expenses	12	(37,530)	(32,380)	(67,773)
+ Income from variable income securities				
+ Fee and commission income	13	75	35	178
- Fee and commission expenses	13	(62)	(45)	(105)
+/- Net gains (losses) on held for trading portfolio	14	(342)	(2,466)	(2,863)
+/- Net gains (losses) on placement portfolio	14	521	3,112	3,390
+ Other banking income				
- Other banking expense				
NET BANKING INCOME		**6,413**	**5,279**	**10,647**
- General operating expenses	15	(5,148)	(5,042)	(10,101)
+ Other operating income				
- Depreciation and amortization	5	(644)	(1,030)	(2,259)
GROSS OPERATING INCOME		**621**	**(793)**	**(1,713)**
- Cost of risk				
OPERATING INCOME		**621**	**(793)**	**(1,713)**
+/- Net gains (losses) on fixed assets	16	(21)		
PRE-TAX INCOME ON ORDINARY ACTIVITIES		**600**	**(793)**	**(1,713)**
+/- Net extraordinary items				
- Income tax charge				
+/- Net allocation to FGBR and regulated provisions				
NET INCOME		**600**	**(793)**	**(1,713)**
Basic earnings per share		0.40	(0.55)	(1.17)

OFF-BALANCE SHEET

(€ ‘000s)

COMMITMENTS GIVEN AND RECEIVED	Notes	30/06/2020	31/12/2019
Commitments given		**339,506**	**317,666**
Financing commitments		280,511	317,666
Guarantee commitments			
Commitments on securities		58,996	
Commitments received		**2,282**	**2,345**
Financing commitments			
Commitments received from credit institutions			
Guarantee commitments		2,282	2,345
Commitments on securities			
Derivatives	11	**9,504,616**	**8,663,243**

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 7, 2020.

II - Highlights from the first half year

AFL is pursuing an annual target of 800 million euros. As of June 30, 2020, production over the period with member amounted to € 247.5 million compared to € 166.3 million during the first half of 2019, for 68 credit contracts with an average maturity of 16.8 years. To this is added a production of € 52.8 million short-termfacilities. Although seasonal, the use of borrowing by local authorities was more dynamic in the first half of 2020 than it had been in previous years, despite the municipal elections held in the first half of 2020, and which generally result in a decrease in investments and hence in financing needs.

In January 2020, the AFL performed three EMTN issues constituting contributions immediately fungible with existing bond issues. The first is an Australian dollar denominated issue with a size of AUD 65 million, or 40.2 million euros equivalent, matches an existing issue maturing in June 2030 at an issue margin of 19 basis points above the Obligations Assimilables du Trésor (OAT) curve. The second transaction for an amount of 100 million euros, which is a fungible issue of June 2026 maturity debt, was made at OAT plus 27.3 basis points. The third transaction, for an amount of 60 million euros, is a further fungible issue of the euro line maturity-June 2028, carried out at 26.3 basis points above the OAT.

On June 11, 2020, the AFL originated the central bank loan mobilization system (TRiCP - Data Processing of Private Claims) which provides it with a line of credit, available at any time, from the Banque de France for' an amount of 70% of its medium-to-long-term loan balance sheet, i.e. € 2,279 million as of June 30, 2020.

During the first half of 2020, the AFL-ST, pursuing its corporate purpose, subscribed to AFL's capital for an amount of 4.2 million euros in the context of two capital increases during the first half of the year 2020 for the benefit of Société Territoriale, its parent company. They were subscribed on March 19, 2020 for € 3,200K and on June 15, 2020 for € 1,000K.

The first half of 2020 marks a further increase in net banking income related to the loan business, 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 € 6,413K. It corresponds to an interest margin of € 6,221K, to capital gains on the sale of investment securities of € 83K after taking into account the result of ending hedging relationship which relates to the management of the liquidity reserve, commission income of € 12K and a reversal on the depreciation of investment securities of € 97K.

These results should be compared with those of the first half of 2019 at the end of which the NBI amounted to € 5,279K, corresponding mainly to a net interest margin of € 4,643K, to capital gains on the sale of securities of € 409K after taking into account the result of ending hedging relationship, to commission charges of € 10K and a reversal of depreciation of investment securities of € 237K.

The interest margin of € 6,221K, realized on June 30, 2020, originates mainly from the following three elements:

• Income related to the loan portfolio in the amount of € 3,741K, once their hedging has been restated;

• Income related to the management of the liquidity reserve, negative € 1,661K, due to interest rates deeply in negative territory during the period; and

• The interest charge on the debt and collateral, which for the reasons indicated above, represents a source of income amounting to € 4,140K, once the income from its coverage is taken into account.

During the first half of the year, portfolio management of the liquidity reserve led to € 425K in income on sales of investment securities and € 342K in loss on termination of interest rate hedging instruments for securities that were dispoed, ie a net amount of capital gains on disposals of € 83K which breaks down into € 207K of capital losses on disposals and € 290K of capital gains on disposals.

As of June 30, 2020, general operating expenses, after transfers of administrative expenses, represented € 5,148K compared to € 5,042K as of June 30, 2019. They account for € 2,486K in personnel costs compared to € 2,458K for the first semester of the previous year and € 2,662K for administrative expenses against € 2,584K for the first half of 2019. This slight increase in administrative expenses can be explained by the increase in taxes, which went from € 410K to June 30, 2019 at € 530K € as of June 30, 2020.

The decrease in transfers of administrative costs from € 749K at June 30, 2019 to € 541K is explained by lower rating fees for debt issues due to a lower volume of issues carried out during the first half of 2020 compared to in the first half of 2019.

The result at June 30, 2020 takes into account depreciation charges which amounted to € 644K over the period compared to € 1,030K for the first half of 2019, a decrease which corresponds to the end of the depreciation of the first tranche of the SI but which nevertheless includes new depreciation allowances linked to AFL's continued investment spending in the infrastructure of its information system.

After depreciation and amortization, gross operating income at June 30, 2020 stood at € 621K, compared to € -793K for the first half of 2019.

After the scrapping of intangible assets for an amount of € 21K, AFL's net income as of June 30, 2020 shows a profit of € 600K against a loss of € 793K for the first half of the previous year, period which was characterized by capital gains on the sale of securities for a non-recurring level of € 409K.

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 2018.

Identity of the parent company consolidating the accounts of the Agence as of June 30, 2020

Agence France Locale – Société Territoriale

41, quai d'Orsay 75 007 Paris

Health crisis linked to Covid-19

In December 2019, a new form of coronavirus (Covid-19) appeared in China. The virus has spread out to many countries becoming pandemic in March 2020. Very important health measures have been taken at national level in most countries to prevent the transmission of the virus (border closing, travel ban, containment measures, etc.). To date, however, the pandemic is still not contained and new measures are being implemented on the date of closing of the half-yearly accounts.

Due to the internationalisation of economies, the considerable weight of trade and the internationalisation of supply chains, the effects of the pandemic affect all countries and economies without exception.

The consequences of this crisis for AFL are mainly at three levels:

• During the first half of 2020, the French local public sector financing market, which constitutes the market in which AFL realises all of its credit operations, was significantly affected by the health crisis linked to the Covid-19 epidemic, which notably resulted in the postponement of the second round of municipal elections. The recession in France should result in a contraction of part of the tax and revenues of local authorities, which could reduce in the short and medium term their self-financing capacity and hence their investment expenditure and possibly their borrowing needs even if it is traditionally less supported at the start of the mandate at the municipal level.

• The considerable increase in public debt in France, as a result of government expenditure to support households and businesses, will lead AFL to an increase in its cost of market refinancing, this being strongly linked to the price at which the French government itself borrows from investors. Beyond the public debt in France, the high level of State debt in general, following the budgetary support policies that have been implemented, could have significant negative impact on the situation of the financial markets on which AFL operates as well as on the quality of these counterparties, on which AFL is largely dependent because of its business model.

However, in the environment described above, AFL's medium and long-term loan production was dynamic with 247.5 million euros for the first half of 2020 and AFL was able to resume its refinancing operations from April 2020.

Otherwise, given the measures taken by the French State to support economic activity in these exceptional circumstances, the public debt of the French State and the local authorities should experience a significant increase, which could lead to a deterioration in the quality of credit from France, the local authorities and consequently AFL. AFL's financial position has already been affected at the margin by the increase in spreads which impacted the cost of the refinancing, which could at this stage be passed to the borrowers.

This context of deteriorating economic conditions led to a significant increase in the cost of risk for AFL in the first half of the year. However, this increase in ex-ante provisions for expected losses under IFRS 9 is essentially the result of changes in the weighting of macroeconomic scenarii by asset class following the pandemic crisis, although the quality of assets on the balance sheet remains very high. The cost of risk amounted to € 453k at June 30, 2020 corresponding to 1.8 basis point of exposures for 1bp at December 31, 2019.

The current context of high volatility in financial markets linked to the Covid-19 pandemic and the sharp fall in oil prices have led to a generalized significant drop in the price of financial instruments and to tensions in the bond market. AFL's liquidity reserve was affected by the increase in spreads of securities in fair value which could have had a more negative impact on prudential capital without the so-called "CRR quick fix" measures. It should be mentioned that as of June 30, 2020, AFL has a liquidity reserve of € 1,778m allowing it to meet more than 12 months of its cash flow needs and the regulatory liquidity ratio at 30 days LCR is 626%. AFL can also count on the central bank loan mobilization system which provides it with a line of credit, available at any time, from the Banque de France for an amount of 70% of its outstanding medium & long term loan portfolio , i.e. € 2,279 million as of June 30, 2020.

IV - Notes to the Balance Sheet

Note 1 - PORTFOLIO

(€ '000s)

30/06/2020	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	676,527	11,557		688,084
Unlisted securities				-
Accrued interest	1,874	-		1,874
Impairment	(127)	-		(127)
Net carrying amount	**678,274**	**11,557**	**-**	**689,830**
Residual net Premium/Discount	4,084	(88)		3,996

31/12/2019	Government paper and similar securities	Bonds and other fixed income securities	Equities and other variable income securities	Total
Fixed or variable income securities				
Listed securities	628,453	28,064		656,517
Unlisted securities				-
Accrued interest	1,225	-		1,225
Impairment	(224)	-		(224)
Net carrying amount	**629,454**	**28,064**	**-**	**657,518**
Residual net Premium/Discount	3,710	(111)		3,599

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 30/06/2020	Total 31/12/2019
Government paper and similar securities								
Net amount	20,659	-	286,887	368,854	676,400	1,874	678,274	629,454
NET CARRYING AMOUNT	**20,659**	**-**	**286,887**	**368,854**	**676,400**	**1,874**	**678,274**	**629,454**
Bonds and other fixed income securities								
Net amount	1,595	-	9,962	-	11,557	-	11,557	28,064
NET CARRYING AMOUNT	**1,595**	**-**	**9,962**	**-**	**11,557**	**-**	**11,557**	**28,064**

Analysis by type of portfolio

Portfolio *(€ '000s)*	Gross amount 31/12/2019	Additions	Disposals	Transfers	Prem/Disc Amort.	Change in accrued interest	Impairment	Total 30/06/2020	Unrealized gains/(losses)
Transaction									
Held-for-sale	632,150	393,047	(466,544)		(274)	179	97	558,655	16,945
Investment	25,368	105,676			(338)	470		131,176	761
NET CARRYING AMOUNT	**657,518**	**498,723**	**(466,544)**	**-**	**(612)**	**649**	**97**	**689,830**	**17,706**
Of which Premium/Discount	3,599	4,908	(3,899)		(612)			3,996	

Note 2 -RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	30/06/2020	31/12/2019
Mandatory reserve deposits with central banks	448,082	165,609
Other deposits		
Cash and central banks	**448,082**	**165,609**

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 30/06/2020	Total 31/12/2019
Credit institutions								
Loans and receivables								
- demand	24,784				24,784	1	24,786	15,601
- time	115,000				115,000	58	115,058	95,026
Securities bought under repurchase agreements								
TOTAL	**139,784**	**-**	**-**	**-**	**139,784**	**59**	**139,843**	**110,627**
Impairment								
NET CARRYING AMOUNT	**139,784**	**-**	**-**	**-**	**139,784**	**59**	**139,843**	**110,627**

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 30/06/2020	Total 31/12/2019
Credit institutions								
Accounts and Overdrafts								
- demand	17				17		17	9
- time								
Securities sold under repurchase agreements								
TOTAL	**17**	**-**	**-**	**-**	**17**	**-**	**17**	**9**

Note 4 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	30/06/2020	31/12/2019
Short-term credit facilities	38,549	9,971
Other loans	3,223,662	3,070,442
Customers transactions before impairment charges	**3,262,212**	**3,080,412**
Impairment		
Net carrying amount	**3,262,212**	**3,080,412**
Of which related receivables	7,298	6,945
Of which gross doubtful receivables	6,483	3,794
Of which gross non-performing doubtful receivables		

Doubtful loans correspond to a default for at least 90 days unpaid loans and by contagion to all of the outstanding amounts of counterparties in default. Although classified as doubtful loans, these loans have not been subject to impairment. Impairments are established on the basis of the recoverable amount of the receivable, i.e. the present value of the estimated future flows recoverable. However, on the closing date, the AFL intends to recover all of its debts as well as the interest attached to them.

Analysis by residual maturity excluding accrued interest

(€ '000s)	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 30/06/2020
Loans and advances to customers	101,363	106,050	138,320	899,852	2,009,329	**3,254,914**	**7,298**	**3,262,212**

Note 5 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible assets	31/12/2019	Additions	Transfers	Disposals	Amort.	Impairments	Other movements	30/06/2020
Intangible assets	**12,704**	**242**		**(388)**			**103**	**12,661**
Start-up costs	2,123							2,123
IT development costs	10,031	242					103	10,376
Software	522			(360)				162
Web site	28			(28)				-
Intangible assets in progress	**122**	**144**					**(103)**	**163**
Intangible assets amortisation	**(10,728)**			**368**	**(603)**			**(10,963)**
Net carrying amount	**2,098**	**387**		**(20)**	**(603)**			**1,861**

Property, plant & equipment	31/12/2019							30/06/2020
Property, plant & equipment	841	83		(32)			(13)	879
Tangible assets in progress	-							-
Tangible assets amortization	(749)			32	(41)		5	(753)
Net carrying amount	**92**	**83**		**(0.4)**	**(41)**		**(8)**	**126**

Note 6 - OTHER ASSETS AND ACCRUALS

(€ '000s)	30/06/2020	31/12/2019
Other assets		
Cash collateral paid	88,699	79,260
Other assets	88	76
Impairment		
Net carrying amount	**88,788**	**79,336**
Accruals		
Deferred charges on bond issues	12,924	13,461
Deferred charges on hedging transactions	29,709	21,150
Prepaid charges	372	206
Accrued interest not yet due on hedging transactions	4,637	14,626
Other deferred income	61	
Other accruals	0.4	2,105
TOTAL	**47,704**	**51,547**

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 30/06/2020	Total 31/12/2019
Negotiable debt securities	148,586	205,394			353,980		353,980	89,015
Bonds		89,302	2,250,000	1,756,590	4,095,892	2,303	4,098,195	3,848,440
Other debt securities					-		-	-
TOTAL	**148,586**	**294,695**	**2,250,000**	**1,756,590**	**4,449,872**	**2,303**	**4,452,175**	**3,937,455**

Note 8 - OTHER LIABILITIES and ACCRUALS

(€ '000s)	30/06/2020	31/12/2019
Other liabilities		
Cash collateral received	1,569	4,228
Miscellaneous creditors	2,313	2,072
TOTAL	**3,882**	**6,300**
Accruals		
Transaction to pay and settlement accounts		
Premium EMTN issue	26,731	17,907
Unrealised gains on hedging instruments	50,824	54,599
Unearned income		
Accrued expenses on hedging instruments	10,974	10,037
Other accrued expenses		
Other accruals	8,187	
TOTAL	**96,716**	**82,542**

Note 9 - PROVISIONS

(€ '000s)	Balance as of 31/12/2019	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 30/06/2020
Provisions						
Financing commitment execution risks						
Provisions for employee retirement and similar benefits	65	-	-	-	-	65
Provisions for other liabilities to employees						
Other provisions	257	-	(179)	-	-	77
TOTAL	**322**	**-**	**(179)**	**-**	**-**	**142**

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 31/12/2018	**138,700**	**-**	**-**	**-**	**-**	**-**	**(22,622)**	**(1,878)**	**114,199**
Change in share capital	8,100								8,100
Change in share premium and reserves									
Allocation of 2018 net profit							(1,878)	1,878	
Net income as of 31/12/2019								(1,713)	(1,713)
Other changes									
Balance as of 31/12/2019	**146,800**	**-**	**-**	**-**	**-**	**-**	**(24,501)**	**(1,713)**	**120,586**
Dividend paid for 2017									
Change in share capital	4,200 (1)								4,200
Change in share premium and reserves									
Allocation of 2018 net profit							(1,713)	1,713	
Net income as of 30/06/2019								600	600
Other changes									
Balance as of 30/06/2020	**151,000**	**-**	**-**	**-**	**-**	**-**	**(26,214)**	**600**	**125,386**

(1) The share capital of Agence France Locale which amounts on June 30th, 2020 to € 151,500,000 consists of 1,510,000 shares. The Agence carried out two capital increases during the first year-half 2020 subscribed on 19th March 2020 to € 3,200k, and on 15th June 2020 for € 1,000k.

Note 11 - DERIVATIVES

Outstanding notional and Fair value

(€ '000s)	30/06/2020				31/12/2019			
	Hedging transactions		Non-hedging transactions		Hedging transactions		Non-hedging transactions	
	Outstanding notional	Fair value	Outstanding notional	Fair value	Outstanding notional	Fair value	Outstanding notional	Fair value
FIRM TRANSACTIONS	**8,624,761**	**(84,054)**	**879,855**	**(48)**	**7,677,128**	**(42,641)**	**986,115**	**486**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**8,624,761**	**(84,054)**	**879,855**	**(48)**	**7,677,128**	**(42,641)**	**986,115**	**486**
Interest rate contracts	8,085,682	(81,163)	714,100	(48)	7,442,154	(44,831)	822,100	(140)
FRA								
Cross Currency Swaps	539,078	(2,890)	165,755		234,974	2,190	164,015	626
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 30/06/2020	7,977,321	(€ '000s)
Amount of macro-hedge transaction as of 30/06/2020	647,440	(€ '000s)
Amount of trading transaction as of 30/06/2020	879,855	(€ '000s)

Notional amount by maturity

(€ '000s)	30/06/2020					
	Hedging transactions			Non-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	**751,138**	**2,841,903**	**5,031,720**	**202,955**	**410,900**	**266,000**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts						
Other contracts						
Over-the-counter markets	**751,138**	**2,841,903**	**5,031,720**	**202,955**	**410,900**	**266,000**
Interest rate contracts	308,650	2,841,903	4,935,130	37,200	410,900	266,000
FRA						
Cross Currency Swaps	442,488		96,590	165,755		
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)	30/06/2020	30/06/2019	31/12/2019
Interest and similar income	**43,751**	**37,023**	**77,819**
Due from banks	54	7	50
Due from customers	16,292	13,412	28,440
Bonds and other fixed income securities	1,050	1,129	2,024
from Held-for-sale securities	*951*	*1,129*	*1,924*
from Investment securities	*99*		*100*
Income from interest rate instruments	26,356	22,475	47,304
Other interest income			
Interest and similar expenses	**(37,530)**	**(32,380)**	**(67,773)**
Due to banks	(917)	(480)	(1,162)
Due to customers			
Debt securities	(12,399)	(10,717)	(23,451)
Expense from interest rate instruments	(24,214)	(21,183)	(43,159)
Other interest expenses			
Interest margin	**6,221**	**4,643**	**10,047**

Note 13 - NET FEE AND COMMISSION INCOME

(€ '000s)	30/06/2020	30/06/2019	31/12/2019
Commission income	**75**	**35**	**178**
Interbank transactions			
Customer transactions	75	35	178
Securities transactions			
Forward financial instruments transactions			
Currencies transactions			
Financing commitments and guarantee			
Other commissions recieved			
Commission expenses	**(62)**	**(45)**	**(105)**
Interbank transactions	(6)	(2)	(5)
Securities transactions			
Forward financial instruments transactions	(56)	(43)	(100)
Currencies transactions			
Financing commitments and guarantee			
Other commissions paid			
Net fee and commission income	**12**	**(10)**	**72**

Note 14 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS

(€ '000s)	30/06/2020	30/06/2019	31/12/2019
Gains/(losses) on Trading book			
Gains/(losses) on forward financial instruments	(342)	(2,466)	(2,862)
Gains/(losses) on foreign currency transactions	(0.4)		(0.2)
Gains or (losses) on trading portfolio	**(342)**	**(2,466)**	**(2,863)**
Gains/(losses) from disposal of held-for-sale securities	425	2,874	3,363
Other income/(expenses) from held-for-sale securities			
Impairment (charges) and reversals on held-for-sale securities	97	237	27
Gains or (losses) on held-for-sale portfolio	**521**	**3,112**	**3,390**

Note 15 - GENERAL OPERATING EXPENSES

(€ '000s)	30/06/2020	30/06/2019	31/12/2019
Employee expenses			
Wages and salaries	1,585	1,544	2,991
Post-employment benefit expenses	165	160	324
Other expenses	737	754	1,417
Total Employee expenses	**2,486**	**2,458**	**4,732**
Operating expenses			
Taxes and duties	530	410	495
External services	2,672	2,924	5,818
Total Administrative expenses	**3,203**	**3,333**	**6,313**
Charge-backs and reclassification of administrative expenses	(541)	(749)	(943)
Total General operating expenses	**5,148**	**5,042**	**10,101**

Note 16 - +/- NET GAINS (LOSSES) ON FIXED ASSETS

(€ '000s)	30/06/2020	30/06/2019	31/12/2019
Gains on sales of Investment securities			
Gains on sales of tangible or intangible assets			
Reversal of impairment			
Total Gains on fixed assets	**-**	**-**	**-**
Losses on sales of Investment securities			
Losses on sales of tangible or intangible assets	(21)		
Charge of impairment			
Total Losses on fixed assets	**(21)**	**-**	**-**

Note 17 - INCOME TAX CHARGE

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

Tax losses amounting to €25.1m at 2020 half-year closing were not recognised as deferred tax assets.

Note 18 - RELATED PARTIES

There are, on 30 June 2020, an agreement of administrative services, a licensing for the use of a mark and a business premises lease, which have been concluded between the Agence and the Agence France Locale Locale France - Territorial Corporation at normal market conditions.

Agence France Locale S.A.

Statutory Auditors' Review Report
on the interim condensed financial statements

For the six-month period ended June 30, 2020
Agence France Locale S.A.
112, rue Garibaldi - 69 006 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 - 69 006 Lyon
Share capital : €.151,000,000

Statutory Auditors' Review Report
on the interim condensed financial statements

For the six-month period ended June 30, 2020

To the Shareholders,

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

- the review of the accompanying interim condensed financial statements of Agence France Locale – S.A. for the period from January 1, 2020 to June 30, 2020,
- the verification of the information presented in the half-yearly management report.

These interim condensed financial statements are the responsibility of the Management Board on September 7, 2020 on the basis of the information available at that date in the evolving context of the crisis related to Covid-19 and of difficulties in assessing its impact and future prospects. 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, 2020, 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 28, 2020. We have no matters to report as to its fair presentation and consistency with the interim condensed financial statements.

Paris La Défense, September 28th, 2020	Paris, September 28th, 2020
KPMG S.A.	Cailliau Dedouit et Associés
Ulrich Sarfati *Partner*	Laurent Brun *Partner*