AGENCE FRANCE LOCALE

2018 ANNUAL REPORT

Table of contents

I. The Company's Activity 5

1. **Background and shareholding model structure** 5
2. **Review of the activities carried out in the 2018 financial year** 7
3. **Significant events since the balance sheet date** 10
4. **Expected situations and future prospects** 10

II. Balance sheet assets as at December 31, 2018 (IFRS) 11

1. **Loans granted to local authorities** 11
2. **Liquidity reserve** 13
3. **Margin calls** 15
4. **Subsidiaries and shareholdings** 15

4.1 Activities of Company subsidiaries and companies under its control 15
4.2 Equity investments and takeovers 15
4.3 Cross-shareholdings 15

5. **Returns on assets** 15

III. Balance sheet liabilities and debt management (IFRS) 16

1. **Financial debt of AFL** 16
2. **Breakdown of accounts payable** 17

IV. Results of the financial year ended December 31, 2018 19

1. **French GAAP financial statements** 19
2. **IFRS financial statements** 20
3. **Proposed allocation of profit** 22
4. **Dividends distributed (Article 243 bis of the French General Tax Code)** 22
5. **Non tax-deductible expenses (Articles 39.4 and 39.5 of the French General Tax Code)** 22

V. Risk management 23

1. **Description of the main risks and uncertainties to which the Company is confronted** 23
2. **Prudential ratios and equity** 29
3. **Internal control and risk management procedures** 29

VI. AFL Research and Development activity 35

VII. Data on share capital and shares 35

1. **Shareholding structure and changes thereto during the financial year** 35
2. **Employee share ownership** 36
3. **Company share buybacks** 36
4. **Transactions on AFL securities by its officers** 36
5. **Stock market situation of AFL** 36

VIII. Environmental, social and societal information 36

APPENDIX 1 TABLE OF RESULTS FOR THE PAST FIVE FINANCIAL YEARS 37

APPENDIX 2 SUPERVISORY BOARD'S REPORT ON CORPORATE GOVERNANCE 38
APPENDIX 3 DRAFT RESOLUTIONS SUBMITTED TO THE COMBINED GENERAL MEETING OF SHAREHOLDERS OF AGENCE FRANCE LOCALE OF MAY 3, 2019 99
APPENDIX 4 SCHEDULE OF FINANCIAL ANNOUNCEMENTS FOR THE FINANCIAL YEAR OPEN FROM JANUARY 1 TO DECEMBER 31, 2019 110
RESPONSIBILITY FOR THIS MANAGEMENT REPORT PREPARED FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018 111
PARENT COMPANY FINANCIAL STATEMENTS PREPARED PER FRENCH GAAP AND IFRS AND RELATED STATUTORY AUDITORS' REPORTS 112

GLOSSARY

ICC	Initial Capital Contribution
ACC	Additional Capital Contribution
ACPR	French Prudential Supervision and Resolution Authority (*Autorité de Contrôle Prudentiel et de Résolution*)
AFL	Agence France Locale
AFL - ST	Agence France Locale – Société Territoriale
ALM	Asset and Liabilities Management
AMF	*Autorité des Marchés Financiers* (French Financial Markets Authority)
ASW	Asset Swap
ECB	European Central Bank
ARC	Risk Audit Committee
ICC	Internal Control Committee
CET1	Common Equity Tier 1
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
NMI	Net margin of interest
NSFR	Net Stable Funding Ratio
NBI	Net banking income
GOP	Gross operating profit
NP	Net profit
RWA	Risk Weighted Asset
OIR	Opportunity interest rate
NDS	Negotiable debt securities
NPV	Net Present Value

I. The Company's Activity

1. Background and shareholding model structure

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

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

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

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

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

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

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

1.1 A robust structure

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

The optimization of financing costs in the capital markets is based on AFL's high credit rating, which is built on a solid financial position, the quality of its balance sheet assets and a two-part first-demand guarantee mechanism.

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

- On the one side, the "Member Guarantees" granted by local authorities that are AFL-ST shareholders to any financial creditor of AFL providing the possibility to call on the local authority shareholders directly as guarantors. The amount of this guarantee is intended to be equal to the amount of borrowings of over 364 days contracted by each of member local authority with AFL. Thus, a creditor has the option of calling the guarantee from several local authorities. A local authority whose guarantee has been called by a creditor has the obligation to inform AFL-ST, which may, in turn, call all other member guarantees in proportion to the amount of their credits contracted with AFL. This guarantee is organized to create solidarity between the member regional and local authorities in the payment of the amounts due while each of them is limited to its own outstanding 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:

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

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

- On the other hand, the "ST Guarantee" granted by AFL-ST to any financial creditor of AFL which provides the possibility to call on AFL-ST directly as guarantor, with the latter becoming the sole creditor counterparty. 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 financial 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 financial creditors at the request of AFL under the terms of a protocol between the two companies. The purpose of this mechanism for third parties to call on direct beneficiaries of the "Member Guarantee" is to be able to mobilize guarantees to prevent non-compliance with the regulatory ratios or an event of default.

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

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

The AFL Group has set a solvency ratio for equity capital (Common Equity Tier One at AFL-ST level) at 12.5% minimum (9.878% regulatory limit).

Regulatory requirements for the leverage ratio must be subject to differentiated processing for development banks as part of the new CRR. The latter should authorize development banks such as AFL to exclude certain assets such as development loans from their leverage exposure.

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

1.2 A customer centric model

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

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

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

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

1.3 Rating of bonds issued by AFL

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

The AFL EMTN issue program is also rated by Moody's. The rating of AFL bonds is at the top echelon for quality of credit, namely ("high grade"), with an Aa3 rating and a stable outlook.

2. Review of the activities carried out in the 2018 financial year

2.1 Key events of the past financial year

- **Company's financial market operations**

  i. Bond issues as part of the EMTN program

AFL's medium- and long-term loan program for 2018, approved by the Supervisory Board of December 14, 2017, was set at €1.2 billion. In addition to this program, there is a drawdown authorization of €400 million for debt securities issued under AFL's ECP program. In this context and based on the required authorizations, during 2018, AFL issued €625 million in bonds via its EMTN program[3] at a stable margin from one year to another, of 25 to 30 basis points, above the OAT (French Treasury Bond) curve, with as a result, a very attractive average cost for debt issued in 2018. The 2018 loan program saw the significant extension to the duration of medium- and long-term issues as the average maturity for issues carried out in 2018 was 10.8 years compared to 6.1 years for those carried out in 2017. AFL was able to benefit from long-term demand from investors to extend the average maturity of its liabilities and thus improve the backing of the employment and resources on its balance sheet whilst managing its financing costs.

The highlights of the issues carried out during 2018 are as follows:

---

[3] The update to the Base Prospectus for the €3 billion EMTN Debt Issuance Program was submitted to the *Autorité des Marchés Financiers* (AMF - French Financial Markets Authority) which allocated the number 18-176 on May 15, 2018. In addition, the AMF approved the formal request by AFL not to publish financial information on each of the guaranteeing local authorities individually on its website. This authorization was issued on the basis of the omission of information rule concerning the information required by Annex 6 of Regulation (EC) 809/2004 on each Local Authority acting as guarantors for AFL, in accordance with the third paragraph of Article 212-18 of the AMF General Regulation transposing Article 8 of the Prospectus Directive. AFL is henceforth exempt from publishing individual information about guarantors on its website.
On October 11, 2018, an addition to AFL's Base Prospectus received AMF number 18-842 allowing AFL to integrate its half yearly results and increase the maximum amount of its EMTN Program from €3 billion to €7 billion, in line with the Company's business plan forecasts and business prospects. The maximum amount guaranteed in respect of the ST Guarantee was also increased by the Board of Directors of AFL-ST from €5 billion to €10 billion.

- Continued development of issues in the form of private placements with two 10- and 15-year transactions for volumes of €25 million and €100 million respectively. It should be noted that the 15-year issue represents the longest maturity ever issued since AFL's creation. These two transactions were carried out at very competitive margins of 25 basis points above the French OAT Treasury Bond curve.

- The launch of a €500 million issue in June with a 10-year maturity, which represented the longest public issue carried out to date by AFL. This issue was the chance to (i) benefit from good financial conditions, notably through the issue margin of 30 basis points over OAT, (ii) further diversify AFL's investor base with the increased presence of insurance companies and pension funds, (iii) establish AFL's credibility as a public sector player with access to the long part of the curve and lastly (iv) continue to place AFL's signature in the Euro market with a benchmark issue carried out every year since the start of its activities.

The graphs below show the breakdown of the distribution of the €500 million 10-year issue by geographical area and type of investor:

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

AFL has only made limited use of its short-term issue program in the money market over the last financial year, due to unfavourable market conditions for base euro-dollar swaps.

▪ Capital increases

During the 2018 financial year, AFL-ST, in line with its corporate purpose, subscribed to AFL's capital for €6.2 million as part of four capital increases, taking AFL's share capital from €132,500,000 at the start of the financial year to €138,700,000 at December 31, 2018.

After these capital increase operations, which enabled 69 new local authorities to join the AFL Group over the 2018 financial year, and led to an increase of €20.44 million in committed capital, the total number of member local authorities in the AFL Group reached 292. All categories and sizes of local authorities are represented within these 292 member local authorities, with a diversity reflecting the French local sphere. Information on AFL's capital and shareholder structure is presented in Section VII of the document hereafter and additional information on the new memberships is presented in AFL-ST's consolidated management report.

▪ Production of credits

After a first half-year once again characterized by very limited demand, the production of loans was more dynamic over the rest of the financial year, leading to a production of medium- and long-term loans of €831 million and new overdraft facilities of €85 million. AFL's new medium- and long-term loan production represents an estimated market share of almost 25% of the AFL Group members' financing needs in 2018.

Lastly, in accordance with its business plan, AFL repurchased loans from loan agreements taken out by AFL Group member local authorities with different financial institutions for a total of €157 million.

At the end of the 2018 financial year, the outstanding loans signed by AFL amounted to €2,595.5 million and mainly include medium- and long-term loans and also, in a more limited proportion, overdraft facilities to local authority members of the AFL Group.

▪ Governance

After the resignation of Dominique Schmitt from his functions as member of AFL's Supervisory Board on December 14, 2017, Carol Sirou was co-opted as a member of the Supervisory Board on September 27, 2018, pursuant to the provisions of Article L. 225-78 of the French Commercial Code. Consequently, the composition of the Board's specialized committees was renewed as follows: Nicolas Fourt left the Audit and Risk Committee and joined the Strategy Committee, Carol Sirou joined the Audit and Risk Committee.

At December 31, 2018, the composition of the Supervisory Board and its committees was as follows:

	Independence[4]	**Specialized committees**		
		Audit and Risk Committee	Appointments, Remuneration and Corporate Governance Committee	Strategy Committee
Richard Brumm Chairman of the Board				
Jacques Pélissard Vice-Chairman of the Board			◊	
Lars Andersson	▲			■
Victoire Aubry	▲	◊		
François Drouin	▲	■		
Nicolas Fourt	▲			◊
Mélanie Lamant				◊
Olivier Landel		◊		◊
Daniel Lebègue	▲		■	
Rollon Mouchel-Blaisot			◊	
Carol Sirou	▲	◊		

■ Chairman of the Committee
◊ Members of the Committee

Regarding the composition of the Company's Management Board, Philippe Rogier tendered his resignation as member of the Management Board and Chief Executive Officer of the Company with immediate effect on December 5, 2018. Philippe Rogier continues to execute his functions as AFL's Loan Director under his employment contract with the Company.

All elements relating to the composition, functioning and compensation of the management bodies are presented in the Supervisory Board's corporate governance report in the appendix to this management report.

2.2 Results of the past financial year – Key IFRS figures

The NBI for the 2018 financial year amounted to €9,705,000 compared to €10,682,000 in 2017 (which included non-recurring gains from the disposal of securities of €4,494,000). The NBI for 2018 corresponds mainly to a net margin of interest of €7,805,000, compared to €6,507,000 observed for the previous financial year, net gains on disposals of investment securities of €1,636,000 and a loss on negative hedge relationships of €59,000.

The general operating expenses over the period amounted to €9,033,000 compared to €8,619,000 for the previous financial year. After depreciation allowances of €1,984,000 compared to €1,913,000 at December 31, 2017, the gross operating loss was €1,311,000 compared to a profit of €149,000 at December 31, 2017.

[4] The independence of the members of the Supervisory Board is established in view of the AFEP-MEDEF Code criteria, as presented in the corporate governance report in the appendix to this management report.

Ex-ante impairments on assets in respect of IFRS 9 represented an expense of €191,000 whilst deferred taxes on consolidation restatements for the period amounted to €210,000. The tax losses recognized for the financial year did not give rise to the activation of deferred tax assets.

The 2018 financial year ended with a net loss of €1,712,000 compared to a net loss of €427,000 for the previous financial year.

3. Significant events since the balance sheet date

3.1 Market operations

In January 2019, AFL carried out an issue under the EMTN program for $100 million at 2 years, in the form of a private placement and euro swap. This issue enables AFL to maintain its still limited presence in the dollar market and diversify its financing sources at attractive conditions.

3.2 Share capital increase

The AFL Group welcomed ten new local authorities for its nineteenth capital increase which ended on February 27, 2019. AFL-ST now has 302 local authority shareholders. Its capital was taken to €149.6 million. Simultaneously, AFL's capital was subject to a capital increase fully subscribed by AFL-ST, bringing the paid-up capital to €142.2 million.

This capital increase, which is the 19th since the creation of the AFL Group, reflects the continuation of AFL's rapid installation in metropolitan France as well as the overseas territories, with a good diversification in the type of member local authorities, showing the relevance of its business model, whatever the category of local authorities[5].

4. Expected situations and future prospects

In line with the 2017-2021 strategic plan, AFL continues its growth with an 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. This expected balance sheet growth will lead to AFL's increased use of refinancing in the capital markets.

[5] Additional details are presented in the AFL-ST management report.

II. Balance sheet assets as at December 31, 2018 (IFRS)

At December 31, 2018, AFL's assets consisted of a steady increase in loans to member local authorities, as well as assets, mainly in the form of securities, held in the Company's liquidity reserve.

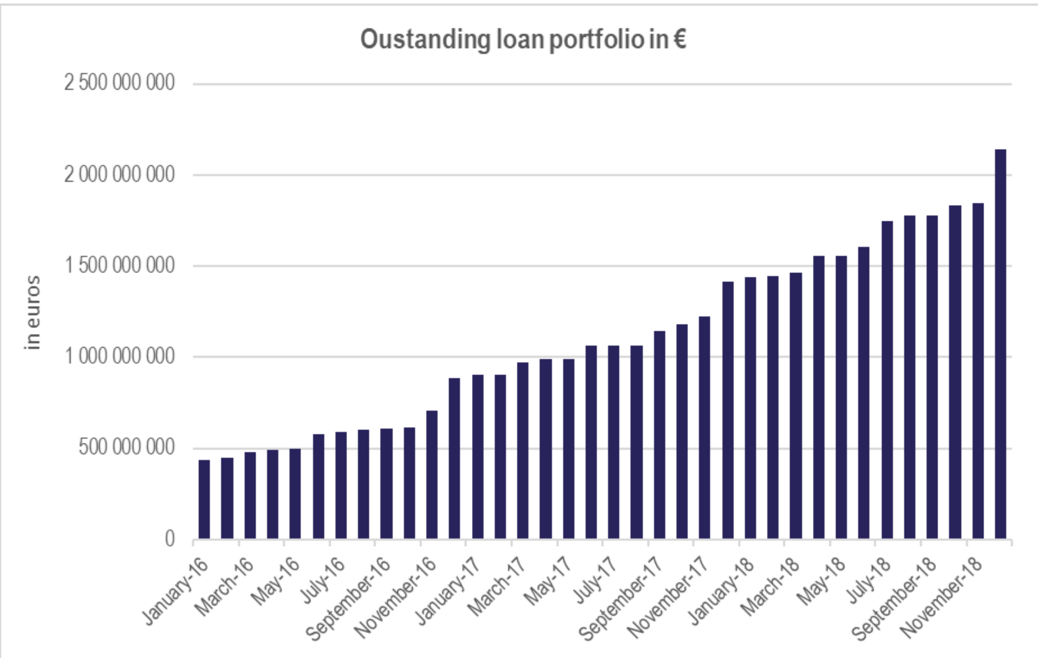
Excerpts of main assets (IFRS)

in thousands of euros	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Loans and customer transactions	2,229,857	1,430,829	892,227	383,527	-
Securities at fair value through other comprehensive income	502,487	358,964	354,081	456,497	-
Assets held at amortized cost	175,152	-	-	-	30,755
Loans and receivables from credit institutions	57,101	211,233	23,412	45,982	5,919
Margin calls	52,841	68,376	20,682	12,985	
Cash in hand, central banks	121,650	420,351	57,929	-	-
Derivative hedging instruments	44,661	15,629	16,777	-	-

1. Loans granted to local authorities

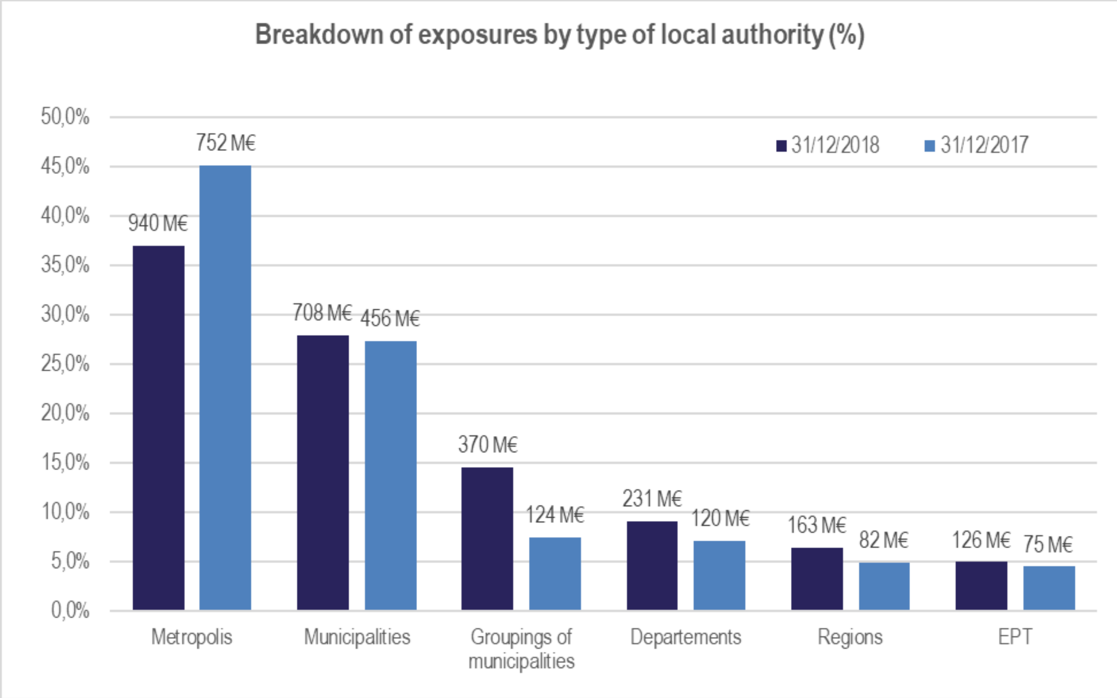
The credit portfolio recognized on AFL's balance sheet among assets amounted to €2,229.9 million at December 31, 2018, compared with €1,430.8 million at December 31, 2017, after taking into account the amortized cost due to hedge accounting of the impact from changes in interest rates. This portfolio must be supplemented by loans signed but not disbursed that appear off the balance sheet, in order to have a complete view of AFL's outstanding credit. At December 31, 2018, the amount of off-balance sheet financing commitments was €365.6 million compared to €238.8 million at December 31, 2017. Thus, at December 31, 2018, the total loan commitments to local authorities carried by AFL amounted to €2,595.6 million compared to €1,669.6 million at December 31, 2017 and €1,026 million at December 31, 2016, i.e. a 59% increase per year over the period.

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



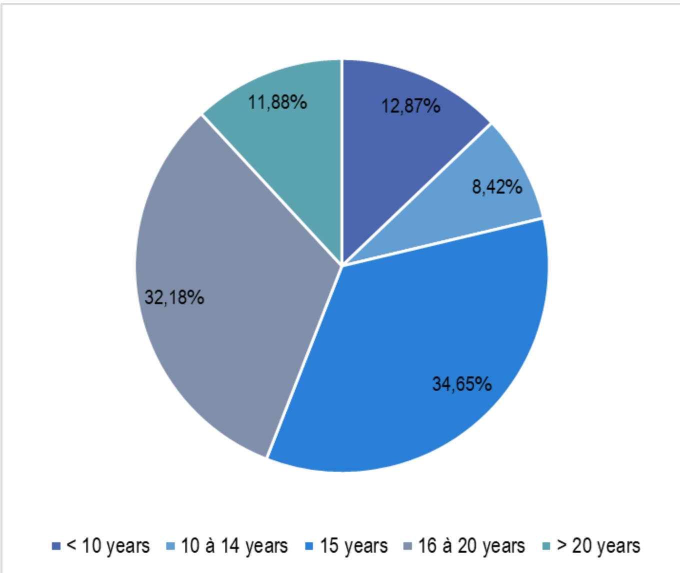
Exclusively lends to French local authorities that are shareholders of Société Territoriale. 79.5% of direct exposures in the loan portfolio are to the municipal block compared to 83.4% at December 31, 2017, with 37% to metropolitan areas compared to 46.3%

at the end of the previous financial year. However, exposure to the Departments increased from 6.6% to 9.1% over the period and to the regions from 5.4% to 6.4%. That for the EPT increased slightly from 4.6% to 5%. The graph below shows an increase in the diversification of exposures by categories of local authorities between 2017 and 2018.



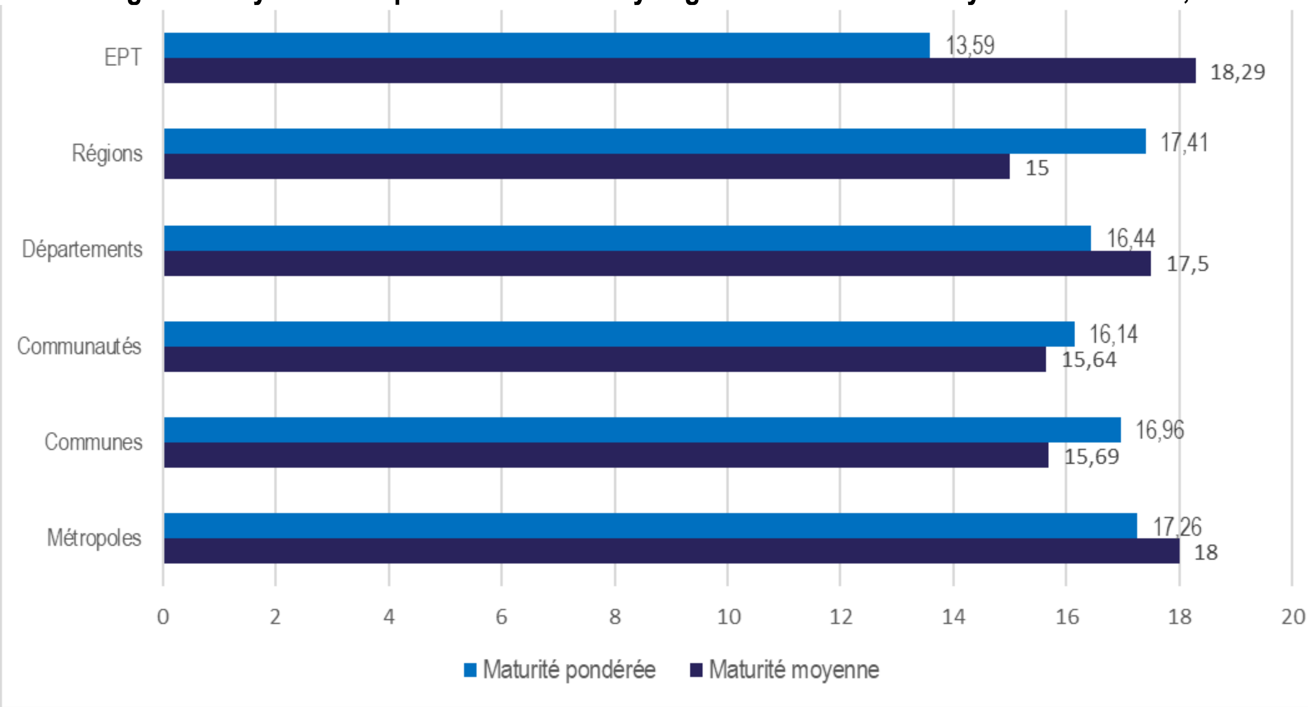
As indicated in the graph below, 67% of loans made by AFL in 2018 have a maturity of between 15 and 20 years, 8% between 10 and 15 years, 13% below 10 years and 12% above 20 years.

Breakdown of the production of loans to local authorities by maturity in 2018



The graph below shows, at December 31, 2018, the average maturities and volume weighted maturities by category of local authorities for the entire production of loans by AFL carried out in 2018. One finds a considerable uniformity from one category to another, with the average maturity, both weighted and non-weighted, of between 15 and 20 years.

Average maturity[6] of loans produced in 2018 by segment of local authority at December 31, 2018



2. Liquidity reserve

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

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

At December 31, 2018, the assets in the liquidity reserve amounted to €856.4 million. This liquidity reserve is divided into two main segments:

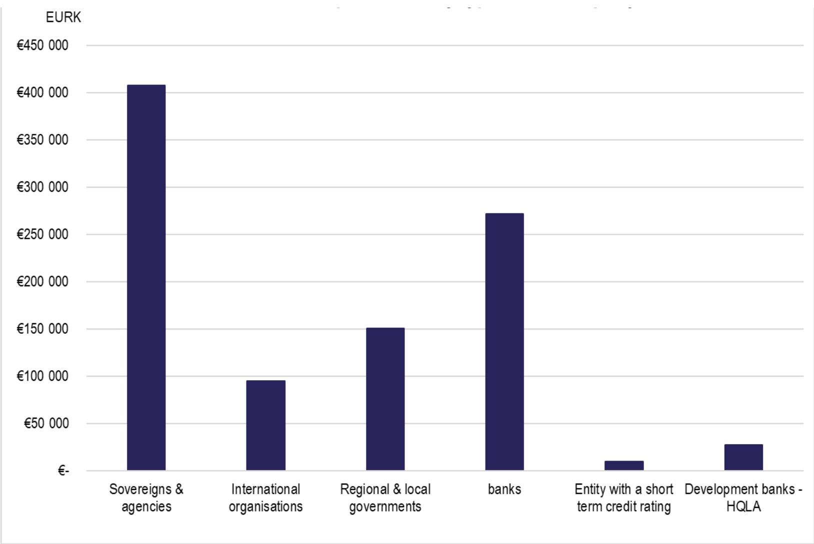
- one segment invested in very short-term instruments, and mainly comprising deposits on nostro accounts with the Treasury and Banque de France;
- one segment consisting mainly but not exclusively of HQLA-accredited securities, due to their high rating and high degree of liquidity.

Due to the investments carried out as part of the liquidity reserve, AFL supports a credit risk on the issuers of assets that it acquires or exposures that it takes. However, this credit risk is limited in view of the quality of the counterparties, which all enjoy the best rating levels from the major rating agencies. At December 31, 2018, 79% of the liquidity reserve comprised so-called "HQLA" assets mainly on sovereigns and public agencies issuers as shown in the graph below. The remaining 21% consist 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.

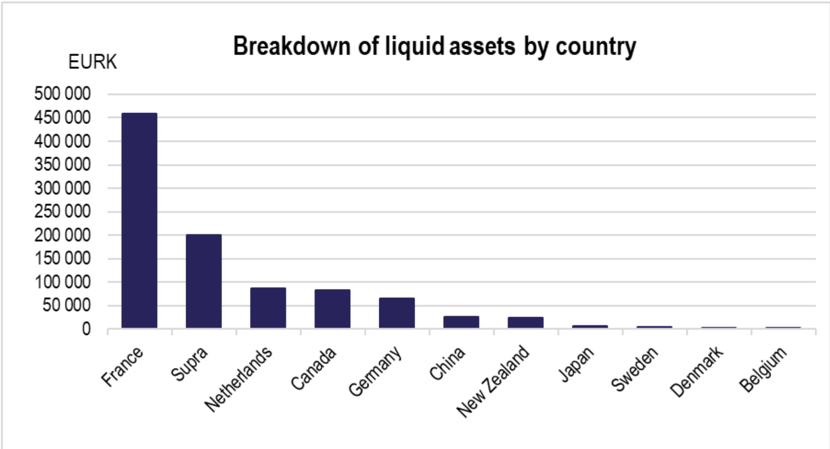
The graphs below show the breakdown of the exposures for the liquidity reserve by type of counterparty, country, rating and risk class.

[6] Average maturity weighted by the production volume.

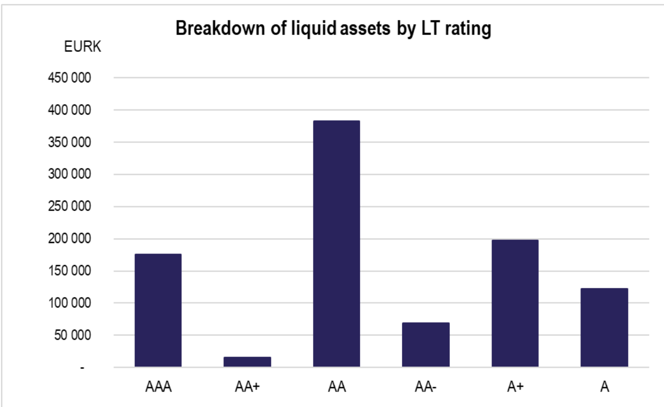
Breakdown of the exposures in assets by type of counterparty[7]



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



The exposure carried by AFL in its liquidity reserve has a very high rating.



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

3. Margin calls

Excluding loans to local authorities and assets in the liquidity reserve, most of the balance of financial assets on AFL's balance sheet consists of margin calls on interest-rate and currency hedging activities which are paid, on the one hand, and mainly to the LCH Clearnet clearing house, given that AFL hedges almost all its production of rate derivatives and on the other hand, to AFL counterparty banks (from which are deducted margin calls received). These margin calls also include guarantee deposits (IMR[8]) with the clearing house amounting to €52.84 million at December 31, 2018. This amount is low when we compare it to the total hedging swaps that AFL carries. In addition, this amount decreased by €15.47 million over the financial year despite the margin calls paid by AFL as part of the hedging of loans purchased on the secondary market during the financial year, carrying high interest in view of the levels observed during 2018, thus

leading to the payment of monetary compensation when they were set up. This decrease in margin calls from €68.3 million at December 31, 2017 to €52.8 million at December 31, 2018 is the result of the change in interest rate and exchange rate hedging values and notably the consequence of the decrease in rates between December 31, 2017 and December 31, 2018. This is due to AFL's balance sheet position that is structurally a receiver of fixed rates, although in a limited proportion.

4. Subsidiaries and shareholdings

4.1 Activities of Company subsidiaries and companies under its control

AFL has no subsidiaries or shareholdings in other companies.

4.2 Equity investments and takeovers

AFL had no shareholdings in companies with registered offices in France or abroad during the financial year ended December 31, 2018.

AFL did not control any company as at December 31, 2018, as defined by Article L. 233-3 of the French Commercial Code. Therefore, no treasury shares are held by a controlled company.

4.3 Cross-shareholdings

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

5. Returns on assets

AFL's net profit/loss at December 31, 2018 is negative under French standards, as under IFRS, with a negative return on assets as a result. Despite an improvement to AFL's banking activities, outstanding loans to local authorities, up significantly from one financial year to another, are not yet at a sufficient size to generate revenue to cover all AFL's operating expenses.

[8] Initial margin requirement.

III. Balance sheet liabilities and debt management (IFRS)

AFL's liabilities consist mainly of debts incurred in connection with bond issues that have been made since the beginning of AFL's activities and have not yet matured. At the end of the financial year ending December 31, 2018, outstanding debt amounted to €2,997 million compared to €2,336 million at December 31, 2017, 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.

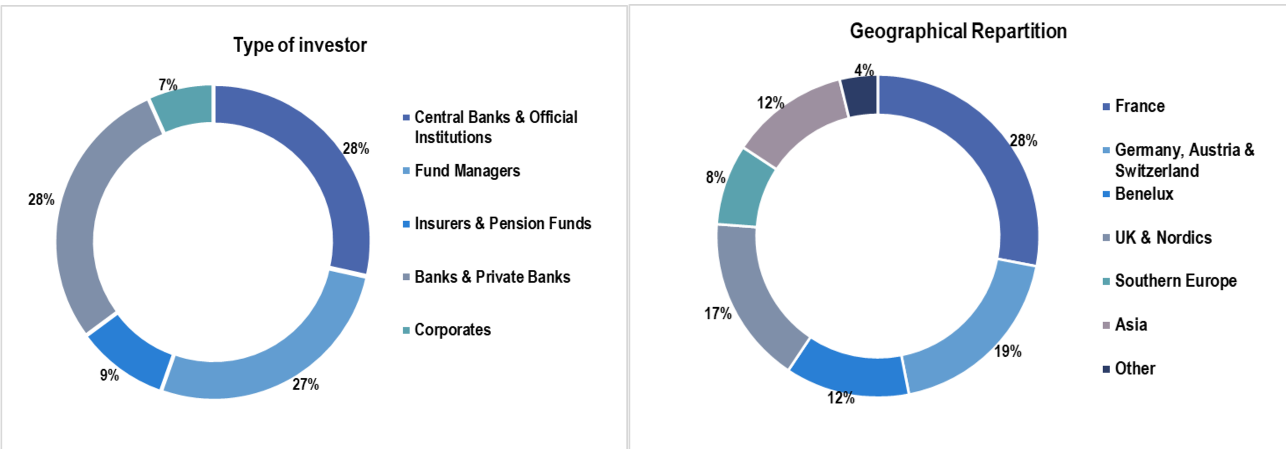
After the four capital increases carried out during 2018, the subscribed capital stood at €138.7 million at December 31, 2018 compared to €132.5 million at December 31, 2017, and the amount of equity capital under IFRS amounted to €117.3 million compared to €114.9 million at December 31, 2017.

Excerpts of the main liabilities (IFRS)

In thousands of euros	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Debt securities	2,996,909	2,335,802	1,259,073	840,536	-
Equity	117,309	114,856	93,529	62,046	29,316

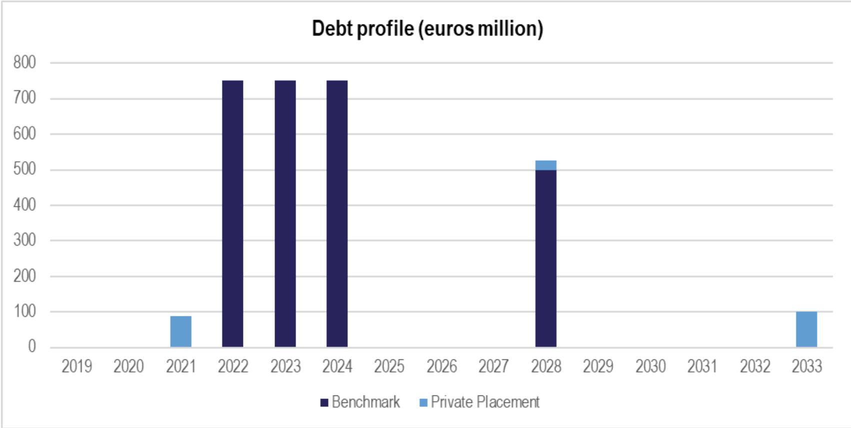
1. Financial debt of AFL

The debt portfolio in AFL's balance sheet liabilities represented an outstanding amount of €2,996.9 million at December 31, 2018 compared to €2,335.8 million at December 31, 2017. At December 31, 2018, this portfolio solely comprised bonds issued by AFL to finance its loan activities and liquidity reserve. The portfolio comprises 7 bonds including 4 benchmark size bonds in euros, and 3 private placements including 2 in euros and 1 in US dollars. This mix reflects AFL's issue strategy, which consists of favouring public benchmark size issues labelled in euros in order to reinforce AFL's signature in the markets and thus be able to sustainably have access to the resources necessary for its development. This mix also consists of carrying out issues in a more opportunistic way in the form of private placements for a single investor, with the funds raised providing a very useful addition through the additional diversification of AFL's debt placement and the generally optimized conditions. This debt portfolio is placed with domestic and international institutional investors with the breakdown shown in the graphs below[9]:



At December 31, 2018, the average maturity of AFL's debt was 6.72 years compared to 6.59 years at December 31, 2017. The debt maturity profile is shown in the graph below:

[9] The graphs representing the aggregate distribution of the benchmark issues only as at the time of issue placement.



2. Breakdown of accounts payable

The figures presented below concern the breakdown at the closing date of the financial year ended December 31, 2018 of the balance of debts payable to AFL's suppliers, pursuant to Articles L. 444-6-1 and D. 441-4 of the French Commercial Code. Accounts payable are characterized by a settlement period of less than thirty days.

It should be noted that given the nature of AFL's activities, the figures presented in the table only represent accounts payable, as AFL's accounts receivable result exclusively from the loan contracts described in paragraph II.1 above. In this respect, no unpaid amounts were recognized at December 31, 2018.

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

Total amount of accounts payable (including tax in euros)				
Dec 31, 2018	**Dec 31, 2017**	**Dec 31, 2016**	**Dec 31, 2015**	**Dec 31, 2014**
€490,869	€449,140	€747,054	€707,874	€609,810

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

Invoices received but not paid at December 31, 2018 for which the term has expired (excluding tax in euros)						
	Article D. 441-4 I, 1°: Invoices received but not paid at the closing date of the financial year for which the term has expired					
	0 days (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and over	Total of invoices (1 day and over)
(A) Late payment tranches						
Number of invoices concerned	41	5	-	-	-	**5**
Total amount of invoices concerned (excl. tax)	193,381	22,759	-	-	-	**22,759**

Percentage of the total amount of purchases in the financial year (excl. tax)	4.66%	0.55%	-	-	-	**0.55%**
Percentage of sales in the financial year (excl. tax)	2.03%	0.24%	-	-	-	**0.24%**
(B) Invoices excluded from (A) as relating to disputed or unrecognized payables						
Number of invoices excluded	-	-	-	-	-	-
Total amount of invoices excluded	-	-	-	-	-	-
(C) Benchmark terms of payment used (contractual or legal terms - Article L. 441-6 or Article L. 443-1 of the French Commercial Code)						
Terms of payment used to calculate late payments	Contractual					

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

Invoices that have had a late payment during the financial year						
	Article D. 441-4 II: Invoices received that have had a late payment during the financial year					
	0 days (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and over	Total (1 day and over)
(A) Late payment tranches						
Number of invoices concerned	714	23	11	1	12	47
Total amount of invoices concerned (excl. tax)	€3,928,230	€163,487	€24,332	€267	€37,569	€225,655
Percentage of the total amount of purchases (excl. tax) in the financial year	94.57%	3.94%	0.59%	0.01%	0.90%	5.43%
Percentage of sales in the financial year (excl. tax)	41.17%	1.71%	0.26%	0%	0.39%	2.36%
(B) Invoices excluded from (A) as relating to disputed or unrecognized payables						
Number of invoices excluded	-	-	-	-	-	-
Total amount of invoices excluded	-	-	-	-	-	-
(C) Benchmark terms of payment used (contractual or legal terms - Article L. 441-6 or Article L. 443-1 of the French Commercial Code)						
Terms of payment used to calculate late payments	Contractual					

IV. Results of the financial year ended December 31, 2018

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

The annual financial statements were prepared in accordance with French GAAP, unchanged from the previous year, and in accordance with the provisions of the general accounting plan for credit institutions. Additional explanations are provided in the notes to the financial statements. AFL also prepared IFRS financial statements, on a voluntary basis, for the financial year ended December 31, 2018, which are discussed in this report.

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

2018 is the fourth financial year for AFL; it closes four years of operational activities for AFL, mainly focused on the production of loans for local authorities.

1. French GAAP financial statements

2018 marks a new significant increase in the results related to the loan activity, which follows the Company's development trajectory, in line with its 2017-2021 strategic plan. This increase in results shows the momentum of revenue generation from the loan activity since the 2015 financial year, the start of AFL's activities, measured notably by the increase in the outstanding amount in its loan portfolio granted to member local authorities. The capital gains on disposals of securities from the management of the liquidity reserve can also be added to this income.

At the end of the 2018 financial year, the NBI generated by the activity amounted to €9,542,000 compared to €11,102,000 at December 31, 2017 (which included non-recurring gains from the disposal of securities of €4,494,000).

The NBI for 2018 corresponds mainly to a net margin of interest of €7,828,000, up 21% compared to the €6,485,000 observed for the previous year, net gains on disposals of securities of €1,636,000 and impairment on investment securities of €191,000.

The interest margin of €7,828,000 originated from three items:

- firstly, income associated with the loan portfolio for €7,667,000, once restated for their hedges, which increased by 22% compared to the income of €6,295,000 at December 31, 2017;
- secondly, revenues related to the management of the liquidity reserve of -€3,357,000 compared to -€2,763,000 at December 31, 2017, due to interest rates deeply anchored in negative territory;
- lastly, the interest expense from debt, which, for the reasons mentioned above, represents a source of income amounting to €3,518,000, once the income from hedging it is taken into account, compared to €2,953,000 at December 31, 2017.

For the financial year ended December 31, 2018, general operating expenses amounted to €9,032,000 compared with €8,618,000 for the previous year. These expenses amounted to €4,558,000 in personnel costs compared to €4,592,000 in 2017. General operating expenses, also including administrative charges, amounted to €4,474,000, compared to €4,026,000 at December 31, 2017, after transfers of expenses to fixed assets or to be allocated. It is important to note that the administrative charges for 2017 included a reversal of provisions for risks and charges of €488,000. If we exclude this non-recurring item, administrative charges are stable.

At the end of the financial year, depreciation expenses amounted to €2,388,000 compared to €2,338,000 at December 31, 2017, up 2.1% corresponding to AFL's continued investment expenses in the infrastructure of its information system.

The financial year ended December 31, 2018 saw a negative gross operating loss and negative net loss of €1,878,000, compared to a net profit of €146,000 at December 31, 2017, which included non-recurring gains from the disposal of securities of €4,494,000.

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

Transition from French GAAP to IFRS

Transition from French GAAP - IFRS	Dec 31, 2018
Net profit – French GAAP	**-1,878**
IFRS restatements	
Deprec. and amort. of establishment costs (as a whole in 2014 under IFRS)	404
Cancellation of impairment losses on securities at fair value through other comprehensive income	190
Revaluation of loans that have been terminated	-
Impact of the new effective interest rate on loans that have been terminated	-
Micro-hedging inefficiency	265
Profit from macro-hedging of loans	-269
Transition to TIE of the Treasury account	-23
IFRS Impairment	-191
Deferred taxes	-210
Net profit under IFRS	**-1,712**

2. IFRS financial statements

2.1 Key events of the past financial year

2018 saw a new significant increase in results in the loan activity, which follows the Company's development trajectory, in line with its 2017-2021 strategic plan, with, in addition, the gross operating results for 2018 better than the forecast of -€2.9 million, published in the EMTN program prospectus on May 15, 2018.

This increase in results shows the momentum of revenue generation from the loan activity since the 2015 financial year, the start of AFL's activities, measured notably by the increase in the outstanding amount in its loan portfolio granted to member local authorities. The capital gains on disposals of securities from the management of the liquidity reserve can also be added to this income.

At the end of the 2018 financial year, the NBI generated by the activity amounted to €9,705,000 compared to €10,682,000 at December 31, 2017 (which included non-recurring gains from the disposal of securities of €4,494,000).

The NBI for 2018 corresponds mainly to a net margin of interest of €7,805,000, up 20% compared to the €6,507,000 observed for the previous year, net gains on disposals of investment securities of €1,636,000 and a loss on negative hedge relationships of €4,000.

The interest margin of €7,805,000 originated from three items:

- firstly, income associated with the loan portfolio for €7,644,000, once restated for their hedges, up 21% compared to the income of €6,295,000 at December 31, 2017;
- secondly, income related to the management of the liquidity reserve, a loss of €3,380,000 compared to a loss of €2,741,000 at December 31, 2017, due to interest rates deeply anchored in negative territory; and
- lastly, the interest expense from debt, which, for the reasons mentioned above, represents a source of income amounting to €3,518,000, once the income from hedging it is taken into account, compared to €2,953,000 at December 31, 2017.

The capital gains on disposals for €863,000 are due to the management of the liquidity reserve portfolio over the period. These disposals led to the concurrent cancellation of the interest-rate hedges for €773,000, leading to the net overall capital gain of €1,636,000 for the period.

The net loss from hedge accounting is €4,000. It represents the sum of the fair value differences of the hedged items and their hedges. Among these variations, €269,000 of expenses relates to differences in valuation on instruments classified as macro-hedges and €265,000 of income relates to valuation differences of instruments classified as micro-hedges. There remain unrealized valuation differences between hedging instruments and the underlying hedged items, one of whose components comes from an accounting practice that leads to an asymmetry in the valuation of hedging instruments collateralized daily and discounted on the basis of an Eonia curve, and of hedged items discounted on the basis of a Euribor curve. In IFRS, this caused a hedge ineffectiveness that is recognized in the income statement. It should be noted, however, that this is a latent result.

For the financial year ended December 31, 2018, the general operating expenses amounted to €9,033,000 compared with €8,619,000 for the previous year. These expenses amounted to €4,558,000 in personnel costs compared to €4,592,000 in 2017. The general operating expenses, also including the administrative charges, amounted to €4,475,000, compared to €4,027,000 as at December 31, 2017, after transfer of expenses to fixed assets. It is important to note that the administrative charges for 2017 included a reversal of provisions for risks and charges of €488,000. If we exclude this non-recurring item, the administrative charges are stable.

At the end of the financial year, the depreciation expenses amounted to €1,984,000 compared to €1,913,000 at December 31, 2017, up 3.7% corresponding to AFL's continued investment expenses in the infrastructure of its information system.

The financial year ended December 31, 2018 saw a gross operating loss of €1,311,000 compared to a profit of €149,000 at December 31, 2017, which included non-recurring gains from the disposal of securities of €4,494,000.

The first application of IFRS 9 and its new provisioning model led to the recognition of €191,000 in impairments during the financial year, almost exclusively from the increase in the securities portfolio without any credit risk proven over the period.

The tax losses recorded over the period did not give rise to any deferred tax assets.

After taking into account the deferred tax expense of €210,000, the financial year ended December 31, 2018 had a net loss of €1,712,000 compared to a loss of €427,000 for the previous financial year.

2.2 First application of IFRS 9

The new IFRS 9 "Financial Instruments" standard was adopted by the European Commission on November 22, 2016 and is applicable retroactively from January 1, 2018.

IFRS 9 replaces IAS 39 and defines the new rules for classification and assessment of financial assets and liabilities, the new methodology for credit risk on financial assets and the treatment of hedging operations, with the exception of macro-hedging operations.

The first application of IFRS 9 did not lead to any reclassifications in loans and receivables which were at amortized cost under the previous guidelines.

▪ Classification and assessment

Debt securities belonging to the liquidity reserve are managed within AFL under two different business models: a hold to collect cash flow model and a hold to collect and sell cash flow model. These two management types were transparent up to now in the financial statements as the entire portfolio hedged against interest rate risk was classified under IAS 39 in the financial assets at fair value through other comprehensive income category. On January 1, 2018, the Group reclassified €49.3 million in debt securities from the financial assets at fair value through other comprehensive income category to the IFRS 9 Securities at amortized cost category. This portfolio is assessed at amortized cost on the basis of the effective

interest rate and its accrued or acquired revenue is recorded in income under interest and related income.

The changes in fair value of these securities are no longer recorded in recyclable shareholders' equity.

The first application of IFRS 9 on this portfolio of securities at amortized cost had an impact of over €40,000 on recyclable shareholders' equity through the cancellation of unrealized losses that were attached to these securities on December 31, 2017.

For the other debt instruments in the liquidity reserve which were recorded in the Financial assets at fair value through other comprehensive income category and are now recorded in Financial assets at fair value through shareholders' equity, i.e. €309.7 million, the accounting principles remain unchanged compared to IAS 39 with recycling of latent gains or losses in shareholders' equity to the income statement if they are sold.

The recognition of financial liabilities did not change under IFRS 9 and has no impact on AFL's financial statements.

▪ Impairment

IFRS 9 has modified the credit risk impairment model, going from provisioning for proven credit losses to provisioning for expected credit losses (ECL). This new approach aims to anticipate the recognition of expected credit losses earlier without waiting for the objective event of a proven loss.

IFRS 9 now imposes the recognition of impairment at an earlier stage than under IAS 39, i.e. from the date of the initial recognition of the financial instrument. Thus, the application of this new provisioning model has led AFL for the first time to recognize impairment on loans recognized in the balance sheet at amortized cost, on debt securities at fair value through recyclable shareholders' equity, and on the financing commitments given.

The impact of the first application of IFRS 9 on opening equity related to the implementation of this new impairment model is -€96,000 before tax (-€69,000 after tax).

▪ Hedge accounting

AFL has adopted IFRS 9 for its fair value hedge accounting and remains under IAS 39 "Carve Out" as adopted by the European Union for its macro-hedge accounting. This adoption has no impact on the annual financial statements presented.

3. Proposed allocation of profit

It is proposed that the total net loss for the financial year ended December 31, 2018 (annual financial statements prepared under French standards) which amounts to €1,878,316 be allocated to retained earnings.

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

No dividends are distributed in respect of the financial year ending December 31, 2018 and none were distributed over the previous three years.

5. Non tax-deductible expenses (Articles 39.4 and 39.5 of the French General Tax Code)

During the financial year ended December 31, 2018, AFL incurred no expenses as defined by Articles 39-4 and 39-5 of the French General Tax Code.

V. Risk management

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

1.1 Strategic risk

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

▪ Risks related to the business model

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

▪ Membership risks

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

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

Since AFL is a financial institution, its businesses are very sensitive to changes in the markets and the economic environment in France, Europe and the rest of the world. Its exposure to the local public sector in France puts AFL at risk of losses arising from possible unfavourable developments in the political, economic and legal situations in France or in Europe, including social instability, changes in public policies, local or national, or the policies of central banks. In addition, a deterioration in market confidence in France could lead to unrealized losses in the liquidity portfolio, which has significant exposures to French sovereign risk as a result of spread margins. Finally, a deterioration in the situation in France

would not be without consequences on AFL's conditions of access to capital markets.

▪ Risks related to competition

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

▪ Risks related to regulatory developments

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

1.2 Credit and counterparty risk

▪ Nature of risks

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

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

i. Credit and concentration risk related to borrowers

AFL carries out its activities for the exclusive benefit of local and regional authorities[10], public institutions for inter-municipal co-operation with their own taxation, and local public entities that are shareholders of the parent company of AFL. If default by a local or regional authority cannot be

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

ruled out, these counterparties are considered to have a limited risk profile; as a result, the credit transactions carried out have this same profile.

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

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

Due to the cash investments carried out, AFL supports a credit risk on the issuers of securities that it holds in its cash portfolio. AFL is exposed to the inability of the securities issuers in which it has invested to meet their financial obligations.

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

▪ Portfolio quality

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

As at December 31, 2018, the risk-weighted allocation of AFL credit exposures revealed a very high quality portfolio, with an average weighting of 16.9%.

▪ Local government loan portfolio

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

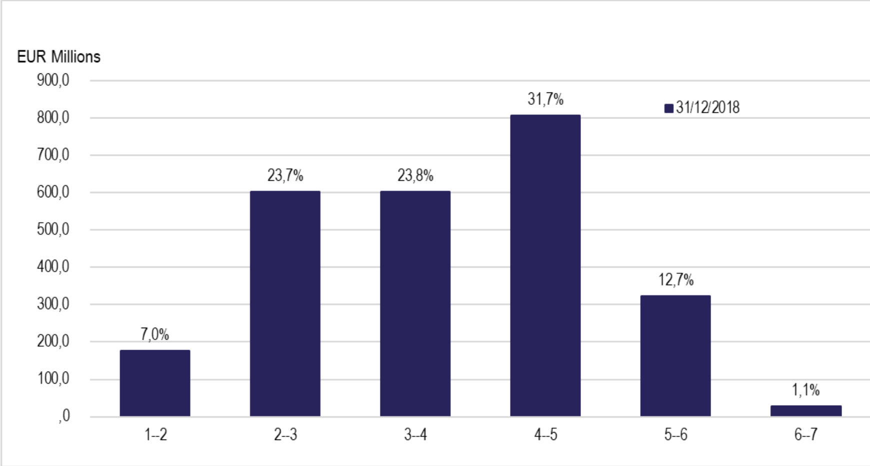
- to evaluate the financial positions of local authorities, public inter-municipal co-operation institutions and local public entities for membership in the AFL Group through the establishment of a so-called “quantitative” or “financial” rating. On a scale of 1 to 7 (1 being the best score and 7 the worst), only local and regional authorities scoring between 1 and 5.99 will be given the option to become members of the AFL Group. This rating system is automated and fed by the economic and financial data published once a year by the General Directorate of Public Finance (the French Ministry of Finance); and
- to assess the financial positions of the local authorities applying to AFL for credit using, in addition to the above-mentioned financial rating, a so-called “socio-economic” rating, potentially supplemented by a so-called “qualitative” rating. Lastly, the AFL Credit Committee decides on the final score awarded to the community concerned.

The breakdown by rating of its portfolio of loans to local authorities reveals a portfolio that is already granular and of good quality. As at December 31, 2018, this portfolio was more than 30% exposed to local authorities with ratings ranging from 1 to 2.99. The five largest exposures accounted for 20.4% of assets. The largest exposure accounted for 4.2% of assets and the fifth-largest for 4%. As at December 31, 2018, the average rating of loans made by AFL to its members, weighted by volumes outstanding, amounted to 3.77[11]. This rating is stable over one year.

Breakdown of credit risk exposures by asset classes (€)	31/12/2018 Agence France Locale Social - French gaap		31/12/2017 Agence France Locale Social - French gaap	
Central governments & central banks	298 270 824	9%	566 904 931	21%
Regional & local governments	2 668 029 645	77%	1 747 571 543	64%
Public sector entities	7 446 282	0%	-	0%
Multilateral development banks	105 780 198	3%	32 387 111	1%
International organisations	95 498 683	3%	-	0%
Banks	295 407 170	8%	386 273 853	14%
Exposures at default	-	0%	-	0%
Guaranteed bonds				
Exposures to banks & corporates with a short term rating	10 011 041	0%		
Others	772 544	0%	717 317	0%
Securitization				
Total exposures to credit and counterparty risk	3 481 216 387	100%	2 733 854 754	100%

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

Breakdown of the loan portfolio by local authority rating[12] as at December 31, 2018



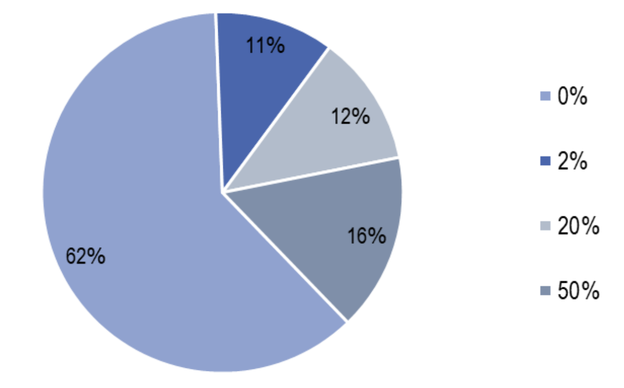
Credit risk related to other exposures

AFL has three other types of exposures:

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

The ratings of these exposures are of very high quality, with over 60% of exposures rated equal to or greater than Aa2 on Moody's scale. The weighted average risk of this portfolio is 10.8%. The graph below highlights the strong concentration of exposure for AFL's liquidity reserve in very low risk classes, 50% of the portfolio being invested in risk classes weighted at 0%, 12% in risk classes weighted at 2% and 18% in risk classes weighted at 20%. The exposure to risk classes weighted at 50% mainly corresponds to nostro accounts.

Breakdown of exposures excluding loans to local authorities by class of risk[13]



[12] Rating based on the 2016 rating year.
[13] The graph on the breakdown by asset class includes exposure related to hedging swaps in clearing houses, which is weighted at 2%.

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

As at December 31, 2018, interest rate swaps were cleared at 99% in clearing houses and 1% [14]on a bilateral basis, with a daily collateralization for all instruments from the first euro. Currency hedging swaps remain processed on a bilateral basis.

- **Doubtful receivables, disputed claims, provisions**

At December 31, 2018, outstanding doubtful or contentious receivables were nil. Under French GAAP, no collective provision and no specific provision was recognized as at December 31, 2018 on loans granted to local authorities or on the other assets.

Under IFRS, IFRS 9 entered into application on January 1, 2018 and provides for the calculation and accounting of impairment for credit risk ex ante from the commitment. Impairment is calculated for defaulting exposure, and for exposures for which the risk has deteriorated or has not significantly deteriorated since the origin. The impact of the first application of IFRS 9 on opening equity related to the implementation of this new impairment model is -€96,000 before tax and -€69,000 after tax. At December 31, 2018, the provision amounted to €191,000.

1.3 Liquidity risk

- **Nature of risks**

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

AFL is exposed to three dimensions of liquidity risk:

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

- **Implemented strategy**

AFL has also adopted a very strict liquidity policy whose main objective is ultimately to ensure that it has a sufficient liquidity reserves to maintain its operational activities, in particular its lending activities, for a period of twelve months.

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

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

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

As at December 31, 2018, the LCR 30-day liquidity ratio was 622%; AFL held a liquidity reserve amount to meet slightly over 12 months of its cash flow requirements[15].

As at December 31, 2018, the ALT variance was 1.08 years and the NSFR ratio was 165%.

1.4 Interest rate and currency risks

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

In order to maintain its financial base for the development of

[14] Calculation carried out on the basis of the regulatory STAs using the STD method.

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

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

AFL's interest rate hedging policy consists of:

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

The hedging strategy for interest rate risk translated into a notional outstanding amount of swaps of €7.2 billion at December 31, 2018.

At December 31, 2018, the sensitivity of AFL's net present value of equity capital to a change of over 100 basis points was -3.8% and -7.1% to a change of over 200 basis points in the yield curve.

Throughout 2018, the sensitivity of AFL's net present value to a change of plus or minus 200 basis points remained below 15% of equity. The table below shows the sensitivity of the NPV as at December 31, 2016, December 31, 2017 and December 31, 2018.

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

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

1.5 Financial risk due to the effects of climate change

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

1.6 Operational risks

▪ Nature of risks

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

i. Process risks

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

ii. Risks related to human resources

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

iii. Risks related to IT systems

IT systems are essential elements for AFL's activities and operations. AFL is exposed to the risk associated with possible infringements on the availability and integrity of its computer systems and data that could, in particular, result from a failure by its external service providers.

iv. Legal risk

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

v. Non-compliance risk

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

▪ Mechanism in place

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

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

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

- The purpose of the risk mapping process is to identify and assess in a coherent manner the main areas of risk for AFL as a whole. It focuses on the main risks, using size of potential impact and frequency of occurrence as criteria. The exercise thus makes it possible to prioritize risks on an objective basis and to ensure coherence of evaluation between the various departments and functions involved.
- Operational risk measurement is based on the collection and analysis of incidents, which measures the impact and frequency of occurrence of identified risks. The process requires the systematic reporting of incidents within AFL beyond predefined thresholds.

Risk analysis

In 2018, no significant operating loss was incurred. With regard to legal risks, AFL was not involved in any disputes during the 2018 financial year.

The amount of equity capital requirements for operational risk amounted to €1.5 million as at December 31, 2018[16].

2. Prudential ratios and equity

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

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

As at December 31, 2018, the prudential capital amounted to €115.6 million, in accordance with IFRS, for Société Territoriale. Given the quality of credit of the assets carried by AFL, the solvency ratio reached 18.89% on a consolidated basis. In addition, the leverage ratio stood at 3.28% on that same date.

The table below provides a statement of the prudential and capital adequacy ratios[17] per quarter for the year 2018.

Solvency

	31/12/2018	30/06/2018	31/12/2017
CET 1 (K€)	115 642	115 716	114 232
Solvency ratio	18,89%	22,85%	24,00%

Levier

	31/12/2018	30/06/2018	31/12/2017
Leverage ratio	3,28%	3,39%	4,17%

In the assumption that the deduction of development loans from assets is retained by the new CRR, the leverage ratio for Société Territoriale (IFRS) would amount to 11.69% as at December 31, 2018.

3. Internal control and risk management procedures

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

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

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

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

3.1 Governance

- **Supervisory Board and Management Board**

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

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

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

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

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

- assessment of the quality of internal control, including the coherence of systems for measuring, monitoring and controlling risks, monitoring the findings of periodic control tasks and supervisory authorities, monitoring operational risks and monitoring risks linked to business activities (new products, new business, etc.) and, where necessary, proposing additional actions; and
- verifying the clarity of the information provided and assessing the relevance of the accounting methods adopted for the preparation of the individual and, as the case may be, consolidated financial statements.

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

- **Risk, Compliance and Control Department**

From an operational standpoint, the internal control system is

[16] At December 31, 2017, the equity capital requirement was €1 million.

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

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

In accordance with the Decree:

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

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

- **The operational departments**

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

- **Committees**

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

- the Global Risk Committee, which meets quarterly, is responsible for monitoring the exposure of AFL to risks of all kinds. It approves risk policies, measurement indicators and the supervision of such risks on an annual basis. It also oversees the risk management system and decides on the related action plans; and
- the Internal Control Committee, which meets semi-annually, is tasked with the management of the internal control and compliance systems of AFL across all departments.
- Several operational committees chaired by the Chairman of the Management Board that include the members of the Management Board also participate in the overall internal control system:
- The Loan Committee, which meets *at least* monthly to decide on the granting of loans to a member and to approve the risk category, is also called upon to decide whether or not to begin a relationship with a market counterparty, the nature of the transactions that AFL may carry out with that counterparty, and on the counterparties for which it takes exposures in connection with the management of its liquidity reserve;
- the ALM Committee, which meets *at least* monthly and whose mission is to steer AFL's ALM management, monitor performance indicators for the activities and notably ensure the implementation and correct execution of the investment policy, the hedging policy and the liquidity policy, including the execution of the financing strategy;
- the New Products Committee, which meets as necessary to decide on the implementation of a new product or activity or on significant changes to existing products or activities; and
- the Organization and Procedures Committee, which meets as necessary and whose purpose is to approve the processes and procedures that describe the activities of AFL. These committees are governed by internal regulations. Within the first two operational committees, the Director of Risk, Compliance and Control has a right of veto. Should he or she exercise it, the decision is either adjourned to a subsequent Committee meeting or is decided by the Management Board in a vote for which the Chairman of the Management Board, in the event of a tie, has a casting vote.

3.2 Internal control and risk monitoring systems

- **Definition and objectives of internal controls**

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

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

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

- financial policies and risk monitoring indicators defined in relation to the institution's objectives that specify and frame the risks incurred;
- an organization structured and supervised by a body of documents (operating and other procedures)

providing the wherewithal to clearly define the roles and responsibilities of everyone involved;
- systematic, permanent, risk-focused monitoring and regular review of the overall system; and
- the implementation of a control system commensurate with the challenges specific to each process and their estimated level of risk.
- Because its objective is to prevent and to control the risk of not meeting the objectives set by AFL in terms of development, the internal control and risk management systems play a key role in the management and steering of the various activities of AFL. However, it cannot be, and is not intended to provide, a guarantee that the objectives of AFL will be achieved.

▪ Functions, scope and associated resources

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

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

▪ The Risk function

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

It operates independently of the operational teams.

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

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

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

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

In 2018, AFL revised and amended the financial policies applicable to its activities. Adaptations were made to the relative importance of the various risks as part of the quarterly GRCs. Responsibilities were confirmed. The main risk measurement indicators and reporting set up have changed to follow AFL's growth. The Global Risk Committee met four times.

▪ The Control function

- In accordance with Article 11 of the Decree, the purpose of the AFL operations and internal procedures control system is to:
- verify that the transactions carried out by AFL and their organization and internal procedures comply with the applicable legal and regulatory provisions, professional and ethical standards, best market practices, and management instructions given in accordance with the risk and strategic policies of the supervisory body;
- verify that decision-making procedures of any kind and management standards, particularly limits, are strictly adhered to;
- verify the quality of accounting and financial information;
- verify the conditions for assessment, recording, retention and availability of information;
- verify the execution within a reasonable period of time of corrective measures decided within AFL; and

- verify compliance with provisions relating to compensation policies and practices.
- Control functions are divided into permanent and periodic controls to ensure independent and objective risk assessment, in accordance with regulatory requirements.

i. Permanent controls

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

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

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

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

In 2018, the body of documents that governs the activities of AFL (policies, procedures, operating procedures) was completed. On that basis, the system of first-level controls and the tools for monitoring their implementation was supplemented. The principle is that each control must be documented in a standardized manner within the framework of a control matrix, thus ensuring a homogeneous performance and audit trail.

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

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

The Internal Control Committee met twice in 2018.

ii.Periodic controls

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

In accordance with the Decree of November 3, 2014 respecting the internal controls of companies in the banking sector subject to the supervision of the French Prudential Supervision and Resolution Authority (ACPR), periodic controls are the responsibility of the Director of Risk, Compliance and Control, who is a member of the Management Board.

In order to guarantee its independence with respect to first- and second-level controls through permanent controls, AFL has outsourced the periodic controls to a service provider since 2014.

In 2018, periodic controls required 53 man-days per year, including internal responsibilities and the completion of outsourced work.

2018 was the first year of the multi-year three-year audit cycle started in 2018. A call for tender was launched in November 2017 to select the service provider to support AFL for 2018-2019-2020, in which PwC was selected.

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

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

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

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

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

▪ The Compliance function

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

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

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

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

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

In 2018, the Compliance function continued to consolidate AFL's non-compliance risk management system. It carried out the updating of procedures developed upfront, in particular financial security and personal data protection measures, due to the entry into force of the GDPR.

At the same time, the main measures developed were subject to compliance maintenance and operational implementation, in particular:

- the approval system for new products and activities;
- measures to combat money laundering and the financing of terrorism and to ensure respect for embargoes;
- the ethics procedures;
- the Market Abuse system;
- regulatory monitoring measures based on participation in local organizations that afford monthly communication specific to the various business lines and functions; lastly, the 2018 financial year was marked by the operational implementation of the IFRS 9 regulatory change.

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

i. Organization of the accounting system

The Accounting Department comes under the Finance Department. In 2018, it had three full-time functions spread over four people. The Accounting Director, an executive accountant in charge of general accounting, and two apprentices, one in charge of registering supplier invoices and the other in charge of strengthening the accounting control system.

ii. Permanent accounting controls (levels 1 and 2)

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

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

On a daily basis:

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

On a monthly basis:

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

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

In detail, it involves:

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

- Other checks are carried out internally with a periodic frequency, in particular the following:
- verification of third-party payer databases (SIRET, name, address and IBAN);
- verification and control of accounting system authorizations;
- review of accounting schemes;
- a third-level control carried out by the Chief Financial Officer with the review of the quarterly consolidated and parent company financial statements.

VI. AFL Research and Development activity

Given its corporate purpose, AFL does not undertake operations in the field of research and development. However, in respect of development expenses, AFL wanted to open its Information System to the public data available in Open Data. Two projects were carried out in 2018 to industrialize the Information System interface with data from DGFIP and INSEE accessible from the Data.gouv servers. These projects concerned benchmarks of local authorities and all budgets (main and secondary) of the local authorities. Through these projects, AFL validated its Big Data architecture, which enables it to process several million data items for its business line needs.

VII. Data on share capital and shares

1. Shareholding structure and changes thereto during the financial year

At December 31, 2018, AFL's share capital totalled €138,700,000, divided into 1,387,000 shares with a par value of €100 each, of the same category, fully subscribed and paid up. AFL's share capital consists entirely of registered shares. Each share held entitles the holder to a vote at the General Meetings. AFL neither issued nor authorized the issue of any preferred shares during the financial year ended December 31, 2018.

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

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

AFL-ST has the exclusive control of AFL, and was the only organization to subscribe to AFL's share capital increases during the 2018 financial year, thus continuing to accomplish its corporate purpose which consists in being a shareholder of AFL.

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

	December 31, 2017			December 31, 2018		
	Amount of subscribed capital (in euros)	Number of voting rights / shares held	%	Amount of subscribed capital (in euros)	Number of voting rights / shares held	%
AFL-ST	132,499,900	1,324,999	99.99%	138,699,900	1,386,999	99.99%
Lyon Metropolitan Area	100	1	0.001%	100	1	0.01%
Total	**132,500,000**	**1,325,000**	**100%**	**138,700,000**	**1,387,000**	**100%**

2. Employee share ownership

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

Consequently:

- No operations were carried out during the financial year ended December 31, 2018 in respect of share purchase or subscription options in the Company reserved for employees;

- No operations were carried out during the financial year ended December 31, 2018 in respect of share purchase or subscription options in Group companies reserved for employees as stipulated in Articles L. 225-177 to L. 225-186 and L. 225-197-1 to L. 225-197-3 of the French Commercial Code.

No operations to enable Company employees to enter into AFL's share capital are planned in the coming financial years.

3. Company share buybacks

During the year ended December 31, 2018, AFL made no transactions in its own shares. Furthermore, the Company did not hold any of its own shares as at December 31, 2018.

4. Transactions on AFL securities by its officers

AFL was not informed of any acquisition, sale, subscription or exchange of AFL shares by Board directors or persons having close personal ties with any of them during the financial year ended December 31, 2018.

5. Stock market situation of AFL

As at December 31, 2018, the 1,387,000 shares with a par value of €100 each were not tradable on a regulated market.

VIII. Environmental, social and societal information

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

On 2 April 2019,

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

APPENDIX 1
TABLE OF RESULTS FOR THE PAST FIVE FINANCIAL YEARS

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

Parent company financial statements at December 31:

TYPE OF INDICATIONS	2018	2017	2016	2015	2014
I. - Financial position at year-end:					
a) Share capital (in thousands of euros)	138,700	132,500	111,000	74,300	35,800
b) Number of shares issued	1,387,000	1,325,000	1,110,000	743,000	358,000
c) Number of bonds convertible into shares					
II. - Overall profit from transactions (in thousands of euros):					
a) Revenues excluding tax	9,542	11,102	9,127	371	311
b) Earnings before tax, amortization and provisions	699	1,856	258	(10,345)	(7,486)
c) Corporate income tax					
d) Earnings after tax, amortization and provisions	(1,878)	146	(2,642)	(12,082)	(8,046)
e) Amounts of dividends distributed					
III. - Profit from transactions reduced to a single share:					
a) Earnings after tax, but before amortization and provisions	0.50	1.40	0.23	(13.92)	(20.91)
b) Earnings after tax, amortization and provisions	(1.35)	0.11	(2.38)	(16.26)	(22.47)
c) Dividend paid for each share					
IV. - Personnel:					
a) Number of employees	27	25	25	22	18
b) Amount of payroll (in thousands of euros)	2,970	2,980	2,730	2,580	1,359
c) Amount paid for social benefits (social security, works, etc.) (in thousands of euros)	1,588	1,612	1,508	1,217	628

APPENDIX 2
SUPERVISORY BOARD'S REPORT ON CORPORATE GOVERNANCE

AGENCE FRANCE LOCALE

A public limited company (*société anonyme*) with a Management Board and Supervisory Board and capital of €142,200,000
Registered office: Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon
799 379 649 RCS Lyon

SUPERVISORY BOARD'S REPORT ON CORPORATE GOVERNANCE FOR THE 2018 FINANCIAL YEAR

Dear Shareholders,

In accordance with the combined provisions of Articles L. 225-68, paragraph 6, L. 225-37-3 to L. 225-37-5, and L. 225-82-2 of the French Commercial Code, and Article L. 511-100 of the French Monetary and Financial Code, and in compliance with the AFEP-MEDEF Corporate Governance Code, which Agence France Locale (AFL) voluntarily upholds, it is my honor, in my capacity as Chairman of the Supervisory Board, to present to you, on behalf of the Supervisory Board, this report on corporate governance for the 2018 financial year, the terms of which were approved by the Supervisory Board at its meeting on April 2, 2019.

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

This report includes the following:

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

- elements relating to the share capital of AFL and to its shareholding structure;

- any observations issued by the Supervisory Board regarding the statements for the financial year ended December 31, 2018 and the management report prepared by the Management Board for that same financial year.

This report was prepared with the support of the Management Board and the Legal Department of AFL, and was given a favorable review by the Company's Appointments, Remuneration and Corporate Governance Committee (the ***ARCGC***) on November 22, 2018, which on February 21, 2019 also reviewed the compensation paid to corporate officers for the past financial year.

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

Table of contents

1.Declaration of compliance with the Code of Corporate Governance 40

2.Composition and functioning of the management bodies 40

2.1 Supervisory Board 40

2.1.1 Composition 40

2.1.2 Rules applicable to the appointment of members of the Supervisory Board 53

2.1.4 Independence of the members of the Supervisory Board 54

2.1.5 Balanced composition of the Board and the committees, and objectives pursued 57

2.1.6 Conditions for preparing and organizing the Board's work 57

2.2 Specialized committees of the Supervisory Board 61

2.2.1 Audit and Risk Committee 61

2.2.2 Appointments, Remuneration and Corporate Governance Committee (ARCGC) 62

2.2.3 Strategy Committee 64

2.2.4 Attendance of the members at the meetings of the Supervisory Board and the specialized committees 65

2.3 Management Board 66

3.Compensation of the members of the management body 66

3.1 Members of the Supervisory Board and specialized committees 67

3.2 Management Board 70

3.3 Resolutions intended for submission to the General Meeting with regard to the compensation of the Board directors 83

4.General Meeting of Shareholders 86

4.1 Conditions for shareholder participation in the General Meeting 86

4.2 Rules on amendments to the Articles of Association 86

5.Regulated agreements 86

6.Share capital, shareholding, and control of the Company 87

6.1 Structure of the Company's share capital 87

6.2 Restrictions on the exercise of voting rights and on share transfers 88

6.3 Securities conveying special control rights 89

6.4 Employee shareholders 89

6.5 Summary table of the use of delegations granted to carry out capital increases 90

7.Observations of the Supervisory Board on the management report issued by the Management Board for the 2018 financial year and on the parent company financial statements established for the financial year ended on December 31, 2018 92

1. Declaration of compliance with the Code of Corporate Governance

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

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

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

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

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

AFL has decided to exclude the provisions of Articles 19 and 22 of the AFEP-MEDEF Code. Consequently, Board directors and Supervisory Board members hold no shares in AFL or Société Territoriale. This principle stems from the structure of the AFL Group. The shareholders of both companies are meant to be composed, directly or indirectly, solely of local and regional authorities, pursuant to Article 1611-3-2 of the French General Local and Regional Authorities Code.

The Company's shareholding structure is itemized in Point 6 below.

- Representation of the Company's employees on the Supervisory Board (Article 7.1 of the AFEP-MEDEF Code)

AFL has decided to exclude the provisions of Article 7.1 of the AFEP-MEDEF Code. Given its light economic model, which is reflected in its limited workforce (27 permanent employees, three of whom are members of the Management Board), its Articles of Association do not provide for the possibility of appointing representatives of employees to the Supervisory Board. The Company does not fall within the scope of application of Article L. 225-27-1 of the French Commercial Code.

2. Composition and functioning of the management bodies

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

2.1 Supervisory Board

2.1.1 Composition

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

(a) the Chairman of the Board of Directors of Société Territoriale;
(b) the Vice-Chairman of the Board of Directors of Société Territoriale;
(c) the Chief Executive Officer of Société Territoriale;
(d) one expert with in-depth knowledge of the problems related to the finances of local and regional authorities; and
(e) at least four (4) members with acknowledged professional skills in financial, accounting, management, control or risk matters who serve on independent public or private bodies.

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

The independence of the members of the Supervisory Board of AFL is a key element in guaranteeing the managerial autonomy of the Management Board with respect to Société Territoriale. In this context, the Articles of Association of AFL state that the number of independent members of the Supervisory Board must always be greater than the number of representatives of Société Territoriale and from local and regional authorities. In practice, the minimum composition of the Supervisory Board required by Article 2.2 of the Company's Articles of Association automatically means that independent members make up half of the Supervisory Board, a higher threshold than the one stated in Article 8.3 of the AFEP-MEDEF Code (one third), even though it is not expressly referred to in the Company's Articles of Association.

All independent members of the Supervisory Board meet the independence criteria set forth in the AFEP-MEDEF Code. The analysis conducted in this regard by the Company's ARCGC is further described in Section 2.1.4 of this report.

- **Composition of the Supervisory Board as at December 31, 2018:**

The Supervisory Board consisted of the following persons at December 31, 2018:

First name, Last name Date and place of birth, Nationality	Duties performed and, where applicable, participation in committees Professional address	Date of first appointment and date of expiration of term	Number of shares held in the capital of the Company	Offices and positions held within the Group since its incorporation	Offices and positions held outside the Group		Areas of expertise / Experience
					Offices currently held	Offices whose terms have expired in the last five years	
Richard Brumm born October 20, 1946 in Lyon (69006) French nationality	Chairman of the Supervisory Board Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Co-opted by the Supervisory Board on June 20, 2016 Renewal of term of office by the General Meeting of May 5, 2017 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the year ended December 31, 2020	None – see Point 1 of this report	Vice-Chairman of the Board of Directors of ST	Representative of the City of Lyon to: – Opéra National de Lyon (a Declared Association) (SIREN No. 339 391 021) – Crédit Municipal de Lyon (SIREN No. 266 900 299) (Member of the Orientation and Supervisory Board) Representative of the Lyon Metropolitan Area to: – SEM Patrimoniale du Grand Lyon SEM (518 422 704 RCS Lyon) (Director) – *Société Anonyme* Immobilière d'Économie Mixte de Vaulx-en-Velin (404 997 868 RCS Lyon) (Chairman and CEO) – *Société Publique* Locale Gestion des Espaces Publics du Rhône-Amont (316 312 594 RCS Lyon) (Director) – *Société Publique* Locale Lyon-Confluence (423 793 702 RCS Lyon) (Director) – Syndicat Mixte pour l'Aménagement et la Gestion du Grand Parc de Miribel Jonage (SIREN No. 256 900 655) (Director)		Since January 1, 2015: *Avocat honoraire* (emeritus attorney) 1970-2014: Attorney with the Bar of Lyon April 2014 - Present: Deputy Mayor in charge of Finances and Public Procurement (Third Deputy) – City of Lyon March 2014 - Present: Elected community official - Vice-President in charge of Finance - Lyon Metropolitan Area March 2008 - March 2014: Elected city official - Deputy Mayor in charge of Finance and General Administration - City of Lyon

First name, Last name *Date and place of birth, Nationality*	*Duties performed and, where applicable, participation in committees* *Professional address*	*Date of first appointment and date of expiration of term*	*Number of shares held in the capital of the Company*	*Offices and positions held within the Group since its incorporation*	*Offices and positions held outside the Group*		*Areas of expertise / Experience*
					Offices currently held	*Offices whose terms have expired in the last five years*	
Jacques Pélissard born March 20, 1946 in Lyon (69) French nationality	Vice-Chairman of the Supervisory Board Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Appointed by the General Meeting of June 22, 2017 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the year ended December 31, 2020	None – see Point 1 of this report	Chairman of the Board of Directors of ST		Member of the Local Finance Committee Member of the Board of Directors of Le Groupe La Poste	Professional activity: 1971-1974: Professor at the Ecole Supérieure de Commerce de Lyon (Lyon Business School) Until July 1, 1993: Attorney Public and political office: Since 2014, Honorary President of the French Mayors' Association Since 1989: Mayor of Lons-le-Saunier (Jura Prefecture) 1993-2017: Representative of Jura, member of the Finance Committee of the *Assemblée Nationale* (French National Assembly) 2000-2017: President of the Suburban Community of Lons "ECLA" 2004-2014: President of the French Mayors' Association
Rollon Mouchel-Blaisot born June 19, 1959 in Carteret (50270) French nationality	Member of the Supervisory Board. Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Appointed in the Articles of Incorporation of December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the year ended December 31, 2020	None – see Point 1 of this report	None	Ministry of Territorial Cohesion – Director of the Action Coeur de Ville Program	Director General of Services of the French Mayors' Association	2010-2017: Director General of Services of the French Mayors' Association 2008-2010: Prefect, Senior Director of French Southern and Antarctic Territories 2005-2008: Sub-Prefect of the Saint-Germain-en-Laye district 2003-2005: Secretary General for regional affairs at the Prefecture of the Limousin region 2001-2003: Sub-Prefect of the Libourne district 1997-2000: Consul General of France to Melbourne 1995-1997: Chief of Staff to the Minister of Foreign Affairs 1994-1995: Secretary General of the Prefecture of Jura

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

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

First name, Last name Date and place of birth, Nationality	Duties performed and, where applicable, participation in committees Professional address	Date of first appointment and date of expiration of term	Number of shares held in the capital of the Company	Offices and positions held within the Group since its incorporation	Offices and positions held outside the Group		Areas of expertise / Experience
					Offices currently held	Offices whose terms have expired in the last five years	
Victoire Aubry-Berrurier born June 5, 1966 in La Roche-sur-Yon (85000) French nationality ***Independent member***	Member of the Supervisory Board. Member of the Audit and Risk Committee Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Appointed in the Articles of Incorporation of December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the year ended December 31, 2020	None – see Point 1 of this report	None	– Member of the Executive Committee of Icade in charge of Finance, IT and Legal Affairs – Director of ICADE MANAGEMENT (GIE) (318 607 207 RCS Paris) – Director of BPI Participations and BPI Investissements and Member of the Audit Committee (representating Caisse des Dépôts et Consignations) ○		– Finance, Legal, Audit, Internal Control, Risks, Project Management – 2012-2016: Member of the Executive Committee in charge of Finance, Legal Affairs and IT, Compagnie des Alpes – 2006-2012: Director of Steering and Performance, CNP Assurances – 2002-2006: Head of Strategic Monitoring of Competing Financial Activities, Caisse des dépôts et consignations – 1990-2001: Trader on the credit market, then supervisor of risks and earnings on complex products, management supervisor of US investment banking activities, CDC IXIS

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

First name, Last name ***Date and place of birth, Nationality***	***Duties performed and, where applicable, participation in committees*** ***Professional address***	***Date of first appointment and date of expiration of term***	***Number of shares held in the capital of the Company***	***Offices and positions held within the Group since its incorporation***	***Offices and positions held outside the Group***		***Areas of expertise / Experience***
					Offices currently held	***Offices whose terms have expired in the last five years***	
Nicolas Fourt born September 22, 1958 in Nancy (54000) French nationality ***Independent member***	Member of the Supervisory Board. Member of the Strategy Committee. Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Appointed in the Articles of Incorporation of December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the year ended December 31, 2020	None – see Point 1 of this report	None	– Deputy Chief Executive Officer and Director of Acofi Gestion (SA) (415 084 433 RCS Paris) – Deputy Chief Executive Officer, Member of the Management Board, 2A SAS – Director of Acofi Holding (SAS) (510 571 995 RCS Paris) – Director of Denis Friedman Productions (SA) (409 756 350 RCS Paris) – Manager of NF Conseil (SARL) (519 411 441 RCS Nanterre) – Member of the Supervisory Board of Spread Research		2017-2018 Member of the Supervisory Board of Spread Research (ESMA-regulated Rating Agency) 2014-2018 Deputy Chief Executive Officer of Acofi Gestion (AMF-regulated SGP) 2009-2015 Chief Executive Officer of Alfafinance (CIF) 2006-2008: Global Head of all non-CDO market activities, Member of the Executive Committee, Natixis 1996-2006: Head of Fixed-Income Markets, then member of the comprehensive joint management board on market operations, CDC-Marchés, then CDC-Ixis, then Ixis 1988-1996: Head of Franc/ECU bond markets, then joint head of money and bond markets, CDC 1986-1988: Deputy Head, then Head of Currency Treasury, Caisse des dépôts et consignations (CDC) 1984-1986: Bond manager, TGF Paris (Groupe Caisse des dépôts) 1982-1984: OECD Paris
Daniel Lebègue born May 4, 1943 in Lyon (69004) French nationality	Member of the Supervisory Board. Member of the Appointments, Remuneration and	Appointed in the Articles of Incorporation of December 17, 2013 Renewal of term of office by the General Meeting of May 5, 2017	None – see Point 1 of this report	None	Chairman of the Observatory on Corporate Social Responsibility (ORSE, Observatoire sur la Responsabilité Sociétale des Entreprises)		Since 2008: President of the Observatoire sur la Responsabilité Sociétale des Entreprises (ORSE) 2003-2014: - President of the French institute of administrators (IFA), a professional

First name, Last name Date and place of birth, Nationality	Duties performed and, where applicable, participation in committees Professional address	Date of first appointment and date of expiration of term	Number of shares held in the capital of the Company	Offices and positions held within the Group since its incorporation	Offices and positions held outside the Group		Areas of expertise / Experience
					Offices currently held	Offices whose terms have expired in the last five years	
Independent member	Corporate Governance Committee. Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the year ended December 31, 2020					association of company administrators doing business in France - Director of Alcatel, Crédit Agricole SA, Technip, and Scor - President of the French institute for sustainable development and international relations (IDDRI) - President of the French section of Transparency International - Co-President of Eurofi - President of *Epargne sans frontières* (“savings without borders”) 1998-2002: Chief Executive Officer, Caisse des dépôts et consignations 1996-1998: Vice-Chairman, Banque nationale de Paris 1987-1996: Director, then Chief Executive Officer, Banque nationale de Paris 1984-1987: Director of the Treasury, *Trésor Public* 1983-1984: Deputy Director, Treasury Department 1981-1983: Technical Adviser to the Office of Prime Minister Pierre Mauroy, Economic and Financial Affairs Officer 1976-1981: Head of the Office of the balance of payments and exchanges, then Head of the Office of the Treasury, and Deputy Director in charge of the Savings and Financial Market Division, Treasury Department

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

First name, Last name Date and place of birth, Nationality	Duties performed and, where applicable, participation in committees Professional address	Date of first appointment and date of expiration of term	Number of shares held in the capital of the Company	Offices and positions held within the Group since its incorporation	Offices and positions held outside the Group		Areas of expertise / Experience
					Offices currently held	Offices whose terms have expired in the last five years	
Carol Sirou born March 27, 1968 in Algiers 3rd arrondissement (Algeria) French nationality ***Independent member***	Member of the Supervisory Board. Member of the Audit and Risk Committee Tour Oxygène, 10-12 boulevard Vivier Merle, 69003 Lyon	Co-opted by the Supervisory Board on September 27, 2018 Expiration of term of office following the Annual Ordinary General Meeting that will be called to approve the financial statements for the year ended December 31, 2020	None – see Point 1 of this report	None	President of Safineia Advisors LLC (a US company) Member of the Board and the Audit and Risk Committee of Exane (SA) (342 040 268 RCS Paris)	Director of Standard & Poor's Global Ratings France, Paris, France President of Standard & Poor's Ratings (CMS France), Paris, France	Terms of office: Standard & Poor's Global Ratings France, Paris, France: January 2015 – May 2018: Director Standard & Poor's Ratings (CMS France), Paris, France: January 2009 – January 2015: President Professional career: Standard & Poor's Global, New York: June 2016 – December 2017: Chief Compliance Officer, New York January 2016 – June 2016: Chief Risk Officer, New York Standard & Poor's Ratings, Paris/New York: 2014–2016: Head of the Risk Program Management Office – New York 2013–2014: Head of European offices of S&P Ratings - Paris 2009–2013: President of S & P France and head of the French-speaking Europe and Africa area - Paris

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

- **Changes in the composition of the Supervisory Board and the specialized committees during the 2018 financial year:**

	Departure	Appointment	Renewal
Supervisory Board	N/A	- **Carol Sirou** Co-optation by the Supervisory Board on September 27, 2018 to replace Dominique Schmitt, who resigned from his position as a member of the Board on December 14, 2017[18].	N/A – no expiration of term of office occurred during the year
ARC	- **Nicolas Fourt** September 27, 2018 decision of the Supervisory Board to rotate the composition of the specialized committees following the co-optation of Carol Sirou	- **Carol Sirou** Appointment as a member of the ARC by the Supervisory Board on September 27, 2018	N/A – no expiration of term of office occurred during the year
ARCGC	N/A	N/A	N/A – no expiration of term of office occurred during the year
Strategy Committee	N/A	- **Nicolas Fourt** Appointment as a member of the Strategy Committee by the Supervisory Board on September 27, 2018	N/A – no expiration of term of office occurred during the year

2.1.2 Rules applicable to the appointment of members of the Supervisory Board

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

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

[18] In accordance with Article L. 225-78 of the French Commercial Code, the co-optation of Carol Sirou as a member of the AFL Supervisory Board will be subject to ratification by the next Ordinary General Meeting.

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

All applications for memberships on the Supervisory Board are reviewed, prior to their submission to the General Meeting of Shareholders, by the ARCGC of the Company, on the one hand, and by the ARCGC of Société Territoriale, on the other hand, pursuant to Article 15.2.1 of the Company's Articles of Association, so as to ensure compliance of the actual composition of the Supervisory Board with the statutory principles included in paragraph 2.1.1.

2.1.3 Knowledge, skills, and experience of the Supervisory Board members

Pursuant to Article L. 511-100 of the French Monetary and Financial Code and Article 9 of the AFEP-MEDEF Code, it is the responsibility of the ARCGC to periodically, and at least once per year, evaluate the knowledge, skills, and experience of the Supervisory Board members, and makes a report to the Board.

At its session on November 22, 2018, during which a skills audit was conducted, the Company's ARCGC found that in terms of the various backgrounds and careers detailed in the table above, all of the Supervisory Board members have key expertise with regard to the Company's activity, enabling the Company and the AFL Group to develop under the aegis of a quality Board.

The recruitment of Carol Sirou during the year strengthens the Supervisory Board's expertise by providing increased risk management and compliance knowledge, which is very valuable in the light of AFL's activities and regulatory environment.

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

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

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

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

This training is updated as changes are made both in governance and in the rights and obligations of the Board's members.

2.1.4 Independence of the members of the Supervisory Board

In accordance with Article 8.4 of the AFEP-MEDEF Code, the ARCGC discussed the independent director status of each member of the Board as part of its annual assessment of the functioning of the Supervisory Board.

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

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

Following the appointment of Carol Sirou, the number of independent members of the Supervisory Board is strictly greater than the number of Supervisory Board members designated to represent local authorities, in accordance with Article 15.1.4 of AFL's Articles of Association.

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

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

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

[2] The independence criteria for directors set forth in Article 8.5 of the AFEP-MEDEF Code, on the basis of which the ARCGC analyzed it, are attached to this report (Appendix 1).

2.1.5 Balanced composition of the Board and the committees, and objectives pursued

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

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

At the end of the 2018 financial year, the Supervisory Board comprised three women and eight men, i.e. a ratio of 27%/73%, compared to a ratio at the end of the previous financial year of 18%/82%.

The appointment of Carol Sirou to the Supervisory Board in 2018 was a response to the recommendation made by the ARCGC in March 2018 to recruit an independent director following the resignation of Dominique Schmitt in December 2017.

As a result, the representation of women on the Supervisory Board increased in 2018 and the ARCGC of the Company reiterated the position adopted in 2017, along with the following principles, to achieving balanced representation of men and women on the Supervisory Board:

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

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

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

In its annual review of the composition of the Supervisory Board, the ARCGC of the Company emphasized that AFL has governance that is balanced (especially in terms of the skills and experience of the members of the Supervisory Board, which reflect the needs of the Company), active and transparent.

2.1.6 Conditions for preparing and organizing the Board's work

- <u>Overview of the duties of the Supervisory Board:</u>

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

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

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

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

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

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

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

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

- proposed dividend distributions and similar transactions.

- <u>Organization of the meetings:</u>

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

The Supervisory Board meets at least once per quarter, for the purpose of deliberating on the agenda set for the purpose of covering all of the topics that, under the law, regulations, and statutes, must be submitted for review by the Supervisory Board and ratified by the Chairman of the Supervisory Board.

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

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

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

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

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

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

- at two meetings of the Supervisory Board; **or**
- at two committee meetings; **or**
- at one Supervisory Board meeting and one committee meeting.

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

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

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

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

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

During the Supervisory Board meeting on March 23, 2017, a briefing note on the challenges and consequences of the aforementioned regulations on their terms of office was presented to the members of the Supervisory Board.

In 2017, a member of the Supervisory Board potentially affected by a possible conflict of interest situation already organized the appropriate measures to deal with the situation, if necessary, and submitted a written commitment to that effect to the Chairman of the ARCGC describing the organizational measures taken within his company. These measures were still in effect in 2018.

The ARCGC, as part of its annual review of the offices held by the members of the Supervisory Board in companies outside the AFL Group, did not note the occurrence of any potential new conflict of interest situation.

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

  In addition to the points and decisions pertaining to its legal prerogatives, especially as regards the review of the annual and half-yearly financial statements, the Supervisory Board discussed all of the major actions undertaken in 2018, both internally (organization, compensation, objectives, etc.) and externally (bond issues, financial policy, etc.). The Supervisory Board, which met four times, adopted the following points:

- **Debt programs:**
  - authorization to raise the maximum amount of the Company's EMTN issue program from €3,000,000,000 to €7,000,000,000, in view of AFL's refinancing prospects in the context of its borrowing program;

- approval of the borrowing program for the 2019 financial year and opinion on the setting of a ceiling for 2019 issuances under the EMTN and ECP programs, within the limit of the ceilings for the programs and the ST Guarantee;

- **Budgetary policy and financial and commercial outlooks:**
  - prospective outcomes as of December 31, 2018;
  - review of the 2019 budget;

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

- **Compensation policies:**
  - validation of the AFL compensation policy for the 2018 financial year;
  - review of the compensation packages allocated for the 2017 financial year to AFL employees, specifically those qualified as "risk-takers";
  - establishment of quantitative and/or qualitative annual targets to be taken into account when determining 2018 variable compensation;
  - approval of the compensation of Management Board members and the proposal to increase the fixed compensation of Management Board members;
  - breakdown of the total directors' fees allocated by the General Meeting among the members of the Supervisory Board for the financial year ended December 31, 2017 and the principle for allocating directors' fees for the 2018 financial year;
  - discussion on the proposed introduction of an incentive agreement within the Company following the adoption of the PACTE Law;

- **Regulated agreements:**
  - as part of the closing of the financial year ended December 31, 2017, an annual review of previously closed regulated agreements still in force in 2017, prior to their submission for review by the General Meeting of Shareholders, it being specified that the agreements exclusively entered into between the Company and Société Territoriale pursuant to Article L. 225-87 of the French Commercial Code are excluded from the scope of the control system;

- **Internal control and risk monitoring:**
  - review of internal control, management, and risk monitoring activities and results (at least twice during the financial year);
  - review of the liquidity position (twice during the year), review of liquidity stress tests;
  - monitoring of overruns of the maximum exposure limit for Major Risks;
  - review of the Annual Internal Control Report and the ICAAP process;

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

- **Group governance:**
  - opinion on the proposal to amend the legal documents of the AFL Group (Articles of Association of Société Territoriale and Shareholders' Agreement) to allow the membership of local authorities on the basis of one or more secondary budgets exclusively and make arrangements for the traceability of capital securities;

- **Composition of the Supervisory Board:**
  - following the resignation of Dominique Schmitt from his position, co-optation on September 27, 2018 of Carol Sirou to the position of member of the Supervisory Board, pursuant to Article L. 225-78 of the French Commercial Code and Article 15.9.1 of the Articles of Association of the Company;
  - following the co-optation of Carol Sirou, approval of the new composition of the Audit and Risk Committee and the Strategy Committee, as described above.

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

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

2.2 Specialized committees of the Supervisory Board

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

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

2.2.1 The Audit and Risk Committee

a) Composition of the Audit and Risk Committee

The Audit and Risk Committee is chaired by François Drouin.

As of December 31, 2018, the other members were Victoire Aubry, Olivier Landel and, as of September 27, 2018, Carol Sirou.

Nicolas Fourt left his position as a member of the Company's Audit and Risk Committee, as part of the reorganization of committees on September 27, 2018 following the appointment of Carol Sirou, and joined the Strategy Committee.

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

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

The Audit and Risk Committee's primary mission is:

(i) to oversee the preparation and dissemination process for accounting and financial information, assess the relevance and permanence of the accounting principles and methods adopted for the preparation of the annual and interim financial statements;

(ii) to verify the effectiveness of the internal control and risk management procedures;

(iii) to ensure by any means the quality of the financial, accounting or risk management information provided to the Supervisory Board; and
(iv) to give the committee its assessment of the work performed by the Statutory Auditors and its opinion on the renewal of their terms of office.

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

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

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

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

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

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

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

During the 2018 financial year, the Audit and Risk Committee met four times. Its work focused on:

- Review of the annual and interim financial statements, prepared in accordance with French GAAP and IFRS;
- Review of the work of the Statutory Auditors and their independence;
- Review and monitoring of overruns of the maximum exposure limit for Major Risks;
- Opinion on the raising of the maximum amount of the Company's EMTN issue program from €3,000,000,000 to €7,000,000,000, in view of AFL's refinancing prospects in the context of its borrowing program;
- Opinion on the 2019 borrowing program;
- Review of prospective outcomes as of December 31, 2018 and the budget for 2019;
- Review of financial policies;
- Review of risk monitoring;
- Review of liquidity position monitoring and liquidity stress tests;
- Review of the Company's internal control activity;
- Review of periodic control tasks;
- Review of the Annual Internal Control Report and the ICAAP process.

2.2.2 Appointments, Remuneration and Corporate Governance Committee (ARCGC)

a) Composition

The ARCGC is chaired by Daniel Lebègue. Its other members are Rollon Mouchel-Blaisot and Jacques Pélissard. The composition of the ARCGC did not change during the 2018 financial year.

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

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

The ARCGC's primary mission is:

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

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

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

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

In 2018, the Appointments, Remuneration and Corporate Governance Committee met three times. Its work focused on, in particular:

- Approval of the AFL compensation policy for the 2018 financial year;

- Review of the quantitative and/or qualitative annual targets to be taken into account when determining the variable compensation for the Management Board for the 2018 financial year;

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

- Review of the compensation packages allocated for the 2017 financial year to AFL's employees, specifically those qualified as "risk-takers";
- Review of the proposed allocation of directors' fees to each member of the Supervisory Board;

- Review of the proposed introduction of an incentive agreement within the Company following the adoption of the PACTE Law;

- Review of the collective functioning of the Supervisory Board and its committees, as well as the experience, skills and independence of individual Board members and the representation of men and women;

- Review of Carol Sirou's candidacy for the position of member of the Supervisory Board.

2.2.3 Strategy Committee

a) Composition

The Strategy Committee is chaired by Lars Andersson. Its other members are Mélanie Lamant, Olivier Landel and, since September 27, 2018, Nicolas Fourt.

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

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

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

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

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

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

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

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

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

During the 2018 financial year, the Strategy Committee met four times. The Strategy Committee chose to focus its reflections on certain recurring themes, including changes in the regulatory environment governing the AFL's activity, changes in the situation of French local authorities with regard to borrowing and the situation of the AFL's peers. During the past financial year, the Strategy Committee also examined the commercial and communication action plan in the context of the Group's commercial and strategic development. At each meeting, a summary presentation of the implementation of the Company's activity (new memberships, granting of credit, implementation of debt programs on the financial markets) is submitted to the members of the committee.

2.2.4 Members' attendance at Supervisory Board and specialized committee meetings: participation in meetings of the members of the Supervisory Board and its specialized committees in the course of the 2018 financial year

	Supervisory Board		**Audit and Risk Committee**		**ARCGC**		**Strategy Committee**		
	Number of meetings in 2018	Actual attendance	Number of meetings in 2018	Actual attendance	Number of meetings in 2018	Actual attendance	Number of meetings in 2018	Actual attendance	***Individual attendance rate (excluding proxies)***
R. Brumm	**4**	**4**	N/A	N/A	N/A	N/A	N/A	N/A	***100%***
J. Pélissard	**4**	**3**	N/A	N/A	**3**	**3**	N/A	N/A	***86%***
R. Mouchel-Blaisot	**4**	**4**	N/A	N/A	**3**	**3**	N/A	N/A	***100%***
O. Landel	**4**	**4**	**4**	**4**	N/A	N/A	**4**	**4**	***100%***
L. Andersson	**4**	**4**	N/A	N/A	N/A	N/A	**4**	**4**	***100%***
V. Aubry-Berrurier	**4**	**2 + 1 participation by proxy vote**	**4**	**3 + 1 participation by proxy vote**	N/A	N/A	N/A	N/A	***63%***
F. Drouin	**4**	**4**	**4**	**4**	N/A	N/A	N/A	N/A	***100%***
N. Fourt	**4**	**3**	**3**	**3**	N/A	N/A	**1**	**1**	***88%***
M. Lamant	**4**	**3**	N/A	N/A	N/A	N/A	**4**	**2**	***63%***
D. Lebègue	**4**	**4**	N/A	N/A	**3**	**3**	N/A	N/A	***100%***
C. Sirou	**2**	**2**	**1**	**1**	N/A	N/A	N/A	N/A	***100%***
	Average member attendance rate at Board meetings	**88%**	Average member attendance rate at ARC meetings	**94%**	Average member attendance rate at ARCGC meetings	**100%**	Average member attendance rate at Strategy Committee meetings	**85%**	

2.3 Management Board

a) Composition

The composition of the Company's Management Board was as follows as of December 31, 2018.

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

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

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

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

Philippe Rogier presented his resignation as a member of the Management Board and Chief Executive Officer of the Company on December 5, 2018, with immediate effect. Philippe Rogier continues to execute his functions as Loan Director under his employment contract with the Company.

b) Powers of the Management Board

The members of the Management Board collectively manage the Company.

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

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

3. Compensation of management body members

The allocation criteria and components of the compensation of the members of the management bodies of AFL are in all cases subject to review by and opinion of the Company's ARCGC and to approval by the Supervisory Board.

As AFL falls within the scope of the "Say on pay" mechanism under the *Sapin* 2 Law as codified in Article L. 225-82-2 of the French Commercial Code, items relating to the compensation of the Management Board and the Supervisory Board are additionally subject to the review of shareholders:

- First, shareholders at the General Meeting of financial year N are called to approve, a priori, the *criteria* for allocating fixed and variable compensation to the members of the Company's Management Board and Supervisory Board that will be applied in determining the amount of said compensation to be paid for financial year N.

  Should the General Meeting not approve the principles and criteria for determining the compensation under the *ex ante* vote, said principles and criteria, previously approved, will continue to apply.

- Furthermore, during the General Meeting of financial year N+1, shareholders also cast an absolute vote on all compensation paid or to be paid for financial year N, ensuring that their amounts match the determination principles ratified at the General Meeting of financial year N.

Should the General Meeting not approve the compensation paid or owed to corporate officers, the compensation that has meanwhile been fixed and paid would remain so, while variable and exceptional compensation could not be paid, pursuant to Article L. 225-100, paragraph 11, of the French Commercial Code.

3.1 Members of the Supervisory Board and the specialized committees

3.1.1 Compensation payment principles and terms

The members of the Supervisory Board may receive directors' fees for the exercise of their corporate mandate, the amount of which is set by the General Meeting of Shareholders. It is the responsibility of the Supervisory Board to allocate directors' fees among the members on the advice of the Company's ARCGC. The variable compensation received by the members of the Supervisory Board of the Company is also subject to an advisory vote of the Annual General Meeting of Shareholders.

The AFL Combined General Meeting of May 4, 2018 fixed the maximum annual total of directors' fees to be distributed among the members of the Supervisory Board at €165,000 (one hundred and sixty-five thousand euros) for 2018.

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

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

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

As noted in Point 2 above in this report and in accordance with Article 7.6 of the Supervisory Board's Internal Regulations, the members of the Supervisory Board may arrange to be represented no more than the following number of times annually:

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

With the exception of the sessions regarding the review of the annual and half-yearly financial statements.

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

Notwithstanding the foregoing, in light of the laws governing incompatibility applicable to persons elected to a national office as defined in the French Electoral Code, no directors' fees may be allocated to the members of the Supervisory Board who also hold national elective offices. In this respect, Richard Brumm and Jacques Pélissard do not receive any directors' fees.

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

Since Olivier Landel, in his capacity as Chief Executive Officer of Société Territoriale, receives gross annual compensation of €50,000 pursuant to his contract of appointment, he does not receive directors' fees for his duties on the Supervisory Board of the Company.

No variable compensation or benefits in kind were paid to Olivier Landel for his duties at AFL Group during the 2018 financial year.

Following the end of the exercise of his functions with the French Mayors' Association, the Company's ARCGC said on November 27, 2017 that it approved of the compensation of Rollon Mouchel-Blaisot with directors' fees as from the date of said meeting, under the conditions set by the Supervisory Board's Internal Regulations. Since this decision applies to subsequent years, Rollon Mouchel-Blaisot receives directors' fees for the 2018 financial year as part of his duties as a member of the Supervisory Board of the Company.

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

(i) For the Chairman of the Supervisory Board:

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

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

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

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

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

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

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

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

3.1.2 Amount of compensation allocated

On April 2, 2019, pursuant to Article L. 225-83 of the French Commercial Code, the Supervisory Board approved the following distribution of directors' fees, within the limit of the overall package of €165,000 decided by the General Meeting of Shareholders of May 4, 2018.

Members of the Supervisory Board	Amount (€) 2018 fixed	2018 variable	2018 total	2017 total – paid after the Annual General Meeting of May 4, 2018
R. Brumm - Chairman of the Supervisory Board	-	-	-	-
J. Pélissard - Vice-Chairman of the Supervisory Board - Member of ARCGC	-	-	-	-
L. Andersson - Chairman of the Strategy Committee	5,000	20,000 for attendance	25,000	25,000
V. Aubry - Member of the Audit and Risk Committee	5,000	8,750 for attendance 5,000 for membership in a specialized committee	18,750	20,000
F. Drouin - Chairman of the Audit and Risk Committee	5,000	20,000 for attendance	25,000	25,000
N. Fourt - Member of the Audit and Risk Committee until September 27, 2018 Member of the Strategy Committee as of September 27, 2018	5,000	8,750 for attendance 5,000 for membership in a specialized committee	18,750	20,000
M. Lamant - Member of the Strategy Committee	-	-	-	-
O. Landel - Member of the Audit and Risk Committee and the Strategy Committee	-	-	-	-
D. Lebègue - Chairman of the ARCGC	5,000	20,000 for attendance	25,000	25,000
R. Mouchel Blaisot - Member of the ARCGC	5,000	10,000 for attendance 5,000 for membership in a specialized committee	20,000	5,166 (eligibility for directors' fees during the 2017 financial year)
C. Sirou - Member of the Audit and Risk Committee as of September 27, 2018[19]	2,500	3,750 for attendance 1,250 for membership in a specialized committee	7,500	-
Total	**32,500**	**107,500**	**140,000**	**140,166**

[19] The amount of the directors' fees allocated to Carol Sirou is prorated from her appointment to the Supervisory Board on September 27, 2018 as follows: (i) a fixed portion of €2,500 (€5,000 cap for four Supervisory Board meetings in 2018 – actual participation in two meetings), (ii) a variable portion of €3,750 (€10,000 cap for four Board meetings and four Audit and Risk Committee meetings – actual participation in two Board meetings and one Committee meeting), (iii) an additional share of €1,250 (€5,000 cap for four Committee meetings – actual participation in one meeting).

3.2 Management Board

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

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

	Philippe Rogier, Member of the Management Board – Loan Director Date of start of term: January 30, 2014 Date of end of term: December 5, 2018 (resignation)	
Employment contract	Yes	Philippe Rogier holds the position of Loan Director, in accordance with the terms of an employment contract entered into with the Company. Until December 5, 2018 Philippe Rogier served as an unpaid member of the Management Board. Philippe Rogier's position as a member of the Management Board is governed by the sections of the Articles of Association relating to the functioning and powers of the Management Board.
Supplementary pension plan	No	As an employee of the Company, Philippe Rogier has the pension plan applicable to all employees of the Company.
Compensation or benefits that are or may be due as a result of termination or change of duties	No	No benefits or compensation of this type are mentioned in the Articles of Association, or are provided by decision of the Supervisory Board, which is competent to rule on the components of compensation of the members of the Management Board with regard to the termination of the duties of a member of the Management Board of the Company.
Compensation relating to a non-compete clause	No	Philippe Rogier is not subject to any non-competition clause, pursuant to his employment contract, the provisions of the Articles of Association applicable to the duties of a member of the Management Board or a subsequent decision to that effect by the Supervisory Board.

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

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

3.2.1 Compensation payment principles and terms

In compliance with Article 16.4 of the Articles of Association of AFL, the Supervisory Board checks and approves the method and amount of compensation of each member of the Management Board and reviews it annually, based on the opinion of the Company's Appointments, Remuneration and Corporate Governance Committee.

With the exception of the Chairman of the Management Board, with whom there is a contract of appointment to corporate office, Management Board members perform their functions on the basis of employment contracts. The regulated nature of these agreements requires a strict annual review by the Supervisory Board and the General Meeting, with the understanding that the relaxation of the procedures respecting regulated agreements now in force does not apply[20] to them.

All fixed, variable and exceptional compensation of Management Board members is reviewed by the Company's ARCGC and presented to the Supervisory Board, before being submitted to the General Meeting for review.

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

On May 4, 2018, the General Meeting of Shareholders reviewed and approved the principles and criteria for the allocation of the components of compensation of the members of the Management Board for the 2018 financial year.

On May 3, 2019, pursuant to the regulatory procedures described in paragraph 3 above, it will be called upon to decide (i) with respect to the components of compensation paid on the basis of the criteria approved in May 2018, the actual payment of the variable compensation subject to the express approval of the General Meeting (*ex-post* vote), and (ii) the principles and criteria for the allocation of the components of compensation of the members of the Management Board for the 2019 financial year (*ex-ante* vote).

The criteria for allocating the variable compensation of the members of the Management Board for the 2018 and 2018 financial years are appended to this report.

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

– <u>Yves Millardet</u>

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

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

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

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

[20] See Section 5 of this report.

the compensation policy in Article 4.2 of his contract of appointment was inserted in a supplemental clause presented for the approval of the ARCGC and the Supervisory Board of the Company.

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

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

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

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

The non-competition clause adopted is as follows:

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

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

– Philippe Rogier

Philippe Rogier served as an unpaid member of the AFL Management Board until his resignation as a member of the Management Board and as Chief Executive Officer on December 5, 2018. Philippe Rogier continues to execute his functions as Loan Director pursuant to his employment contract with the Company.

Following the approval of the Appointments, Remuneration and Corporate Governance Committee, on December 17, 2013, the Supervisory Board approved compensation for the technical duties of the Loan Director of AFL, pursuant to an employment contract with the Company coming into force as of January 1, 2014 and approved on January 30, 2014 by the Supervisory Board.

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

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

– Thiébaut Julin

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

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

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

– Ariane Chazel

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

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

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

3.2.2 Amount of compensation allocated

Pursuant to Article L. 225-37-3 of the French Commercial Code, following are the itemized compensation and benefits of any kind paid, or intended to be paid subject to approval of their payment by the General Meeting, for the financial year ending on December 31, 2018, to the members of the Management Board.

Furthermore:

- the Company has not granted any retirement commitments or other life annuity benefits to the members of the Management Board;
- the Company has not granted any stock options or performance shares to the members of the Management Board for the financial year ended December 31, 2018;
- the Company pays for specific insurance for the Chairman of the Management Board, in the absence of unemployment insurance, corresponding to a benefit in kind, the amount of which is entered in the table itemizing compensation amounts below.

On March 29, 2018, on the basis of the favorable opinion of the Company's ARCGC, the Supervisory Board of the Company approved a 2% increase in the gross annual fixed compensation of the members of the Company's Management Board valid for the 2018 financial year and subsequent years.

This increase in the fixed annual gross compensation of the members of the Management Board, the first since the Company began operations in 2014, is simultaneous with the increase in the number of employees who joined the workforce in 2014 and 2015 and appeared to be justified by the results for the 2017 financial year, which showed a positive gross operating profit, and in the outlook for the Company, for which the 2017 financial year marked the beginning of an expansion phase.

Summary table of compensation for each executive corporate officer				
Yves Millardet Chairman of the Management Board of the Company Deputy Chief Executive Officer of Société Territoriale, with the clarification that Yves Millardet is not paid any specific compensation for his duties with Société Territoriale The compensation is paid for the corporate office of Yves Millardet	**Financial year ended 12/31/2017**		**Financial year ended 12/31/2018**	
	Amounts due (€)	Amounts paid (€)	Amounts due (€)	Amounts paid (€)
Fixed compensation	255,000	255,000	260,100	260,100
Annual variable compensation	16,000	17,040 Corresponding to the payment of variable compensation components for prior financial years	19,000	20,040 Corresponding to the payment of variable compensation components for prior financial years
Exceptional compensation	0	0	0	0
Directors' fees	0	0	0	0
Benefits in kind	9,848 corresponding to coverage by the specific insurance mentioned above	9,848 corresponding to coverage by the specific insurance mentioned above	7,721 corresponding to coverage by the specific insurance mentioned above	7,721 corresponding to coverage by the specific insurance mentioned above
	Total paid 2017	**281,888**	**Total paid 2018**	**287,861**

Philippe Rogier Member of the Management Board of the Company Resigned December 5, 2018 Loan Director	**Financial year ended 12/31/2017**		**Financial year ended 12/31/2018**	
	Amounts due for the financial year (€)	Amounts paid during the financial year (€)	Amounts due for the financial year (€)	Amounts paid during the financial year (€)
Fixed compensation	156,222	156,222	159,652	159,652

Annual variable compensation	14,000	10,283 Corresponding to the payment of variable compensation components for prior financial years	16,500	14,283 Corresponding to the payment of variable compensation components for prior financial years
Exceptional compensation	0	0	0	0
Directors' fees	0	0	0	0
Benefits in kind	0	0	0	0
	Total paid 2017	**166,222**	**Total paid 2018**	**173,935**

Ariane Chazel Member of the Management Board of the Company Director of Risk, Internal Control and Compliance	**Financial year ended 12/31/2017**		**Financial year ended 12/31/2018**	
	Amounts due for the financial year (€)	Amounts paid during the financial year (€)	Amounts due for the financial year (€)	Amounts paid during the financial year (€)
Fixed compensation	154,130	154,130	157,213	157,213
Annual variable compensation	14,000	10,000 Corresponding to the payment of variable compensation components for prior financial years	16,500	14,000 Corresponding to the payment of variable compensation components for prior financial years
Exceptional compensation	0	0	0	0
Directors' fees	0	0	0	0
Benefits in kind	0	0	0	0
	Total paid 2017	**164,130**	**Total paid 2018**	**171,213**

Thiébaut Julin Member of the Management Board of the Company Chief Financial Officer	**Financial year ended 12/31/2017**		**Financial year ended 12/31/2018**	
	Amounts due for the financial year (€)	Amounts paid during the financial year (€)	Amounts due for the financial year (€)	Amounts paid during the financial year (€)
Fixed compensation	217,391	217,391	221,739	221,739
Annual variable compensation	14,000	10,000 Corresponding to the payment of variable compensation components for prior financial years	16,500	14,000 Corresponding to the payment of variable compensation components for prior financial years
Exceptional compensation	0	0	0	0
Directors' fees	0	0	0	0
Benefits in kind	0	0	0	0
	Total paid 2017	**227,391**	**Total paid 2018**	**235,739**

Staggered variable compensation

In accordance with the regulations in force, for employees who have a significant impact on the company's risk and those with a significant role (the "***risk-takers***"), which includes members of the Management Board, AFL's 2018 compensation policy provides for the implementation of a deferred payment of variable compensation components, the principles of which are as follows:

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

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

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

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

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

Name and function of the executive officer	Year for which variable compensation is staggered and amount of variable compensation (€)	2016 financial year Amounts paid corresponding to variable compensation for prior years (€)	2017 financial year Amounts paid corresponding to variable compensation for prior years (€)	2018 financial year Amounts paid corresponding to variable compensation for prior years (€)	2019 financial year Amounts paid corresponding to variable compensation for prior years (€)	2020 financial year Amounts paid corresponding to variable compensation for prior years (€)	2021 financial year Amounts paid corresponding to variable compensation for prior years (€)
	Summary table of variable compensation staggered over several years						
Yves Millardet, Chairman of the Management Board	2014 financial year – Total amount allocated for variable compensation: €25,080	15,000	5,040	5,040	-	-	
	2017 financial year – Total amount allocated for variable compensation: €16,000	-	-	15,000	500	500	
	2018 financial year – Total amount allocated for variable compensation: €19,000	-	-	-	15,000	2,000	2,000
Philippe Rogier, Member of the Management Board Resigned December 5, 2018 Loan Director	2014 financial year – Total amount allocated for variable compensation: €15,566	15,000	283	283	-	-	-
	2018 financial year – Total amount allocated for variable compensation: €16,500	-	-	-	15,000	750	750

Name and function of the executive officer	**Year for which variable compensation is staggered and amount of variable compensation (€)**	**2016 financial year** Amounts paid corresponding to variable compensation for prior years (€)	**2017 financial year** Amounts paid corresponding to variable compensation for prior years (€)	**2018 financial year** Amounts paid corresponding to variable compensation for prior years (€)	**2019 financial year** Amounts paid corresponding to variable compensation for prior years (€)	**2020 financial year** Amounts paid corresponding to variable compensation for prior years (€)	**2021 financial year** Amounts paid corresponding to variable compensation for prior years (€)
Thiébaut Julin Member of the Management Board Chief Financial Officer	2018 financial year – Total amount allocated for variable compensation: €16,500	-	-	-	15,000	750	750
Ariane Chazel Member of the Management Board Head of Risk, Compliance and Control	2018 financial year – Total amount allocated for variable compensation: €16,500	-	-	-	15,000	750	750

3.3 Resolutions intended for submission to the General Meeting with regard to compensation of corporate officers

Pursuant to Article L. 225-82-2, paragraph 2, of the French Commercial Code, the texts of the resolutions intended for submission to the General Meeting as to the compensation of the members of the Management Board and the Supervisory Board for the financial year ended December 31, 2018, are reproduced below:
[…]

Eighth resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the Chairman of the Management Board of the Company for the 2019 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to Yves Millardet, in his capacity as Chairman of the Management Board of the Company for the 2019 financial year, as they appear in the report by the Supervisory Board on corporate governance, and have been favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Ninth resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the members of the Management Board of the Company for the 2019 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to Ariane Chazel and Thiébaut Julin in their capacity as members of the Management Board of the Company for the 2019 financial year, as they appear in the report by the Supervisory Board on corporate governance, and have been favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Tenth resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the Chairman of the Supervisory Board of the Company for the 2019 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to the Chairman of the Supervisory Board of the Company for the 2018 financial year, as defined in the Internal Regulations of the Supervisory Board. These principles are included in the Supervisory Board's report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Furthermore, the Chairman of the Supervisory Board in office on the date of the General Meeting, being the holder of an elected office, does not receive any compensation for his duties.

Eleventh resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the members of the Supervisory Board of the Company for the 2019 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to the members of the Supervisory Board of the Company for the 2019 financial year, as defined in the Internal Regulations of the Supervisory Board. These principles are included in the Supervisory Board's report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Furthermore, the members of the Supervisory Board who hold elected or similar office do not receive any compensation for their duties.

Twelfth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to the Chairman of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100 of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2018 to Yves Millardet in his capacity as Chairman of the Management Board, as contained in the Supervisory Board's report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Thirteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to Ariane Chazel in her capacity as a member of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100 of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2018 to Ariane Chazel in her capacity as a member of the Management Board and as Director of Risks, Compliance and Control for the Company, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Fourteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2017 to Thiébaut Julin in his capacity as a member of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100, II, of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2018 to Thiébaut Julin, a member of the Management Board and Chief Financial Officer of the Company, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Fifteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to Philippe Rogier in his capacity as a member of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100 of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2018 to Philippe Rogier, a member of the Management Board and Loan Director of the Company, as contained in the Supervisory Board's report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

It is noted that Philippe Rogier tendered his resignation as a member of the Company's Management Board on December 5, 2018; he continues to serve as Loan Director under the terms of his employment contract with the Company.

Sixteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to the Chairman of the Supervisory Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100 of the French Commercial Code, takes note of the fact that the Chairman of the Supervisory Board in office during the financial year ended December 31, 2018 does not receive any compensation for his duties, as a holder of elected office.

Seventeenth resolution

Advisory vote on the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to the members of the Supervisory Board of the Company

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, takes note of the components of compensation due or allocated for the financial year ended December 31, 2018 to the members of the Supervisory Board of the Company, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee, without issuing any observations.

Eighteenth resolution

Advisory vote on the total amount of compensation of all kinds paid during the financial year ended December 31, 2018 to the individuals named in Article L. 511-71 of the French Monetary and Financial Code

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 511-73 of the French Monetary and Financial Code, takes note of the components of compensation of all kinds paid during the financial year ended December 31, 2018 to the individuals mentioned in Article L. 511-71 of said code, known as "risk-taking employees," as they appear in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee, without issuing any observations.

[…]

4. General Meeting of Shareholders

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

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

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

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

4.2 Rules on amendments to the Articles of Association

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

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

5. Regulated agreements

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

Following the sales of the shares held by the AFL's nine founding shareholders finalized in 2017, only Société Territoriale and the Lyon Metropolitan Area are still shareholders of Société Territoriale.

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

No regulated agreement was entered into during the 2018 financial year. Following are the regulated agreements previously entered into which continued to be executed during the 2018 financial year:

Title of the agreement	Purpose of the agreement	Duration of the agreement	Impact on the financial statements for the year ended 12/31/18
Shareholders' Agreement entered into on June 24**, 2014**	The Shareholders' Agreement was amended in 2018, and the new version entered into force on June 28, 2018. It was amended to clarify the treatment of the securities received by an allocating local authority in the event of a change in its scope of jurisdiction so that it can maintain its status as an active member of the AFL Group.	Unknown	None
Employment contracts for the salaried members of the AFL Management Board	- Employment contract for Philippe Rogier approved on January 30, 2014 by the Supervisory Board. - Employment contract for Thiébaut Julin approved on March 25, 2014 by the Supervisory Board. - Employment contract for Ariane Chazel approved on June 5, 2014 by the Supervisory Board. These employment contracts, like the employment contracts of all of the Company's employees, were amended during the 2016 financial year to include an express reference to the compensation policy. The new drafts of these agreements were approved by the Supervisory Board on June 20, 2016, after a favorable opinion by the Appointments, Remuneration and Corporate Governance Committee on January 28, 2016.	Unknown	Philippe Rogier, Loan Director Gross annual amount paid during the 2018 financial year: Fixed portion: €159,652 Variable portion: €14,283 Thiébaut Julin, Chief Financial Officer Gross annual amount paid during the 2018 financial year: Fixed portion: €221,739 Variable portion: €14,000 Ariane Chazel, Director of Risk, Compliance and Internal Control: Annual amount paid in the 2018 financial year: Fixed portion: €157,213 Variable portion: €14,000

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

Pursuant to Article L. 225-37-5, are presented the following items related to the shareholding structure of AFL and the Group formed with Société Territoriale, with the specification that none of the items covered hereinafter is likely to have an impact in the event of a public offer.

6.1 Structure of the Company's share capital

Following the sales of the shares held by AFL's nine founding shareholders finalized in 2017, only Société Territoriale and the Lyon Metropolitan Area are still shareholders of Société Territoriale.

At December 31, 2018, the Company's share capital consisted of the following:

SHAREHOLDERS	**AMOUNT SUBSCRIBED (IN EUROS)**	**NUMBER OF SHARES**	**% HOLDING**
Agence France Locale – Société Territoriale	138,699,900	1,386,999	99.9999%
Lyon Metropolitan Area	100	1	0.0001%
TOTAL	**138,700,000**	**1,387,000**	**100 %**

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

6.2 Restrictions on the exercise of voting rights and on share transfers

- **Statutory restrictions**

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

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

With regard to the specific nature of the shareholding structure of AFL, the capital of which is held directly or indirectly by local authorities exclusively, and to the need to keep shareholding stable and sustainable so that the Company's activities may be deployed under optimal conditions, the Shareholders' Agreement strictly controls the options for transferring Company shares.

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

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

On the basis of this second scenario, the nine shares held by nine of the Company's local authority shareholders were transferred to Société Territoriale in 2017.

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

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

- **Restrictions by agreement**

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

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

6.3 Securities conveying special control rights

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

6.4 Employee shareholders

No operations were carried out during the financial year ended December 31, 2018 in respect of share purchase or subscription options in the Company reserved for employees.

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

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

Date of the General Meeting that granted the delegation	*Purpose of the delegation granted to the Management Board*	*Duration*	*Overall ceiling*	*Use during the 2018 financial year*
Combined General Meeting of May 5, 2017 (12th resolution).	Delegation of authority granted to the Management Board to increase the share capital with preferential subscription rights through the issue of common shares.	**Duration:** 26 months **Expiration:** July 5, 2019 at midnight		None
Combined General Meeting of May 5, 2017 (13th resolution).	Delegation of authority granted to the Management Board to increase the share capital without preferential subscription rights for the benefit of Société Territoriale through the issue of common shares.	**Duration:** 18 months **Expiration:** 5 November 2018 at midnight	€150 million (nominal)	**1. Capital increase with cancellation of preferential subscription rights for the benefit of Société Territoriale:** - Management Board decisions of January 29, 2018 (decision to increase the share capital) - Decisions of the Chairman of the Management Board on February 14, 2018 (subdelegation - recognition of definitive completion of the share capital increase) - **Amount: €2,500,000** **2. Capital increase with** - Decisions of the Chairman of the Management Board on May 23, 2018 (subdelegation - recognition of definitive completion of the share capital increase) - **Amount: €2,200,000**

Date of the General Meeting that granted the delegation	*Purpose of the delegation granted to the Management Board*	*Duration*	*Overall ceiling*	*Use during the 2018 financial year*
Combined General Meeting of May 4, 2018 (17th resolution).	Delegation of authority granted to the Management Board to increase the share capital with preferential subscription rights through the issue of common shares.	**Duration:** 26 months **Expiration:** July 4, 2020 at midnight		None

Combined General Meeting of May 4, 2018 (18th resolution).	Delegation of authority granted to the Management Board to increase the share capital without preferential subscription rights for the benefit of Société Territoriale through the issue of common shares.	**Duration:** 18 months **Expiration:** November 4, 2019 at midnight	€150 million (nominal)	**1. Capital increase with cancellation of preferential subscription rights for the benefit of Société Territoriale:** - Management Board decisions of September 28, 2018 (decision to increase the share capital) - Decisions of the Chairman of the Management Board on October 15, 2018 (subdelegation - recognition of definitive completion of the share capital increase); - **Amount: €1,200,000** **2. Capital increase with cancellation of preferential subscription rights for the benefit of Société Territoriale:** - Management Board decisions of November 22, 2018 (decisions to increase the share capital); - Decisions of the Chairman of the Management Board on December 27, 2018 (subdelegation - recognition of definitive completion of the share capital increase); - **Amount: €300,000**

7. Observations of the Supervisory Board on the management report issued by the Management Board for the 2018 financial year and on the parent company financial statements established for the financial year ended on December 31, 2018

You are reminded that, pursuant to Article L. 225-68, paragraph 6, of the French Commercial Code, the Supervisory Board must submit to the Annual General Meeting its observations on the annual financial statements for the financial year ended on December 31, 2018, as approved by the Management Board, and on the management report submitted to this Meeting.

We hereby inform you that the annual financial statements for the year ended December 31, 2018, which were prepared in accordance with French GAAP and voluntarily in accordance with IFRS, as well as the management report prepared by the Management Board of the Company, were submitted to the Supervisory Board within the time-frame provided by the laws and regulations in force after they were reviewed favorably by the Company's Audit and Risk Committee.

The financial statements for the year ended December 31, 2018 show the following principal items:

	In French GAAP (in thousands €)	**In IFRS (in thousands euros)**
Total balance sheet	3.162.542	3.221.726
Net banking income	9.542	9 .705
Net profit	-1.878	-1.712

The annual financial statements for the financial year ended December 31, 2018, prepared in accordance with French GAAP and voluntarily in accordance with IFRS, and the related management report prepared by the Management Board, do not require any specific comment from the Supervisory Board, which examined them on [April 2, 2019].

****

**

Lyon,
April 2, 2019

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

Appendix 1 – Director independence criteria – Article 8.5 of the AFEP-MEDEF Code

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

Appendix 2 – Criteria for allocating the compensation of the members of the Management Board for the 2018 financial year

QUALITATIVE OBJECTIVES COMMON TO THE MEMBERS OF THE MANAGEMENT BOARD
- Consolidate the deployment of AFL banking activities; - Implement and adhere to the AFL balanced access plan; - Participate in the construction of an exemplary image for AFL; - Participate in the construction and maintenance of AFL's risk management and internal control system; - Promote an internal culture of responsibility and trust; - Appropriate AFL's common objectives and ensure that teams have a clear vision of their role and contribution to results; - Be an ambassador and promoter of projects/policies/best practices decided by the Executive Committee.

QUANTITATIVE OBJECTIVES COMMON TO THE MEMBERS OF THE MANAGEMENT BOARD
- Achieve a gross operating loss of a minimum of €2.9 million in 2018; - Meet a general and operating expenses target excluding bank contributions of €11.6 million as defined in the 2018 business plan

YVES MILLARDET OBJECTIVES **CHAIRMAN OF THE MANAGEMENT BOARD**
Qualitative objectives - Promote the image of AFL among investors, local authorities in France and in the public sphere; - Continue to oversee the implementation of mechanisms that allow activities to occur; - Continue to create and maintain AFL's risk management and internal control system. ***Quantitative objectives*** - Continue the recruitment of new local authorities as members of AFL with a minimum target of €18 million in guaranteed ICC; - Reach a minimum of 300 member authorities by the end of 2018; - Make €620 million in loans in 2018 under high-risk conditions that comply with AFL's risk appetite and have a minimum average margin of 20 bp (non-floor); - Execute the 2018 borrowing program to finance AFL at a cost not exceeding +14 bp by limiting the liquidity risk.

THIÉBAUT JULIN OBJECTIVES **MEMBER OF THE MANAGEMENT BOARD, CHIEF FINANCIAL OFFICER**
Qualitative objectives - Promote agreements with AFL among investors; - Consolidate the financial management, ALM management and accounting system, limit operational risks, consolidate the management control system and oversee the budget; - Produce compliant financial and regulatory statements in collaboration with the DRCC in a timely manner; - Contribute to the risk management and internal control system. ***Quantitative objectives*** - Execute the 2018 loan program set at a maximum of €1.2 billion through bond issues and draws under the ECP program to finance AFL at an average cost of 3-month EURIBOR + 14 bp and maintain the spread between AFL and the BPI/AFD couple compared to 2017 (unchanged rating); - - Optimize the placement of liquidity assessed against 3-month EURIBOR under the financial policies approved by the Supervisory Board in a risk-controlled environment, to neutralize the carrying cost.

PHILIPPE ROGIER OBJECTIVES **MEMBER OF THE MANAGEMENT BOARD, LOAN DIRECTOR**
Qualitative objectives - Continue implementation of the credit granting system, limit operational risks; - Promote AFL's image among French local and regional authorities; - Contribute to AFL's institutional influence in "*local finance*" expertise; - Consolidate use of the portal by members; - Contribute to the risk management and internal control system. ***Quantitative objectives*** - Continue the recruitment of new local authorities as members of AFL with a minimum target of €18 million in guaranteed ICC; - Reach a minimum of 300 member authorities by the end of 2018; - Make €620 million in loans in 2018 in compliance with AFL's risk mandate with a minimum average margin of 20 bp; - Lend to over 60% of AFL members by the end of 2018.

ARIANE CHAZEL OBJECTIVES MEMBER OF THE MANAGEMENT BOARD, DIRECTOR OF RISK, COMPLIANCE AND CONTROL
- Consolidate and maintain the infrastructures of the internal control and risk management framework to support the transformation of AFL; - Identify, measure, anticipate, prevent and manage, in conjunction with all members of the Management Board and operational staff, all banking risks: perform aggregate and prospective risk analyses of AFL on a quarterly basis, present them to the Management Board and, on an annual basis, to the ARC and SC, identify situations to withdraw from the AFL risk appetite framework and notify the Management Board, alert the Management Board (and possibly the SC) of possible occurrences of major risks; - Help propagate the risk culture through dedicated information campaigns and interviews with employees; - Ensure that each new product/activity is compliant before launch (CNP); - Perform permanent 2nd-level controls as described in the permanent control plan approved by the Management Board; - Maintain the relationship with the supervisor; - Implement and conduct the 2018 periodic control plan (approval of a multi-year audit plan and implemented services); - Provide regulatory watch and participate in consultations on regulatory topics; - Produce compliant regulatory statements in collaboration with the FD in a timely manner.

Appendix 3 – Criteria for allocating the compensation of the members of the Management Board for the 2019 financial year

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

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

YVES MILLARDET OBJECTIVES CHAIRMAN OF THE MANAGEMENT BOARD
Qualitative objectives - Promote the image of the Agence France Locale among investors, local authorities in France and in the public sphere; - Continue to oversee the implementation of the mechanisms enabling the activities to continue; - Continue to create and maintain Agence France Locale's risk management and internal control system. ***Quantitative objectives*** - Achieve an ICC target of at least €20 million and paid-up ICC of at least €8 million over the year; - Make €805 million in loans in 2019 under risk conditions that comply with AFL's risk appetite and have a minimum average margin of 17 bp (non-floor) as defined in the 2019-2021 business plan; - Execute the 2019 borrowing program to finance Agence France Locale at a cost of equal to at most EURIBOR +10 bp while limiting the liquidity transformation risk, as defined in the 2019-2021 business plan.

THIÉBAUT JULIN OBJECTIVES
MEMBER OF THE MANAGEMENT BOARD, CHIEF FINANCIAL OFFICER

Qualitative objectives

- Promote agreements with Agence France Locale among investors;
- Consolidate the financial management, ALM management and accounting system, limit operational risks, consolidate the management control framework and oversee the budget;
- Produce timely financial statements in accordance with accounting standards, management reports and regulatory statements in collaboration with the DRCC in a timely manner;
- Update the EMTN program annually and, as often as necessary, the legal framework in which AFL transactions are conducted;
- Facilitate relationships with rating agencies and coordinate the annual review;
- Prepare and oversee the annual budget;
- Obtain TRICP accreditation and oversee the functioning of the procedures;
- Contribute to the risk management and internal control system.

Quantitative objectives

- Execute the 2019 loan program to finance Agence France Locale at an average cost of 3-month EURIBOR + 10 bp, as defined in the 2019-2021 business plan, while limiting the liquidity transformation risk and maintaining the spread between Agence France Locale and the BPI/AFD compared to 2018 (rating unchanged);
- Optimize the placement of liquidity assessed against 3-month EURIBOR under the financial policies approved by the Supervisory Board in a controlled risk environment to limit the carrying cost to the level mentioned in the 2019-2021 business plan.

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

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

APPENDIX 3

DRAFT RESOLUTIONS SUBMITTED TO THE COMBINED GENERAL MEETING OF SHAREHOLDERS OF AGENCE FRANCE LOCALE OF MAY 3, 2019

A. Agenda

ORDINARY GENERAL MEETING

1. Approval of the parent company financial statements for the year ended December 31, 2018, prepared in accordance with French GAAP, and the complete discharge for the performance of its mandate to the Management Board for said financial year;

2. Approval of the parent company financial statements for the financial year ended December 31, 2018 prepared according to IFRS;

3. Allocation of the profit for the year ended December 31, 2018;

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

5. Ratification of the appointment of Carol Sirou to serve as a member of the Supervisory Board, made on September 27, 2018, pursuant to Article L. 225-78 of the French Commercial Code;

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

7. Determination of the annual amount of directors' fees to be paid to the members of the Supervisory Board;

8. Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the Chairman of the Management Board of the Company for the 2019 financial year;

9. Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the members of the Management Board of the Company for the 2019 financial year;

10. Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the Chairman of the Supervisory Board of the Company for the 2019 financial year;

11. Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the members of the Supervisory Board of the Company for the 2019 financial year;

12. Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to the Chairman of the Management Board of the Company

13. Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to Ariane Chazel in her capacity as a member of the Management Board of the Company

14. Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to Thiébaut Julin in his capacity as a member of the Management Board of the Company

15. Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to Philippe Rogier in his capacity as a member of the Management Board of the Company;

16. Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to the Chairman of the Supervisory Board of the Company;

17. Advisory vote on the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to the Chairman of the Supervisory Board of the Company;

18. Advisory vote on the total amount of compensation of all kinds paid during the financial year ended December 31, 2018 to the individuals named in Article L. 511-71 of the French Monetary and Financial Code;

EXTRAORDINARY GENERAL MEETING

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

20. Delegation of authority to be granted to the Management Board to issue shares, without preferential subscription right for the benefit of persons named;

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

22. Powers for completion of formalities.

B. Report of the Management Board - Presentation of the resolutions submitted to the General Meeting and text of the resolutions

ORDINARY GENERAL MEETING

First resolution

Approval of the parent company financial statements for the year ended December 31, 2018, prepared in accordance with French GAAP, and the complete discharge for the performance of its mandate to the Management Board for said financial year

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, having reviewed the report of the Management Board to the General Meeting, the observations of the Supervisory Board, and the Statutory Auditors' report on the parent company financial statements for the year ended December 31, 2018, prepared in accordance with French GAAP, approves said financial statements and gives the Management Board full and unreserved discharge of the fulfillment of its mandate for said financial year.

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

Second resolution

Approval of the parent company financial statements for the financial year ended December 31, 2018 prepared according to IFRS

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, having reviewed the report of the Management Board to the General Meeting, the observations of the Supervisory Board and the Statutory Auditors' report on the parent company financial statements for the year ended December 31, 2018, prepared in accordance with IFRS, approves said financial statements prepared in accordance with IFRS.

Third resolution

Allocation of the results of the financial year ended December 31, 2018

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, having reviewed the report of the Management Board to the General Meeting, the observations of the Supervisory Board and the Statutory Auditors' report on the parent company financial statements for the year ended December 31, 2018, prepared in accordance with French GAAP, decides to allocate the net loss of €1,878,000 for the year to retained earnings.

Fourth resolution

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

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

Fifth resolution

Ratification of the appointment of Carol Sirou to serve as a member of the Supervisory Board, made on September 27, 2018, pursuant to Article L. 225-78 of the French Commercial Code

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, ratifies the co-opting by the Supervisory Board at its meeting on September 27, 2018 of Carol Sirou as a member of the Board, replacing Dominique Schmitt, who resigned, for this latter's remaining term of office, or until the end of the annual Ordinary General Meeting that will be called in 2021 to approve the financial statements for the financial year ended December 31, 2020.

Sixth resolution

Presentation of the Supervisory Board's report on corporate governance

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

Seventh resolution

Determination of annual amount of directors' fees

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, sets the annual amount of the directors' fees to be distributed among the members of the Supervisory Board at €175,000 for the 2019 financial year and subsequent years.

Eighth resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the Chairman of the Management Board of the Company for the 2019 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to Yves Millardet, in his capacity as Chairman of the Management Board of the Company for the 2019 financial year, as they appear in the report by the Supervisory Board on corporate governance, and have been favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Ninth resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the members of the Management Board of the Company for the 2019 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to Ariane Chazel and Thiébaut Julin in their capacity as members of the Management Board of the Company for the 2019 financial year, as they appear in the report by the Supervisory Board on corporate governance, and have been favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Tenth resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the Chairman of the Supervisory Board of the Company for the 2019 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to the Chairman of the Supervisory Board of the Company for the 2018 financial year, as defined in the Internal Regulations of the Supervisory Board. These principles are included in the Supervisory Board's report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Furthermore, the Chairman of the Supervisory Board in office on the date of the General Meeting, being the holder of an elected office, does not receive any compensation for his duties.

Eleventh resolution

Approval of the principles and criteria for determining the total compensation and benefits of any kind attributable to the members of the Supervisory Board of the Company for the 2019 financial year

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-82-2 of the French Commercial Code, approves the principles for the determination, distribution and allocation of the fixed, variable and exceptional components that comprise the total compensation and benefits of any kind attributable to the members of the Supervisory Board of the Company for the 2019 financial year, as defined in the Supervisory Board's Internal Regulations. These principles are included in the Supervisory Board's report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Furthermore, the members of the Supervisory Board who hold elected or similar office do not receive any compensation for their duties.

Twelfth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to the Chairman of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100 of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2018 to Yves Millardet in his capacity as Chairman of the Management Board, as contained in the Supervisory Board's report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Thirteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to Ariane Chazel in her capacity as a member of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100 of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2018 to Ariane Chazel in her capacity as a member of the Management Board and as Director of Risks, Compliance and Control for the Company, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Fourteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to Thiébaut Julin in his capacity as a member of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100, II, of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2018 to Thiébaut Julin, a member of the Management Board and Chief Financial Officer of the Company, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

Fifteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to Philippe Rogier in his capacity as a member of the Management Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100 of the French Commercial Code, approves the components of compensation due or allocated for the financial year ended December 31, 2018 to Philippe Rogier, a member of the Management Board and Loan Director of the Company, as contained in the Supervisory Board's report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee.

It is noted that Philippe Rogier tendered his resignation as a member of the Company's Management Board on December 5, 2018; he continues to serve as Loan Director under the terms of his employment contract with the Company.

Sixteenth resolution

Approval of the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to the Chairman of the Supervisory Board of the Company

The General Meeting, deliberating in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 225-100 of the French Commercial Code, takes note of the fact that the Chairman of the Supervisory Board in office during the financial year ended December 31, 2018 does not receive any compensation for his duties.

Seventeenth resolution

Advisory vote on the components of compensation and benefits due or allocated for the financial year ended December 31, 2018 to the Chairman of the Supervisory Board of the Company

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, takes note of the components of compensation due or allocated for the financial year ended December 31, 2018 to the members of the Supervisory Board of the Company, as contained in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee, without issuing any observations.

Eighteenth resolution

Advisory vote on the total amount of compensation of all kinds paid during the financial year ended December 31, 2018 to the individuals named in Article L. 511-71 of the French Monetary and Financial Code

The General Meeting, ruling in accordance with the quorum and majority requirements for ordinary general meetings, in accordance with Article L. 511-73 of the French Monetary and Financial Code, takes note of the components of compensation of all kinds paid during the financial year ended December 31, 2018 to the individuals mentioned in Article L. 511-71 of said code, known as "risk-taking employees," as they appear in the Supervisory Board's management report on corporate governance, and were favorably reviewed by the Appointments, Remuneration and Corporate Governance Committee, without issuing any observations.

Nineteenth resolution

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

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

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

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

- ***decides** that the maximum nominal amount of the Company's immediate or eventual capital increases that may be carried out by virtue of this authorization cannot exceed one hundred and fifty million euros (€150,000,000), it being noted that the nominal amount of the Company's capital increases by virtue of the twentieth and twenty-first resolutions will be deducted from this ceiling.*

To this ceiling, the additional amount of the nominal value of the shares to be issued will be added to preserve, in accordance with the applicable legal and regulatory provisions and any applicable contractual provisions providing for other adjustments, the rights of holders of securities or holders of other rights giving access to the capital;

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

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

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

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

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

Twentieth resolution

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

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

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

  Subscription for these shares will be paid in cash.

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

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

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

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

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

- ***grants*** *full authority to the Management Board to implement this delegation and in particular to:*
  - *determine the list of beneficiaries within the category of persons defined above and the number of shares to be allocated to each of them,*
  - *determine the dates and terms of the issues and the form and characteristics of the shares to be created,*
  - *determine the number of shares to be issued and the terms and conditions thereof, with the understanding that the issue price of the shares to be issued will be equal to the nominal value of those shares on the date of issue of those shares,*
  - *determine the method of payment for the shares issued,*
  - *determine the date on which entitlement to dividends arises, with or without retroactive effect, for the shares to be issued,*

- *suspend, if necessary, the exercise of the rights attached to securities previously issued by the Company for a period of up to three months within the limits provided by the applicable legal and regulatory provisions,*
- *at its sole discretion, allocate the costs of any issue to the amount of the related premiums and deduct from such amount the sums necessary to raise the legal reserve to one tenth of the new capital after each increase, and*
- *more generally, make all necessary arrangements, enter into all agreements, request all authorizations, carry out all formalities and take all necessary measures to achieve the successful completion of the proposed issues or, if necessary, delegate them to the Chairman of the Management Board, record the capital increases resulting from any issue effected by the use of this delegation, amend the Company's articles of association accordingly and ensure the financial service of the securities in question and the exercise of the rights attached thereto;*

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

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

Twenty-first resolution

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

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

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

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

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

- **decides** that the subscription will be reserved for employees who are members of a company savings plan or one or more mutual funds to be set up under a company savings plan to be created in accordance with Article L. 225-138-I of the French Commercial Code. The new shares will give their owners the same rights as the old shares.

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

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

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

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

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

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

Twenty-second resolution

Powers for completion of formalities

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

APPENDIX 4
SCHEDULE OF FINANCIAL ANNOUNCEMENTS FOR THE FINANCIAL YEAR OPEN FROM JANUARY 1 TO DECEMBER 31, 2019

The Agence France Locale Group is composed of:

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

Agence France Locale Group (AFL Group) sets the duration of embargo periods prior to the announcement of its annual and half-yearly results at 30 calendar days, taking into account the accounting information centralization and compilation process, in accordance with the recommendations of the *Autorité des Marchés Financiers* (French Financial Markets Authority).

Date	Information published
No later than April 5, 2019	▪ Annual result and annual financial report by the Issuer for the financial year ended December 31, 2018 ▪ Annual company and consolidated results, and consolidated annual financial report of Société Territoriale for the financial year ended December 31, 2018
May 3, 2019	▪ Annual General Meeting of the Issuer's Shareholders, called to approve the parent company financial statements for the financial year ended December 31, 2018, prepared in accordance with French GAAP and IFRS
May 23, 2019	▪ "*Journée de l'Agence*" and Annual General Meeting of Shareholders of Société Territoriale, called to approve the parent company financial statements for the financial year ended December 31, 2018, prepared in accordance with French GAAP, and the Group's consolidated financial statements for the financial year ended December 31, 2018, prepared according to IFRS
No later than September 27, 2019	▪ Half-year results and half-year financial report of AFL for the first half of the 2019 financial year, ended June 30, 2019 ▪ Consolidated half-year results of the AFL Group for the first half of the 2019 financial year, ended June 30, 2019

RESPONSIBILITY FOR THIS MANAGEMENT REPORT PREPARED FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2018

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

Lyon, 2 April 2019 ,

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

Parent company financial statements prepared per French GAAP and IFRS and related Statutory Auditors' reports

Agence France Locale S.A.

Statutory auditors' report on the financial statements

For the year ended 31 December 2018

Agence France Locale S.A.

10-12 boulevard Vivier Merle - Tour Oxygène - 69003 Lyon

KPMG AUDIT FS I
Tour EQHO
2 Avenue Gambetta
CS 60055
92066 Paris la Défense Cedex
France

CAILLIAU DEDOUIT et ASSOCIES
19, rue Clément Marot
75008 PARIS

This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.
This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Agence France Locale S.A.

Registered office: 10-12 boulevard Vivier Merle - Tour Oxygène - 69003 Lyon
Share capital: €.138,700,000

Statutory auditors' report on the financial statements

For the year ended 31 December 2018

Dear Shareholders,

Opinion

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying financial statements of Agence France Locale S.A. for the year ended 31 December 2018.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2018 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Statutory Auditors' Responsibilities for the Audit of the Financial Statements* section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from 1 January 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics (code de déontologie) for statutory auditors.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

We have decided that there is no key audit matter to communicate in our report.

Specific Verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws abd regulations.

Information given in the management report and in the other documents provided to the Shareholders with respect to the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Management Board and in the other documents provided to Shareholders with respect to the financial position and the financial statements.

Concerning the accuracy and consistency with the financial statements information about the terms of payment specified in Article D.441-4 of the French commercial code (code de commerce), we report to you the following observation:

As indicated in the management report, this information does not include banking and related operations, your company considering that they do not fall within the scope of the information to produce.

Report on corporate governance

We attest that the Supervisory Board's report on corporate governance sets out the information required by Articles L.225-37-3 and L.225-37-4 of the French Commercial Code.

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code (code de commerce) relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

Other information

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting right has been properly disclosed in the management report.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Agence France Locale S.A. by the annual general meeting held on 17 December 2013.

As at 31 December 2018, KPMG and Cailliau Dedouit et Associés were in their 5th year of total uninterrupted engagement, and the 4rd year since the company is a public interest entity as defined by Article L.820-1-6-III of the French commercial code (code de commerce).

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Management Board.

Statutory Auditors' Responsibilities for the Audit of the Financial Statements

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.

- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.

- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (code de commerce) and in the French Code of Ethics *(code de déontologie)* for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris La Défense, on the 3 April 2019	Paris, on the 3 April 2019
KPMG Audit FSI	Cailliau Dedouit et Associés
French original signed by	
Ulrich Sarfati *Partner*	Laurent Brun *Partner*

AGENCE FRANCE LOCALE

BALANCE SHEET

Assets as of 31st of december 2018

(€ '000s)	Notes	31/12/2018	31/12/2017
Cash and central banks	2	121,654	420,351
Government paper and similar securities	1	574,048	287,591
Receivables on credit institutions	2	57,103	211,233
Loans and advances to customers	4	2,221,404	1,435,377
Bonds and other fixed income securities	1	99,104	72,100
Equities and other variable income securities			
Investments in non-consolidated companies and other long-term investments			
Investments in consolidated companies			
Intangible assets	5	3,263	5,093
Property, plant and equipment	5	437	469
Other assets	6	52,954	68,480
Accruals	6	32,575	21,591
TOTAL ASSETS		**3,162,542**	**2,522,285**

Liabilities as of 31st of december 2018

(€ '000s)	Notes	31/12/2018	31/12/2017
Central banks		755	391
Due to banks	3	9	
Customer borrowings and deposits			
Debt securities	7	2,972,985	2,347,653
Other liabilities	8	1,448	1,312
Accruals	8	73,128	63,034
Provisions	9	17	17
Subordinated debt			
General banking risk fund (GBRF)			
Equity (excluding GBRF)	10	**114,199**	**109,878**
Share capital		138,700	132,500
Additional paid-in capital			
Reserves and retained earnings			
Revaluation differences			
Regulated provisions and investment subsidies			
Retained earnings (+/-)		(22,622)	(22,769)
Net income for the period (+/-)		(1,878)	146
TOTAL LIABILITIES		**3,162,542**	**2,522,285**

INCOME STATEMENT

(€ '000s)	Notes	31/12/2018	31/12/2017
+ Interest and similar income	12	64,375	38,334
- Interest and similar expenses	12	(56,547)	(31,849)
+ Income from variable income securities			
+ Fee and commission income	13	289	73
- Fee and commission expenses	13	(119)	(90)
+/- Net gains (losses) on held for trading portfolio	15	871	443
+/- Net gains (losses) on placement portfolio	15	673	4,192
+ Other banking income	14		
- Other banking expense	14		
NET BANKING INCOME		**9,542**	**11,102**
- General operating expenses	16	(9,032)	(8,618)
+ Other operating income			
- Depreciation and amortization	5	(2,388)	(2,338)
GROSS OPERATING INCOME		**(1,878)**	**146**
- Cost of risk			
OPERATING INCOME		**(1,878)**	**146**
+/- Net gains (losses) on fixed assets			
PRE-TAX INCOME ON ORDINARY ACTIVITIES		**(1,878)**	**146**
+/- Net extraordinary items			
- Income tax charge			
+/- Net allocation to FGBR and regulated provisions			
NET INCOME		**(1,878)**	**146**
Basic earnings per share		(1.35)	0.11

OFF-BALANCE SHEET

(€ '000s)

COMMITMENTS GIVEN AND RECEIVED	Notes	31/12/2018	31/12/2017
Commitments given		**365,646**	**238,783**
Financing commitments		365,646	238,783
Guarantee commitments			
Commitments on securities			
Commitments received		**2,469**	**2,591**
Financing commitments			
Commitments received from credit institutions			
Guarantee commitments		2,469	2,591
Commitments on securities			
Derivatives	11	**7,620,256**	**5,623,570**

NOTES TO THE INDIVIDUAL ACCOUNTS UNDER FRENCH GAAP

I - Publication context

The 2018 financial statements were approved by the Board of Directors as of March 13, 2019.

II - Highlights from 2018 financial year

After a first semester once again characterised by a low demand, the credit activity has been very dynamic for the remainder of the year led to €831 million annual production of medium and long-term credit and to €85 million of new short-term facilities. AFL's 2018 medium and long-term credit production represents nearly a 25% market share of AFL's members financing requirements for 2018 financial year.

According to the business plan, The AFL has concluded purchase of claims from credit agreements with different credit institutions which had been concluded by those institutions with shareholders of AFL group for a gross amount of €157 million.

During 2018, the AFL issued 3 bond issues on the capital markets, with longer maturities than those previously issued. At the beginning of the year, two 10- and 15-year issues were issued with the shape of private placement for 25 and 100 million euros and a margin of 25 basis points against the yield curve of French government bonds (OATs). On June 12, a 10-year, 500-million benchmark public issue was made at a margin of 30 basis points over the OAT curve. The good reception of these issues by investors once again demonstrates the quality of the AFL's reputation on the markets.

In 2018, Agence France Locale's capital raised by €6.2 million to €138.7 million following four capital increases exclusively subscribed by its parent company, Société Territoriale. Following these transactions, the total number of shareholders of Agence France Locale Group has been increased to 292.

The 2018 financial year represents a milestone in credits activity incomes which is part of the AFL's develoment path accordingly to his 2017-2021 strategic plan. This income growth is reflected in revenue generation momentum coming from credit production since 2015, which has been the kick-off year of AFL'S credit activity, and is proven especially by the increase of AFL group shareholders oustanding loans.

At the end of the 2018 financial year, the net banking income generated by the business amounted to €9,542k as compared to €11,102k at 31 December 2017. It mainly corresponds to an interest margin of €7,828k, increased by 21% compared to €6,295k recorded over the previous year, a net capital gains on investment securities disposal of €1,636k and an impairment on placement securities for €190k.

The interest margin of €7,828k comes from three items:

- firstly, an income of €7,667k from the loan portfolio once restated to hedge accounting, up 22% compared to the income of €6,295k at December 31, 2017;
- secondly, a negative income of €-3,357k from the management of the cash reserve compared to €-2,763k for the previous year, in a context of deep negative interest rates;
- and lastly, a positive income of €3,518k associated to interest charges given the reasons stated above, net of hedge accounting which sharply increase compared to €2,953k for the previous year.

At the end of the 2018 financial year, general operating expenses came to €9,032k as compared to €8,618k for the previous year. They include €4,558k of personnel expenses, down from €4,592k for the 2017 financial year. Administrative expenses amounting to €4,474k remain comparable to €4,026k for the previous financial year, after restating in 2017 the effect of €488k reversal of provisions for risks and charges.

At the year-end date, the depreciation, amortization and provisions came to €2,388k compared with €2,338k as at December 31, 2018, representing an increase of 2,1% due to the pursuit of AFL's investment expenditure in the information system infrastructure.

The 2018 financial year ended with an operating income and a net result of €-1,878k, down from the previous year. During the previous year an extraordinary item regarding the capital gains on portfolio of €4,494k had been recorded, these capital gains were a substantial contribution to the positive income of the preceding year. The 2018 capital gains amounted to €1,636k.

Events after the end of the reporting period

No significant subsequent events occurred on the beginning of the 2019 year after the accounts closure date has to be reported.

III - Accounting principles and valuation methods

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

Presentation format

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

Preparation basis

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

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

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

Accounting principles and methods

Loans and advances to banks and to customers

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

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

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

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

Doubtful loans

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

- The loan or advance is at least nine months in arrears,
- The borrower’s financial position is such that an identified risk exists regardless of whether the loan or advance is in arrears,
- The bank and borrower are in legal proceedings.

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

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

Tangible and intangible fixed assets

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

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

Software acquired are recognized in gross value at acquisition cost.

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

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

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

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

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

The amortization method is straight-line.

Securities portfolio

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

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

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

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

"Equities and other variable income securities"

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

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

Placement securities

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

Placement securities are recorded at acquisition cost including fees.

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

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

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

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

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

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

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

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

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

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

Equities are recognised on the balance sheet at their purchase price including transaction expenses. The associated dividends are recorded as income under "Income from variable-income securities".

Income from mutual funds is recognised when received under the same heading.

At each reporting date, short term investment securities are measured at the lower of acquisition cost and market value. If the current value of an item or a homogeneous set of securities (calculated from market prices at the reporting date, for example)is lower than its carrying amount, an impairment loss is recorded for the unrealised loss without being offset against any gains recognised on other categories of securities.

Investment securities

Investment securities are fixed income securities with a fixed maturity date that have been acquired or transferred to this category with the manifest intention of holding them until maturity.

This category only includes securities for which Agence has the necessary financial ability to continue holding them until maturity and that are not subject to any legal or other restriction that could interfere with its intention to hold them until maturity.

Securities considered as Investment securities are recorded on the date of purchase at acquisition clean price including fees. Accrued interest at the date of acquisition is recorded separatly as "Accrued interest". Interest on these securities is recorded in income as Interest income on bonds and fixed income securities.

The difference between the purchase price and the redemption value is spread over the remaining life of the security on an actuarial basis.

Impairment is not booked for long term investment securities if their market value falls below cost. On the other hand, if the impairment arises from a risk relating specifically to the issuer of the security, impairment is recorded under "Cost of risk", in accordance with CRC regulation 2002-03 on credit risk.

In the case of the sale or reclassification to another category of long term investment securities and representing a material amount, during the current financial year and the next two financial years, the reporting entity is no longer authorised to classify securities previously bought and to be bought as long term investment securities, in accordance with CRC regulation 2005-01, except in the special cases provided by that regulation and by CRC regulation 2008-17.

Market price

The market price at which the various categories of securities are measured is determined as follows:

. Securities traded on an active market are measured at the latest price;

. If the market on which the security is traded is not or no longer considered active or if the security is unlisted, Agence determines the likely value at which the security concerned would be traded using valuation techniques. Firstly, these techniques take into account recent transactions carried out in normal competition conditions. If required, Agence uses valuation techniques commonly used by market participants to price these securities, when it has been demonstrated that these techniques provide reliable estimates of prices obtained in actual market transactions.

Recording date

Agence records securities classified as investment securities on the settlement date. Other securities, regardless of type or classification, are recognised on the trading date.

Disclosures on Placement securities and Investment securities

The Regulation CRC 2000-03, Appendix III, paragraph 1. 1.2, supplemented by Regulation No. 2004-16 of 23 November 2004 and Regulation CRC No. 2005-04 requires credit institutions to provide:

. A breakdown of Investment portfolio and Placement portfolio, public bills and similar securities, bonds and other fixed-income securities.

. For Placement securities, the amount of unrealized gains corresponding to the difference between the market value and acquisition cost is disclosed. The amount of unrealized gains on Placement securities subject to a provision in the balance sheet as well as investment securities unrealized losses not subject to provision.

Debt due to banks

Debt due to banks is broken down according to the initial maturity (sight or term debt).

Repurchase agreements (represented by certificates or securities) are included under these type according to the initial maturity. Accrued interest on these deposits is recognised under accrued interest and taken to profit and loss.

Debt securities issued

These debt securities are recorded at nominal value. Redemption and issue premiums are amortized on an actuarial basis over the maturity of the securities prorate temporis. They are recorded on the balance sheet in the same categories as the corresponding debt. Amortization of these premiums is recorded in the income statement as "Interest expense on bonds and other fixed income securities".

If bonds are issued above par, amortization of issue premiums is deducted from interest expense on bonds and other fixed income securities. Interest on bonds is recorded as Interest expense for accrued amounts calculated prorata temporis. Bond issue costs and commissions are amortized on an actuarial basis over the maturity of the related loans.

Derivative transactions

Agence engages in derivative transactions to hedge the interest rate and foreign exchange risks to which it is exposed in its activity.

Depending on their purpose, these transactions are assigned to micro-hedge or macro-hedge portfolios in accordance with CRB regulations 88-02 and 90-15 endorsed by ANC Regulations 2014-07. Valuation methods and accounting principles are determined according to the portfolio to which they are assigned.

Micro-hedge transactions

Transactions are booked as micro-hedges when they are designed to hedge against the interest rate risk related to an item or set of homogeneous items identified from the start. They involve swaps used to hedge issues of debt securities, fixed-income secuties recognised as placement securities and loans and advances to customers.

Macro-hedge transactions

This category includes transactions designed to hedge and manage the Company's overall exposure to interest rate risk on assets, liabilities and off-balance sheet items, excluding micro-hedge transactions.

The reduction measurement of the Company's global interest rate risk is done by making a sensitivity analysis of macro-hedge portfolios.

Hedging transactions accounting

Expense and income on these transactions are recorded in the income statement in the same way income and expense on the hedged item or set of homogeneous items are recorded.

Expense and income on these transactions are recorded in the income statement prorata temporis respectively as Interest expense or Interest income.

Unrealised gains and losses on derivatives valuation are not recorded.

Payments at the inception of hedging derivatives are recorded in other assets and other liabilities and amortized over their maturity according to an actuarial method.

In the event of early reimbursement or the sale of the hedged item, or early repayment within the framework of the renegotiation of the hedged item, the termination fee received or paid because of the early interruption of the hedging instrument is recorded in in the income statement if the hedging instrument has been cancelled.

Currency transactions

In accordance with ANC regulation 2014-07, AFL accounts for transactions in currencies in open accounts in each currency.

Foreign exchange position and currency exchange rate accounts are opened in each currency.

At each reporting date, the differences between the amounts resulting from the valuation of the foreign exchange position accounts at the market price on the closing date and the amounts entered in currency exchange rate accounts are recorded in the income statement.

Currency hedging transactions

As part of hedging its foreign exchange risk, AFL contract cross currency swaps. These operations are set up in order to eliminate at inception the risk of a change in currency rate related to an asset or a liability. This is mainly the hedging of debts issued by AFL in foreign currency.

The accounting principle used to recognize the result of the foreign exchange transactions of Cross currency swaps is to recognize in income prorata temporis over the duration of the contract, the interest rate gap between the forward and the spot currency rate.

Cost of risk

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

Provisions

Agence applies CRC regulation 2000-06 on liabilities relating to the recognition and measurement of provisions falling within the scope of this regulation.

Provisions are recorded at present value when the three following conditions are met:

• Agence has a present legal or constructive obligation as a result of past events;

• It is probable that an outflow of resources representing economic benefits will be required to settle the obligation;

• A reliable estimate of the amount of the obligation can be made.

Tax consolidation

Since January 1, 2015, the Agence belongs to the tax group headed up by Agence France Locale - Société Térritoriale. This entity pays the total income tax owed by the group. The Agence records in its accounts the amount of tax for which it would be liable if it were not a member of the tax group. Tax savings realized by the tax group are recorded in the accounts of Agence France Locale - Société Térritoriale.

Post-employment benefits

Agence has applied ANC recommendation 2013-02 of 7 November 2013 relating to the measurement and recognition of retirement and similar benefit obligations.

In accordance with this recommendation, Agence sets aside provisions to cover its retirement and similar benefit obligations falling within the category of defined-benefit plans.

These obligations are stated on the basis of actuarial, financial and demographic assumptions, and in accordance with the projected unit credit method. Under this method, for each year of service, a charge is booked in an amount corresponding to the employee's vested benefits for the period. The charge is calculated based on the discounted future benefit.

The entity has opted for method 2 in recommendation 2013-02 which allows in particular for the recognition of gains or losses arising from changes to defined-benefit plans when the curtailment or settlement occurs.

The entity elected to immediately recognise the actuarial gains or losses in profit or loss over the expected average remaining working lives of the employees participating in the scheme. Accordingly the amount of the provision is equal to:

. the present value of the obligation to provide the defined benefits at the reporting date, calculated in accordance with the actuarial method advised by the recommendation;

. plus any actuarial gains (less any actuarial losses) not recognized,

. less, where applicable, the fair value of plan assets. These may be represented by an eligible insurance policy. In the event that the obligation is fully covered by such a policy, the fair value of the policy is deemed to be the value of the corresponding obligation, i.e. the amount of the corresponding actuarial liability.

The recommendation also allows for the recognition of actuarial gains and losses using the "corridor method" or any other method that results in faster recognition in profit or loss.

Identity of the parent company consolidating the accounts of the Agence as of December 31, 2018

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

IV - Notes to the Balance Sheet

Note 1 - PORTFOLIO

(€ '000s)

31/12/2018	Government paper and similar securities	Bonds and other fixed income securities	Equities and other variable income securities	Total
Fixed or variable income securities				
Listed securities	573,027	98,711		671,737
Unlisted securities				-
Accrued interest	1,136	529		1,665
Impairment	(115)	(136)		(251)
Net carrying amount	**574,048**	**99,104**	**-**	**673,151**
Residual net Premium/Discount	(734)	565		(169)

31/12/2017				
Fixed or variable income securities				
Listed securities	286,536	71,555		358,091
Unlisted securities				-
Accrued interest	1,084	576		1,661
Impairment	(29)	(32)		(61)
Net carrying amount	**287,591**	**72,100**	**-**	**359,690**
Residual net Premium/Discount	4,743	1,512		6,255

Government paper and similar securities: analysis by residual maturity

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 31/12/2018	Total 31/12/2017
Government paper and similar securities								
Net amount	20,000	14,986	133,444	404,482	572,912	1,136	574,048	287,591
NET CARRYING AMOUNT	**20,000**	**14,986**	**133,444**	**404,482**	**572,912**	**1,136**	**574,048**	**287,591**
Bonds and other fixed income securities								
Net amount	5,016	53,082	40,477	-	98,575	529	99,104	72,100
NET CARRYING AMOUNT	**5,016**	**53,082**	**40,477**	**-**	**98,575**	**529**	**99,104**	**72,100**

Analysis by type of portfolio

Portfolio *(€ '000s)*	Gross amount 31/12/2017	Additions	Disposals	Transfers	Prem/Disc Amort.	Change in accrued interest	Impairment	Total 31/12/2018	Unrealized gains/(losses)
Transaction									
Held-for-sale	359,690	1,552,683	(1,237,297)		(1,739)	5	(190)	673,151	3,954
Investment									
NET CARRYING AMOUNT	**359,690**	**1,552,683**	**(1,237,297)**	**-**	**(1,739)**	**5**	**(190)**	**673,151**	**3,954**
Of which Premium/Discount	6,255	2,181	(6,866)		(1,739)			(169)	

Note 2 -RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	31/12/2018	31/12/2017
Mandatory reserve deposits with central banks	121,654	420,351
Other deposits		
Cash and central banks	**121,654**	**420,351**

Receivables on credit institutions

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 31/12/2018	Total 31/12/2017
Credit institutions								
Loans and receivables								
- demand	7,103				7,103		7,103	161,233
- time	50,000				50,000		50,000	50,000
Securities bought under repurchase agreements								
TOTAL	**57,103**	**-**	**-**	**-**	**57,103**	**-**	**57,103**	**211,233**
Impairment								
NET CARRYING AMOUNT	**57,103**	**-**	**-**	**-**	**57,103**	**-**	**57,103**	**211,233**

Note 3 - DUE TO CREDIT INSTITUTIONS

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 31/12/2018	Total 31/12/2017
Credit institutions								
Accounts and Overdrafts								
- demand	9				9		9	
- time								
Securities sold under repurchase agreements								
TOTAL	**9**	**-**	**-**	**-**	**9**	**-**	**9**	**-**

Note 4 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	31/12/2018	31/12/2017
Short-term credit facilities	2,954	2,172
Other loans	2,218,449	1,433,205
Customers transactions before impairment charges	**2,221,404**	**1,435,377**
Impairment		
Net carrying amount	**2,221,404**	**1,435,377**
Of which related receivables	5,130	2,283
Of which gross doubtful receivables		
Of which gross non-performing doubtful receivables		

Analysis by residual maturity excluding accrued interest

(€ '000s)	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 31/12/2018
Loans and advances to customers	121,537	62,705	97,423	581,766	1,352,842	**2,216,273**	**5,130**	**2,221,404**

Note 5 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible assets	31/12/2017	Additions	Transfers	Disposals	Amort.	Impairments	Other movements	31/12/2018
Intangible assets	**11,525**	**398**					**53**	**11,976**
Start-up costs	2,123							2,123
IT development costs	8,947	357					53	9,357
Web site	427	42						468
Software	28							28
Intangible assets in progress	**102**	**95**					**(72)**	**125**
Intangible assets amortisation	**(6,533)**				**(2,305)**			**(8,838)**
Net carrying amount	**5,093**	**493**			**(2,305)**		**(19)**	**3,263**

Property, plant & equipment	31/12/2017							31/12/2018
Property, plant & equipment	766	51						817
Tangible assets in progress	-							-
Tangible assets amortization	(297)				(83)			(380)
Net carrying amount	**469**	**51**			**(83)**			**437**

Note 6 - OTHER ASSETS AND ACCRUALS

(€ '000s)	31/12/2018	31/12/2017
Other assets		
Cash collateral paid	52,909	68,376
Other assets	45	104
Impairment		
Net carrying amount	**52,954**	**68,480**
Accruals		
Deferred charges on bond issues	10,203	9,238
Deferred charges on hedging transactions	6,459	4,143
Prepaid charges	213	147
Accrued interest not yet due on hedging transactions	15,698	8,063
Other deferred income	1	
Other accruals		
TOTAL	**32,575**	**21,591**

Note 7 - DEBT SECURITIES

(€ '000s)	Less than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total principal	Accrued interest	Total 31/12/2018	Total 31/12/2017
Negotiable debt securities					-		-	8,338
Bonds	87,336		1,500,000	1,375,000	2,962,336	10,648	2,972,985	2,339,315
Other debt securities					-		-	-
TOTAL	**87,336**	**-**	**1,500,000**	**1,375,000**	**2,962,336**	**10,648**	**2,972,985**	**2,347,653**

Note 8 - OTHER LIABILITIES and ACCRUALS

(€ '000s)	31/12/2018	31/12/2017
Other liabilities		
Cash collateral received		
Miscellaneous creditors	1,448	1,312
TOTAL	**1,448**	**1,312**
Accruals		
Transaction to pay and settlement accounts		
Premium EMTN issue	2,501	2,954
Unrealised gains on hedging instruments	52,307	43,222
Unearned income		
Accrued expenses on hedging instruments	11,881	6,335
Other accrued expenses		
Other accruals	6,439	10,523
TOTAL	**73,128**	**63,034**

Note 9 - PROVISIONS

(€ '000s)	Balance as of 31/12/2017	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 31/12/2018
Provisions						
Financing commitment execution risks						
Provisions for other litigations						
Provisions for employee retirement and similar benefits	17	-	-	-	-	17
Provisions for other liabilities to employees						
Other provisions						
TOTAL	**17**	**-**	**-**	**-**	**-**	**17**

Note 10 - CHANGES IN EQUITY

(€ '000s)	Share capital	Legal reserve	Share premiums	Statutory reserve	Translation, revaluation	Translation, revaluation subsidies	Retained earnings	Net income	Total equity
Balance as of 31/12/2016	**111,000**	**-**	**-**	**-**	**-**	**-**	**(20,127)**	**(2,642)**	**88,231**
Change in share capital	21,500								21,500
Change in share premium and reserves									
Allocation of 2016 net profit							(2,642)	2,642	
Net income as of 31/12/2017								146	146
Other changes									
Balance as of 31/12/2017	**132,500**	**-**	**-**	**-**	**-**	**-**	**(22,769)**	**146**	**109,878**
Dividend paid for 2017									
Change in share capital	6,200 (1)								6,200
Change in share premium and reserves									
Allocation of 2017 net profit							146	(146)	
Net income as of 30/06/2018								(1,878)	(1,878)
Other changes									
Balance as of 31/12/2018	**138,700**	**-**	**-**	**-**	**-**	**-**	**(22,622)**	**(1,878)**	**114,199**

(1) The share capital of Agence France Locale which amounts on December 31st, 2018 to € 138,700,000 consists of 1,387,000 shares. The Agence carried out four capital increases in 2018 for the benefit of the Territorial Company, its parent company. The first was subscribed on 14th February, 2018 for € 2,500k, the second on 23th May, 2018 for € 2,200k, the third on 15th October, 2018 for € 1,200k and the fourth on 27th December, 2018 for € 300k.

Note 11 - DERIVATIVES

Outstanding notional and Fair value

(€ '000s)	31/12/2018				31/12/2017			
	Hedging transactions		Others than Hedging transactions		Hedging transactions		Others than Hedging transactions	
	Outstanding notional	Fair value	Outstanding notional	Fair value	Outstanding notional	Fair value	Outstanding notional	Fair value
FIRM TRANSACTIONS	**5,690,024**	**(33,639)**	**1,930,232**	**(448)**	**3,875,642**	**(46,213)**	**1,747,928**	**(556)**
Organised markets	-	-	-	-	-	-	-	-
Interest rate contracts								
Other contracts								
Over-the-counter markets	**5,690,024**	**(33,639)**	**1,930,232**	**(448)**	**3,875,642**	**(46,213)**	**1,747,928**	**(556)**
Interest rate contracts	5,596,441	(27,880)	1,930,232	(448)	3,773,605	(36,275)	1,747,928	(556)
FRA								
Cross Currency Swaps	93,583	(5,759)			102,036	(9,938)		
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Exchange rate options								
Other options								
Over-the-counter markets	-	-	-	-	-	-	-	-
Caps, floors								
Foreign currency option								
Crédit derivatives								
Other options								

Amount of micro-hedge transaction as of 31/12/2018	5,269,412	(€ '000s)
Amount of macro-hedge transaction as of 31/12/2018	420,612	(€ '000s)
Amount of trading transaction as of 31/12/2018	1,930,232	(€ '000s)

Notional amount by maturity

(€ '000s)	31/12/2018					
	Hedging transactions			Others than Hedging transactions		
	Less than 1 year	1 year to 5 years	more than 5 years	Less than 1 year	1 year to 5 years	more than 5 years
FIRM TRANSACTIONS	**213,626**	**1,787,580**	**3,688,819**	**45,608**	**625,654**	**1,258,970**
Organised markets	-	-	-	-	-	-
Interest rate contracts						
Other contracts						
Over-the-counter markets	**213,626**	**1,787,580**	**3,688,819**	**45,608**	**625,654**	**1,258,970**
Interest rate contracts	120,043	1,787,580	3,688,819	45,608	625,654	1,258,970
FRA						
Cross Currency Swaps	93,583					
Other contracts						
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-
Exchange rate options						
Other options						
Over-the-counter markets	-	-	-	-	-	-
Caps, floors						
Foreign currency option						
Crédit derivatives						
Other options						

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

V - Notes to the Income statement

Note 12 - Interest income and expenses

(€ '000s)	31/12/2018	31/12/2017
Interest and similar income	**64,375**	**38,334**
Due from banks		5
Due from customers	19,790	12,584
Bonds and other fixed income securities	1,830	714
from Held-for-sale securities	*1,830*	*714*
from Investment securities		
Income from interest rate instruments	42,755	25,031
Other interest income		
Interest and similar expenses	**(56,547)**	**(31,849)**
Due to banks	(1,953)	(1,966)
Due to customers		
Debt securities	(16,863)	(10,694)
Expense from interest rate instruments	(37,731)	(19,188)
Other interest expenses		
Interest margin	**7,828**	**6,485**

Note 13 - Net fee and commission income

(€ '000s)	31/12/2018	31/12/2017
Commission income	**289**	**73**
Interbank transactions		
Customer transactions	289	73
Securities transactions		
Forward financial instruments transactions		
Currencies transactions		
Financing commitments and guarantee		
Other commissions recieved		
Commission expenses	**(119)**	**(90)**
Interbank transactions	(3)	(2)
Securities transactions		
Forward financial instruments transactions	(117)	(87)
Currencies transactions		
Financing commitments and guarantee		
Other commissions paid		
Net fee and commission income	**169**	**(17)**

Note 14 - Analysis of gains and losses on portfolio transactions

(€ '000s)	31/12/2018	31/12/2017
Gains/(losses) on Trading book		
Gains/(losses) on forward financial instruments	871	443
Gains/(losses) on foreign currency transactions		
Gains or (losses) on trading portfolio	**871**	**443**
Gains/(losses) from disposal of held-for-sale securities	863	4,051
Other income/(expenses) from held-for-sale securities		
Impairment (charges) and reversals on held-for-sale securities	(190)	140
Gains or (losses) on held-for-sale portfolio	**673**	**4,192**

Note 15 - General operating expenses

(€ '000s)	31/12/2018	31/12/2017
Employee expenses		
Wages and salaries	2,970	2,980
Post-employment benefit expenses	320	317
Other expenses	1,268	1,295
Total Employee expenses	**4,558**	**4,592**
Operating expenses		
Taxes and duties	478	87
External services	4,552	4,496
Total Administrative expenses	**5,030**	**4,583**
Charge-backs and reclassification of administrative expenses	(556)	(557)
Total General operating expenses	**9,032**	**8,618**

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

Note 16 - STAFF

	31/12/2017	31/12/2016
Director (corporate officer)	1	1
Managers	24	25.25
Technicians & employees	1	0.25
Apprentices and professional trainng contracts	6.5	7.5
Average staff during the year	**33**	**34**
Staff at year-end	**35**	**33**

Note 17 - REMUNERATIONS

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

Neither members of AFL Board nor Group's Director benefited from a payment in actions in conformance with the exercise 2018 and a compensation was settled because of termination of contract of employment. No other long-term advantage was granted to them.

Their Director's remunerations on the exercise 2018 were the following ones :

(€ '000s)	**31/12/2017**
Fixed remuneration	788
Variable remuneration	62
Payments in kind	8
Total	**858**

Philippe ROGIER left the Group's Director on 5th of December 2018. His remuneration is included into this note until that date.

In addition, members of the AFL Supervisory Board received €140k attendance fees.

Note 18 - EXTERNAL AUDITOR FEES

	Caillau Dedouit et Associés		**KPMG Audit**	
	2018 (€ '000s)	**2017** (€ '000s)	**2018** (€ '000s)	**2017** (€ '000s)
Audit				
Fees related to statutory audit, certification, examination of:				
AFL-Société Opérationelle	59	67	68	75
Sub-total	**59**	**67**	**68**	**75**
Other fees and benefits (*) :				
AFL-Société Opérationelle	37	37	73	46
Sub-total	**37**	**37**	**73**	**46**
TOTAL	**97**	**103**	**141**	**121**

(*) Other fees and benefits are related to issue prospectus audit, capital increases, reliance letter, IFRS 9 First Time Application review and social, environmental and societal data audits.

Note 19 - Income tax charge

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

Tax losses amounting to €24.2m at 2018 year-end closing were not recognised as deferred tax assets.

Note 20 - Related parties

There are, on 31 December 2018, an agreement of administrative services and a licensing for the use of a mark, which have been concluded between the Agence and the Agence France Locale Locale France - Territorial Corporation at normal market conditions.

KPMG AUDIT FS I
Tour EQHO
2 Avenue Gambetta
CS 60055
92066 Paris la Défense Cedex
France

CAILLIAU DEDOUIT ET ASSOCIES
19, rue Clément Marot
75008 Paris
France

Agence France Locale S.A.

Statutory Auditor’s report on the “financial statements”

Year ended or Period from 1 January 2018 to 31 December 2018

Agence France Locale S.A.

Tour Oxygène - 10-12 boulevard Vivier Merle - 69003 Lyon

KPMG AUDIT FS I
Tour EQHO
2 Avenue Gambetta
CS 60055
92066 Paris la Défense Cedex
France

CAILLIAU DEDOUIT ET ASSOCIES
19, rue Clément Marot
75008 Paris
France

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

Agence France Locale S.A.

Registered office: Tour Oxygène - 10-12 boulevard Vivier Merle - 69003 Lyon
Share capital: €.138,700,000

Statutory Auditor’s report on the “financial statements”

Year ended or Period from 1 January 2018 to 31 December 2018

Ladies and Gentlemen,

In our capacity as Statutory Auditors of Agence France Locale S.A. and in compliance with your request within the framework of financial information communication to investors, we have audited the accompanying “financial statements”, of Agence France Locale S.A. for the year ended 31 December 2018, presented in compliance with the IFRS (International Financial Reporting Standards) published by and as approved by the European Union and in force on that date.

Management Board is responsible for the preparation and fair presentation of these “financial statements”. Our responsibility is to express an opinion on these “financial statements” based on our audit.

We conducted our audit in accordance with professional standards applicable in France and the professional doctrine of the French national auditing body (Compagnie nationale des commissaires aux comptes) related to this engagement; these standards require that we plan and perform the audit to obtain reasonable assurance whether the “financial statements” are free from material misstatement. An audit involves performing procedures, on a test basis or by other means of selection, to obtain audit evidence about the amounts and disclosures in the “financial statements”. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall presentation of the “financial statements”. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the “financial statements” present fairly, in all material respects, the financial position and assets and liabilities of Agence France Locale S.A. as of 31 December 2018, and of the results of its operations for the year then ended in accordance with the International Financial Reporting Standards as adopted in the European Union.

We draw attention to the change in accounting method following the application as of 1 January 2018 of the new IFRS 9 standard "Financial Instruments" described in Paragraph III "First Application IFRS 9 " of the Notes to the consolidated financial statements, and in the other Notes to the consolidated financial statements presenting figures related to the consequences of this change. Our opinion is not modified in respect of this matter.

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

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

Paris La Défense, on the 3 April 2019

Paris, on the 3 April 2019

French original signed by

KPMG Audit FS I

Ulrich Sarfati
Partner

Cailliau Dedouit et Associés

Laurent Brun
Partner

AGENCE FRANCE LOCALE IFRS GAAP

BALANCE SHEET

Assets as of December 31, 2018

(€ '000s)	Notes	31/12/2018	01/01/2018	31/12/2017
Cash, central banks	5	121,650	420,340	420,351
Financial assets at fair value through profit or loss	1	26,299	13,711	13,711
Hedging derivative instruments	2	44,661	15,629	15,629
Financial assets at fair value through other comprehensive income	3	502,487	309,687	
Available-for-sale financial assets				358,964
Securities at amortized cost	4	175,152	49,273	
Loans and receivables due from credit institutions and similar items at amortize	5	109,942	279,534	211,233
Loans and receivables due from customers at amortized cost	6	2,229,911	1,430,802	1,430,829
Revaluation adjustment on interest rate risk-hedged portfolios		1,873		
Held-to-maturity financial assets				
Current tax assets			0	
Deferred tax assets	7	5,671	5,334	5,310
Accruals and other assets	8	380	369	68,678
Intangible assets	9	3,263	4,689	4,689
Property, plant and equipment	9	437	469	469
Goodwill				
TOTAL ASSETS		**3,221,726**	**2,529,836**	**2,529,864**

Liabilities as of December 31, 2018

(€ '000s)	Notes	31/12/2018	01/01/2018	31/12/2017
Central banks		755	368	368
Financial liabilities at fair value through profit or loss	1	26,747	14,267	14,267
Hedging derivative instruments	2	78,300	61,841	61,841
Due to credit institutions	10	2,996,909	2,335,802	2,335,802
Due to banks		9		
Debt securities				
Revaluation adjustment on interest rate hedged portfolios			963	963
Current tax liabilities				
Deferred tax liabilities	7		219	205
Accruals and other liabilities	11	1,675	1,543	1,543
Provisions	12	23	21	19
Equity		**117,309**	**114,811**	**114,856**
Equity, Group share		**117,309**	**114,811**	**114,856**
Share capital and reserves		138,700	132,500	132,500
Consolidated reserves		(18,269)	(17,842)	(17,628)
Reevaluation reserve				
Gains and losses recognised directly in equity		(1,411)	580	411
Profit (loss) for the period		(1,712)	(427)	(427)
Non-controlling interests				
TOTAL LIABILITIES		**3,221,726**	**2,529,836**	**2,529,864**

Income statement

(€ '000s)	Notes	31/12/2018	31/12/2017
Interest and similar income	13	64,339	38,296
Interest and similar expenses	13	(56,534)	(31,789)
Fee & Commission Income	14	289	73
Fee & Commission Expense	14	(119)	(90)
Net gains (losses) on financial instruments at fair value through profit or loss	15	868	141
Net gains or losses on financial instruments at fair value through other comprehensive income	16	863	4,051
Income on other activities			
Expenses on other activities			
NET BANKING INCOME		**9,705**	**10,682**
Operating expenses	17	(9,033)	(8,619)
Net depreciation, amortisation and impairments of tangible and intangible assets	9	(1,984)	(1,913)
GROSS OPERATING INCOME		**(1,311)**	**149**
Cost of risk	18	(191)	
OPERATING INCOME		**(1,502)**	**149**
Net gains and losses on other assets			
INCOME BEFORE TAX		**(1,502)**	**149**
Income tax	7	(210)	(576)
NET INCOME		**(1,712)**	**(427)**
Non-controlling interests			
NET INCOME GROUP SHARE		**(1,712)**	**(427)**
Basic earnings per share (in EUR)		(1.23)	(0.32)
Diluted earnings per share (in EUR)		(1.23)	(0.32)

Net income and other comprehensive income

(€ '000s)	31/12/2018	31/12/2017
Net income	**(1,712)**	**(427)**
Items will be reclassified subsequently to profit or loss	**(1,991)**	**254**
Revaluation of financial assets at fair value through other comprehensive income recyclable to income	(2,756)	398
Other items recognized through other comprehensive income recyclable to income		
Related taxes	765	(144)
Elements not recyclable in profit or loss	**-**	**-**
Revaluation in respect of defined benefit plans		
Other items recognized through other comprehensive income not recyclable to income		
Related taxes		
Total gains and losses recognized directly in equity	**(1,991)**	**254**
COMPREHENSIVE INCOME	**(3,703)**	**(173)**

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	Net income, Group share	Share-holders' equity - Group share	Share-holders'equity, non-controlling interests	Total share-holders equity
Shareholders' equity at at 1 january 2017	**111,000**	**-**	**(14,263)**	**157**	**-**	**-**	**-**	**(3,365)**	**93,529**	**0**	**93,529**
Increase in share capital	21,500								21,500		21,500
Elimination of treasury shares											
Allocation of profit 2016			(3,365)					3,365			
Dividends 2016 paid											
Sub-total of changes linked to transactions with shareholders	**21,500**	**-**	**(3,365)**	**-**	**-**	**-**	**-**	**3,365**	**21,500**	**-**	**21,500**
Change in fair value through equity				684					684		684
Change in value of through profit or loss				(285)					(285)		(285)
Changes in actuarial gains on retirement benefits											
Related taxes				(144)					(144)		(144)
Changes in gains and losses recognized directly in equity	**-**	**-**	**-**	**254**	**-**	**-**	**-**	**-**	**254**	**-**	**254**
2017 Net income								(427)	(427)		(427)
Sub-total	**-**	**-**	**-**	**254**	**-**	**-**	**-**	**(427)**	**(173)**	**-**	**(173)**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 31 december 2017	**132,500**	**-**	**(17,628)**	**411**	**-**	**-**	**-**	**(427)**	**114,856**	**-**	**114,856**
Impact of changes in IFRS 9 accounting policies			(214)	169					(45)		(45)
Shareholders' equity at 1 january 2018	**132,500**	**-**	**(17,842)**	**580**	**-**	**-**	**-**	**(427)**	**114,811**	**-**	**114,811**
Increase in share capital	6,200 (1)								6,200		6,200
Elimination of treasury shares											
Allocation of profit 2017			(427)					427			
Dividends 2017 paid											
Sub-total of changes linked to transactions with shareholders	**6,200**	**-**	**(427)**	**-**	**-**	**-**	**-**	**427**	**6,200**	**-**	**6,200**
Changes in fair value through equity				(2,404)					(2,404)		(2,404)
Change in value of through profit or loss				(352)					(352)		(352)
Changes in actuarial gains on retirement benefits											
Related taxes				765					765		765
Changes in gains and losses recognized directly in equity	**-**	**-**	**-**	**(1,991)**	**-**	**-**	**-**	**-**	**(1,991)**	**-**	**(1,991)**
2018 Net income								(1,712)	(1,712)		(1,712)
Sub-total	**-**	**-**	**-**	**(1,991)**	**-**	**-**	**-**	**(1,712)**	**(3,703)**	**-**	**(3,703)**
Effect of acquisitions and disposals on non-controlling interests											
Shareholders' equity at 31 December 2018	**138,700**	**-**	**(18,269)**	**(1,411)**	**-**	**-**	**-**	**(1,712)**	**117,309**	**-**	**117,309**

(1) The share capital of Agence France Locale - which amounts on 31 of December, 2018 to € 138,700,000 consists of 1,387,000 shares. The Company carried out four capital increases during the year 2018 for the benefit of the Territorial Company, its parent company, They were subscribed on 14th February 2018 to € 2,500k, on 23th May 2018 for € 2,200k, on 15th October 2018 for 1,200k€ and 27th December 2018 for 300k€.

Cash flow statement

(€ '000s)	31/12/2018	31/12/2017
Net income before taxes	**(1,502)**	**149**
+/- Net depreciation and amortisation of tangible and intangible non-current assets	1,984	1,913
+/- Net provisions and impairment charges		(488)
+/- Expense/income from investing activities	(2,392)	(5,339)
+/- Expense/income from financing activities	469	396
+/- Other non-cash items	1,499	3,318
= Non-monetary items included in net income before tax and other adjustments	**1,559**	**(199)**
+/- Cash from interbank operations		
+/- Cash from customer operations	(783,180)	(545,512)
+/- Cash from financing assets and liabilities	23,742	(22,621)
+/- Cash from not financing assets and liabilities	180	(44)
- Income tax paid		
= Decrease/(increase) in cash from operating activities	(759,258)	(568,177)
= CASH FLOW FROM OPERATING ACTIVITIES (A)	**(759,201)**	**(568,227)**
+/- Flows linked to financial assets and investments	(312,442)	(52,195)
+/- Flows linked to investment properties		
+/- Flows linked to tangible and intangible non-current assets	(525)	(518)
= CASH FLOW FROM INVESTING ACTIVITIES (B)	**(312,968)**	**(52,713)**
+/- Cash from or for shareholders	6,200	21,500
+/- Other cash from financing activities	613,141	1,099,684
= CASH FLOW FROM FINANCING ACTIVITIES (C)	**619,341**	**1,121,184**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)		
Increase/(decrease) in cash equivalents (A + B+ C + D)	**(452,828)**	**500,244**
Cash flow from operating activities (A)	(759,201)	(568,227)
Cash flow from investing activities (B)	(312,968)	(52,713)
Cash flow from financing activities (C)	619,341	1,121,184
Effect of changes in exchange rates on cash and cash equivalents (D)		
Cash and cash equivalents at the beginning of the period	**581,585**	**81,341**
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	581,585	81,341
Cash and cash equivalents at the end of the period	**128,757**	**581,585**
Cash and balances with central banks (assets & liabilities)		
Interbank accounts (assets & liabilities) and loans/deposits at sight	128,757	581,585
CHANGE IN NET CASH	**(452,828)**	**500,244**

NOTES TO THE YEAR END FINANCIAL STATEMENTS ACCORDING TO IFRS STANDARDS

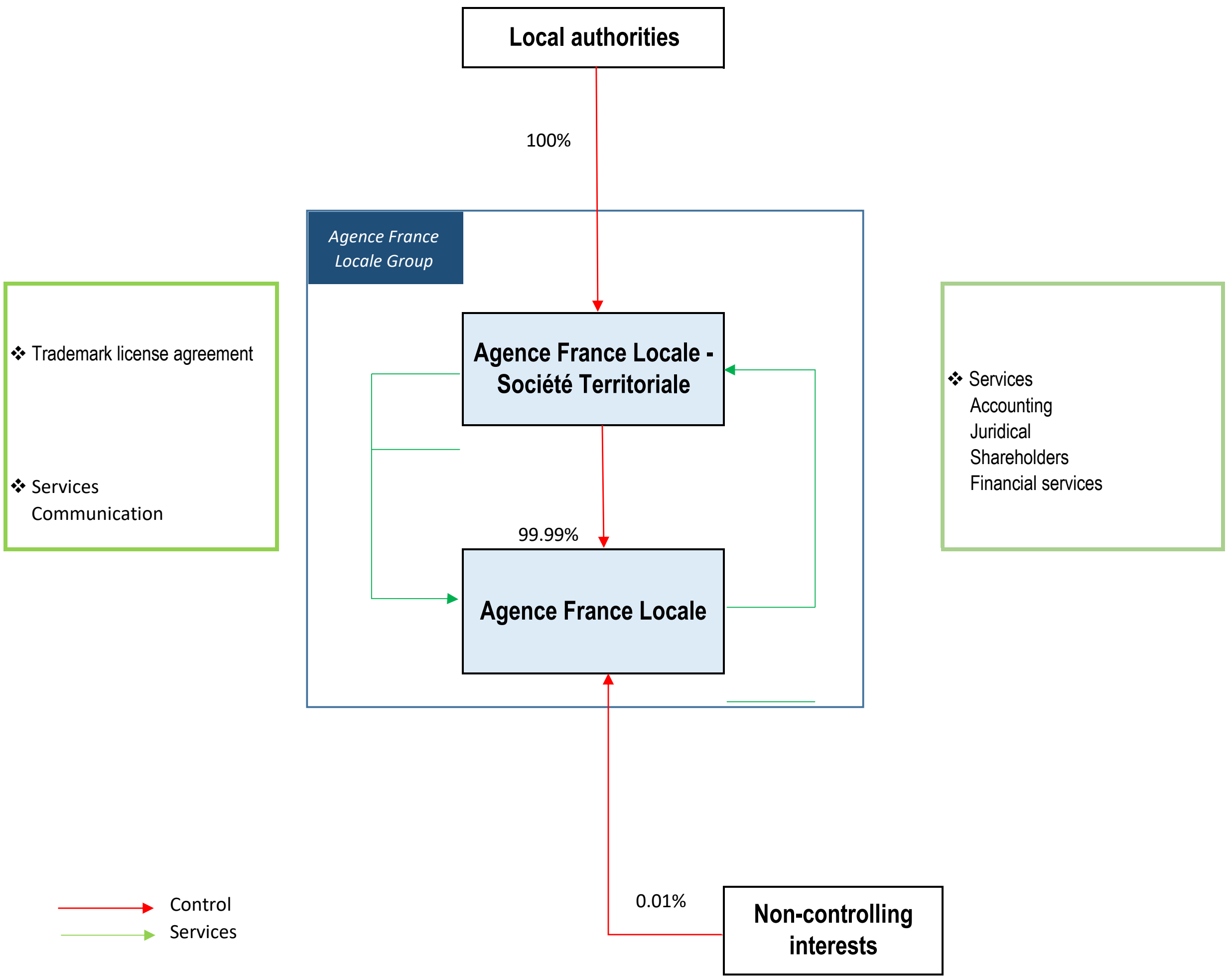
General framework

AFL (« Agence ») presentation

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

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

The diagram below shows the structure of the AFL group:



I - Publication context

The financial statements were approved by the Board of Directors as of March 13, 2019.

II - Highlights from 2018 financial year

After a first half-year once again characterized by very limited demand, the production of loans was more dynamic over the rest of the financial year, leading to a production of medium- and long-term loans of €831 million and new overdraft facilities of €85 million. AFL's new medium- and long-term loan production represents an estimated market share of almost 25% of the AFL Group members' financing needs in 2018.

Lastly, in accordance with its business plan, AFL repurchased loans from loan agreements taken out by AFL Group member local authorities with different financial institutions for a total of €157 million.

On 2018, the AFL issued 3 bond issues on the capital markets, with longer maturities than those previously issued. At the beginning of the year, two 10- and 15-year issues were issued with the shape of private placement for 25 and 100 million euros and a margin of 25 basis points against the yield curve of French government bonds (OATs). On June 12, a 10-year, 500-million benchmark public issue was made at a margin of 30 basis points over the OAT curve. The good reception of these issues by investors once again demonstrates the quality of the AFL's reputation on the markets.

During 2018, AFL's capital raised by €6.2 million to €138.7 million following four capital increases exclusively subscribed by its parent company, Société Territoriale. Following these transactions, the total number of shareholders of Agence France Locale Group has been increased to 292.

2018 saw a new significant increase in results in the loan activity, which follows the Company's development trajectory, in line with its 2017-2021 strategic plan. This increase in results shows the momentum of revenue generation from the loan activity since the 2015 financial year, the start of AFL's activities, measured notably by the increase in the outstanding amount in its loan portfolio granted to member local authorities.

At the end of the 2018 financial year, the net banking income generated by the business amounted to €9,705k as compared to €10,682k at 31 December 2018. It mainly corresponds to an interest margin of €7,805k, up 20% compared to €6,507k recorded over the previous year, a net capital gains on investment securities disposal of €1,636k, €169k of commission income and a result of negative hedge revaluations of €-4k.

The interest margin of €7,805k originated from three items:
- firstly, income associated with the loan portfolio for €7,644k once restated for their hedges, up 22% compared to the income of €6,301k at December 31, 2017;
- secondly, income related to the management of the liquidity reserve, a loss of €3,380k compared to a loss of €2,741k at December 31, 2017, due to interest rates deeply anchored in negative territory; and
- lastly, the interest expense from debt, which, for the reasons mentioned above, represents a source of income amounting to €3,518k once the income from hedging it is taken into account, compared to €2,953k at December 31, 2017.

The €863k capital gains on securities disposals came from the portfolio management of the liquidity reserve over the period. These securities disposals resulted in the termination of interest rate hedges for €773k, generating net capital gains of €1,636k for the period.

Net income from hedge accounting came to €-4k. It comes from two items. Among these differences, €-269k relate to valuation differential charges on instruments classified as macro-hedges and €265k of products relate to valuations of instruments classified as micro-hedges. This hedge accounting result comes from an accounting practice that leads to an asymmetry in the valuation, on the one hand, of hedging instruments collateralised daily, discounted on the basis of an Eonia curve, and, on the other, of hedged items, discounted on the basis of a Euribor curve, which, pursuant to IFRS standards, leads to the recognition of a hedging ineffectiveness that is recorded in the income statement. However, it should be noted that this corresponds to latent income.

As at 31 December 2018, general operating expenses came to €9,033k as compared to €8,619k as at Decemnber 31, 2017. They include €4,588k of personnel expenses, down from €4,592k for 2017. Administrative expenses amounting to €4,475k remain comparable to €4,027k as of the previous financial year, after restating on 2017 the effect of a €488k reversal of provisions for risks and charges.

After depreciation, amortization and provisions, amounting to €1,984k compared with €1,913k as at December 31, 2017, up 3.7% corresponding to AFL's continued investment expenses in the infrastructure of its information system

The financial year ended December 31, 2018 saw a negative gross operating loss of €-1,311k, down from 2017.

The first application of IFRS 9 and its new credit losses impairment model led to the recognition of €191k of impairment losses for the year, wich comes exclusively from the increase in the securities portfolio, without any credit risk being incurred on the period.

The tax losses recorded over the period did not give rise to any recognition of deferred tax assets.

After a deferred tax expense of €210k, the 2018 year ended with a net result of €-1,712k compared to €-427k in the previous financial year. 2017 was marked by exceptional income from capital gains of €4,494k on securities disposal, which contributed to the positive result of the AFL, while they are €1,636k in 2018.

Subsequent events

No significant subsequent events occurred on the beginning of the first half 2019 after the accounts closure date has to be reported.

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

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

The preparation of the financial statements involves making assumptions and estimates that may or may not prove accurate in the future. These estimates, which are based on the information available as at 31 December 2018, call upon the judgement of managers and the parties involved in preparing the financial statements, particularly where assessing the fair value of financial instruments is concerned.

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

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

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

Application of IFRS basis

In accordance with IFRS 1 "First-time Adoption of IFRS" and pursuant to European Regulation 1606/2002 of July 19, 2002, the financial statements for 2018 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).

IFRS 15 - Revenue from contracts with customers

IFRS 15 - Revenue from contracts with customers replaces the current standards and interpretations relating to the recognition of profits. It is retrospectively applicable as of 1 January 2018, subject to its adoption by the European Union.

According to IFRS 15, the recognition of income from ordinary activities must reflect the transfer of goods and services promised to customers for an amount corresponding to the compensation that the entity expects to receive for the said goods and services. This new standard is not expected to have a significant impact on the accounts.

The activity of the AFL, focused on credit to local authorities is not involved by the first application of IFRS 15 as of January 1, 2018. This new standard is not expected to have a significant impact on the accounts.

First-time application of IFRS 9

IFRS 9 - Financial Instruments was endorsed on November 22, 2016 by the European Union. This standard is applicable retrospectively from 1 January 2018.

IFRS 9 replaces IAS 39 and defines the new rules for the classification and measurement of financial assets and liabilities, the new methodology for impairment for credit risk of financial assets and the treatment of hedging transactions, except Macro-hedging transactions for which a separate draft is under study by the IASB.

AFL has chosen the option offered by IFRS 9 to apply the new standard relating to fair value hedge accounting and to continue to apply IAS 39 "Carve-out", such as adopted by the European Union for macro-hedging.

The impacts of the first application of IFRS 9 on the balance sheet as at January 1, 2018 are as follows:

Classification and measurement

Loans and receivables from customers and credit institutions that were financial assets measured at amortized cost under IAS 39 continue to qualify for an amortized cost valuation in accordance with IFRS 9. Detailed analyzes conducted for all loans have shown that the cash flows associated with these assets consist solely of payments related to principal and its interest (SPPI test - according to the provisions of IFRS 9).
The early repayment of loans clause applied to customer loans continue to be consistent with the basic nature of the contractual cash flows since the amount of the prepayment is essentially the principal amount outstanding and the interest thereon as well. that, where applicable, a reasonable compensatory allowance. From this point of view, the loans meet the criteria for amortized cost accounting.

First application of IFRS 9 did not lead to any reclassification among all loans and receivables at amortized cost other than that required by the new ANC 2017-02 recommendation, where guarantee deposits paid that were recorded in accruals and other assets at December 31, 2017 (€68.3 million) were reclassified as at January 1, 2018 as loans and receivables to credit institutions.

Debt securities belonging to the liquidity reserve are managed within the AFL under two different management models: a cash flow collect model and a cash flow collect and sales model. These two types of management were previously without repercussion in the financial statements since the entire portfolio, which is hedged against interest rate risk, was classified under IAS 39 in the Financial assets available for sale category. As of January 1, 2018, the Group reclassified € 49.3m of debt securities in the Available-for-sale financial assets category to the IFRS 9 Securities at amortized cost category. This portfolio is valued at amortized cost based on the effective interest rate and its accrued or earned income is recorded in profit or loss under Interest and similar income. Changes in the fair value of these securities are no longer recorded in OCI.

The first application of IFRS 9 on this portfolio of securities at amortized cost had an impact of €27k € on OCI due to the reversal of the unrealized gains related to these securities as of December 31, 2017.

For the other debt instruments of the liquidity reserve that were recorded in Available-for-sale financial assets and are now recognized in Financial assets at fair value through other comprehensive income (€309.7m in balance sheet), the accounting principles remain unchanged from IAS 39 with a recycling of unrealized capital gains or losses from equity to the profit and loss account in the event of a sale.

Given its conservative financial policy, the AFL did not include in its portfolio any securities whose contractual terms did not meet the definition of a basic financial asset (SPPI) within the defenition of IFRS 9.

The recognition of financial liabilities remains unchanged under IFRS 9 and has no impact on the accounts of Agence France Locale.
Financial assets measured at fair value through profit or loss under IAS 39 (derivatives) continue to be measured at fair value through profit or loss in accordance with IFRS 9.

Impairment

IFRS 9 modifies the credit risk impairment model from a provisioning of inccured losses to an expected credit loss impairment (ECL). This new approach aims to anticipate as soon as possible the recognition of expected credit losses without waiting for an objective event of inccured loss.

Under IAS 39, impairments on initial recognition were expressly prohibited. An asset or group of assets could be impaired only if:
· there was objective evidence of impairment resulting from one or more events having occurred since the initial recognition of the asset (i.e. loss events); and
· these loss events had an impact on the estimated cash flows of the financial asset.

IFRS 9 now requires that entities recognize impairments at an earlier stage than under IAS 39, i.e., from the date of initial recognition of the financial instrument. Accordingly, application of the new IFRS 9 provisioning model leads for the first time AFL to record impairment on loans carried at amortized cost or securities at fair value through OCI recyclable to income and on loan or guarantee commitments given.

The impact of first-time application of IFRS 9 on opening equity related to the implementation of the new impairment model is €-96k before tax (€-69k after tax).
This impact of credit risk impairment on opening equity concerns loans to local authorities, loans and receivables from credit institutions and financing commitments given on the basis of a calculation of one year expected losses.

The impairment of expected credit losses on the liquidity reserve had no impact on the opening equity balance. Ex-ante depreciations on financial assets at fair value through equity do not change the net amount of the assets on the balance sheet; The impairment recorded in the opening balance sheet amounting to €-190k only result in an internal transfer to shareholders 'equity, on the one hand, the gains and losses recognized directly in other comprehensive income and the retained earnings, the other.

Hedge accounting

The AFL adopts IFRS 9 for fair value hedge accounting and remains under IAS 39 "Carve-out", as adopted by the European Union for the accounting of macro-hedges.

To qualify for fair value hedge accounting in accordance with IAS 39, hedging was to be highly effective prospectively and retrospectively.

IAS 39 defined a hedge as highly effective if the offsetting between changes in the fair value or cash flows of the hedging instrument and the hedged item was between 80% and 125%. The AFL performed efficiency tests to demonstrate that the compensation remained within this range. This definition of effectiveness remains the same under IFRS 9: it is the measurment of changes in the fair value or cash flows of the hedging instrument offset changes in the fair value or cash flows of the hedging instrument. However, IFRS 9 removed the quantitative thresholds in favor of a more qualitative approach where there is an economic relationship between the hedging instrument and the hedged item. The hedged item varies inversely with each other as a consequence of the same risk, which is the risk hedged.

IFRS 9 provides that in fair value hedges, if the critical conditions (such as nominal amount, maturity and underlying) of the hedging instrument and the hedged item are in perfect or close agreement , the entity could rely on a qualitative assessment of these essential conditions to conclude that the value of the hedging instrument and that of the hedged item generally vary in opposite directions under the same risk and that, as a result, there is an economic relation between the hedged item and the hedging instrument.

All fair value hedge derivatives contracted by the AFL are replication swaps in which the characteristics of the contracts such as nominal amount, maturity, currency and also the rate of the fixed leg of the swaps are strictly identical to those of underlyings hedged. Thus, the possibilities offered by IFRS 9 in terms of hedge accounting do not call into question the treatment that has been done so far within the AFL. For replication swaps, IFRS 9 allows to do not quantitative prospectively test .

New accounting standards and interpretations:

AFL has not applied early the following standards and interpretations that could concern the Group and of which application was not mandatory at 1 January 2018:

IFRS 16 - Leases

IFRS 16 has been published on November 9, 2017. It replaces IAS 17 - Leases. In view of the new requirements, lessees will have to recognise the assets and liabilities stemming from finance leases and operating leases in their balance sheets. The date of application is 1 January 2019. The assessment of potential impacts on the Group's financial statements is still ongoing. This new standard is not expected to have a significant impact on the financial statements.

Table of effects related to IFRS 9 first application

(€ '000s) IAS 39	IAS 39 Balance sheet as of 31 December 2017	Reclassifications	Total after Reclassifications	Impact of changes in IFRS 9 accounting policies: Valuation	Impact of changes in IFRS 9 accounting policies: Value adjustment for credit losses	IFRS 9 Balance sheet as of 1st January 2018	(€ '000s) IFRS 9
Cash, central banks	420,351		420,351		(12)	420,340	Cash, central banks
Financial assets at fair value through profit or loss	13,711		13,711			13,711	Financial assets at fair value through profit or loss
Hedging derivative instruments	15,629		15,629			15,629	Hedging derivative instruments
		309,687	309,687			309,687	Financial assets at fair value through other comprehensive income
Available-for-sale financial assets	358,964	(358,964)	-			-	
		49,278	49,278	40	(45)	49,273	Securities at amortized cost
Loans and receivables due from credit institutions	211,233	68,310	279,543		(9)	279,534	Loans and receivables due from credit institutions
Loans and advances to customers	1,430,829		1,430,829		(27)	1,430,802	Loans and advances to customers
Revaluation adjustment on interest rate hedged portfolios	-		-			-	Revaluation adjustment on interest rate hedged portfolios
Held-to-maturity financial assets	-		-			-	
Current tax assets	0		0			0	Current tax assets
Deferred tax assets	5,310		5,310		24	5,334	Deferred tax assets
Accruals and other assets	68,678	(68,310)	369			369	Accruals and other assets
Intangible assets	4,689		4,689			4,689	Intangible assets
Property, plant and equipment	469		469			469	Property, plant and equipment
Goodwill						-	Goodwill
TOTAL ASSETS	**2,529,864**	**-**	**2,529,864**	**40**	**(69)**	**2,529,836**	**TOTAL ASSETS**

(€ '000s) IAS 39	IAS 39 Balance sheet as of 31 December 2017	Reclassifications	Total after Reclassifications	Impact of changes in IFRS 9 accounting policies: Valuation	Impact of changes in IFRS 9 accounting policies: Value adjustment for credit losses	IFRS 9 Balance sheet as of 1st January 2018	(€ '000s) IFRS 9
Central banks	368		368			368	Central banks
Financial liabilities at fair value through profit or loss	14,267		14,267			14,267	Financial liabilities at fair value through profit or loss
Hedging derivative instruments	61,841		61,841			61,841	Hedging derivative instruments
Due to credit institutions	2,335,802		2,335,802			2,335,802	Due to credit institutions
Due to customers	-		-			-	Due to customers
Debt securities	-		-			-	Debt securities
Revaluation adjustment on interest rate hedged portfolios	963		963			963	Revaluation adjustment on interest rate hedged portfolios
Current tax liabilities	-		-			-	Current tax liabilities
Deferred tax liabilities	205		205	13		219	Deferred tax liabilities
Accruals and other liabilities	1,543		1,543			1,543	Accruals and other liabilities
Provisions	19		19		3 [(1)]	21	Provisions
Equity	**114,856**		**114,856**	**27**	**(72)**	**114,811**	**Equity**
Equity, Group share	**114,856**		**114,856**	**27**	**(72)**	**114,811**	**Equity, Group share**
Share capital and reserves	132,500		132,500			132,500	Share capital and reserves
Consolidated reserves	(17,628)		(17,628)		(214)	(17,842)	Consolidated reserves
Reevaluation reserve	-		-			-	Reevaluation reserve
Gains and losses recognised directly in equity	411		411	27	143	580	Gains and losses recognised directly in equity
Profit (loss) for the period	(427)		(427)			(427)	Profit (loss) for the period
Non-controlling interests	-		-			-	**Non-controlling interests**
TOTAL LIABILITIES	**2,529,864**	**-**	**2,529,864**	**40**	**(69)**	**2,529,836**	**TOTAL LIABILITIES**

(1) The provisions recognized in the opening balance sheet are the result of the provisioning on the basis of a calculation of 12-month expected losses on the financing commitments granted.

The documentation of IFRS 9 business models in the second half of 2018 led the AFL Group to reconsider the classification of its securities portfolio, which it had adopted on 1 January 2018 as described in its accounts as at 30 June 2018. Related to these published financial statements, the Group has since reclassified as at 1 January 2018 € 49.3m of debt securities of the category Financial assets available for sale to the Securities at amortized cost IFRS 9 category. The impact of this reclassification on equity, as at June 30, 2018, is shown in the "Valuation" column of the table above.

Details of the accounting impact of the first application of IFRS 9 on the Group's shareholders' equity

	Consolidated reserves	Gains and losses recognized directly in comprehensive income	Net income
Effects of first time application of IFRS 9	**-214**	**169**	
Effects of reclassifications Securities at amortized cost		40	
Provision FTA	-238	143	
Financial assets at fair value through other comprehensive income	*-143*	*143*	
Securities at amortized cost	*-45*		
Other financial assets at amortized cost	*-48*		
Financing and guarantee commitments	*-3*		
Related taxes	24	-13	
Effects of reclassifications Securities at amortized cost		*-13*	
Depreciation FTA			
Securities at amortized cost	*11*		
Other financial assets at amortized cost	*12*		
Financing and guarantee commitments	*1*		
IFRS 9 2018 depreciation		86	-165
Financial assets at fair value through other comprehensive income		*86*	*-86*
Financial assets at amortized cost			*-104*
Financing and guarantee commitments			*-2*
Related taxes			*26*
First half-year 2018 IFRS 9 depreciation		224	-231
Financial assets at fair value through other comprehensive income		*224*	*-224*
Securities at amortized cost			*-9*
Financing and guarantee commitments			*-1*
Related taxes			*2*
Second half-year 2018 IFRS 9 depreciation		-138	66
Financial assets at fair value through other comprehensive income		*-138*	*138*
Securities at amortized cost			*-94*
Financing and guarantee commitments			*-1*
Related taxes			*24*

Accounting principles applied to the financial statements

Classification and measurement

On initial recognition, financial assets are classified at amortized cost, at fair value through other comprehensive income, or at fair value through profit of loss, according to the type of instrument (debt or equity), the characteristics of their contractual cash flows and how the entity manages its financial instruments (its business model).

Business model

The entity's business model represents the way in which it manages its financial assets to produce cash flow. Judgment must be exercised to assess the business model.

The choice of business model must take into account all information regarding the manner in which cash flows were generated in the past, along with all other relevant information.

For example:

- the way in which the performance of financial assets is assessed and presented to the main company directors;
- risks which have an impact on the business model's performance, in particular the way in which these risks are managed;
- the way in which directors are paid (for example, if pay is based on the fair value of assets under management or on the contractual cash flows received);
- the frequency of, volume of and reason for sales.

The IFRS 9 standard uses three business models:

- a business model whose objective is to hold financial assets in order to receive contractual cash flows ("hold to collect model"). This model, under which the concept of "holding" is relatively similar to holding to maturity, remains valid if disposals occur under the following conditions:

o the disposals are due to an increase in credit risk;

o the disposals occur just before maturity and at a price that reflects the contractual cash flows that are still owed;

o other disposals may also be compatible with the "hold to collect" model's objectives if they are in frequent(even if their value is significant) or if their value is insignificant when considered both individually and overall (even if they are frequent).

AFL applies "collect" business model for its local authorities lending activities.

- a mixed management model in which assets are managed with the objective of both collecting the contractual cash flows and selling the financial assets ("collect and sales model").

L'AFL AFL applies the "collect and sale" model to its portfolio management activities in the liquidity reserve.

- a model specific to other financial assets, particularly trading assets, in which the collection of contractual flows is incidental and whose main objective is to sell the assets.

AFL does not apply this business model and does not have a trading portfolio.

Types of contractual cash flows: the SPPI (Solely Payments of Principal and Interest) test

A financial asset is classified as generating solely payments of principal and interest if, on specific dates, it gives rise to cash flows that are solely payments of principal and interest on the outstanding amount due. The SPPI test should be performed for each financial asset on initial recognition.

The principal amount is defined as the financial asset's fair value at its acquisition date. Interest is the consideration for the time value of money and the credit risk incurred on the principal amount, as well as other risks such as liquidity risk, administrative costs and the profit margin.

The instrument's contractual terms must be taken into account to assess whether contractual cash flows are solely payments of principal and interest. All elements that may cast doubts as to whether only the time value of money and credit risk are represented must therefore be analyzed.

For example:

Any contractual option that creates risk exposure or cash-flow volatility that is not consistent with a basic lending arrangement, such as exposure to fluctuations in the price of stocks or of a market index, or the introduction of leverage, would make it impossible to categorize contractual cash flows as SPPI.

- the applicable interest rate features (for example, consistency between the rate refixing period and the interest calculation period);

If a clear determination cannot be made through qualitative analysis, a quantitative analysis (a benchmark test) is carried out. This test involves comparing the contractual cash flows for the asset in question with the contractual cash flows of a benchmark asset.

- early redemption and extension conditions;

For the borrower or lender, a contractual option permitting prepayment of financial instruments does not violate the SPPI test for contractual cash flows if the prepayment amount mainly represents the unpaid amounts of principal and interest and, if applicable, a reasonable additional compensation for the early termination of the contract.

Basic financial assets (those that generate SPPI) are debt instruments such as fixed-rate loans, variable-rate loans without an interest rate tenor mismatch or that are not linked to a security or to a market index, and fixed-rate or variable-rate debt securities.

Non-SPPI financial assets include, for example, convertible bonds or mandatory convertible bonds with a fixed conversion ratio.

Accounting categories

Debt instruments (loans, receivables or debt securities) may be valued at amortized cost, at fair value through other comprehensive income recyclable to income or at fair value through profit and loss.

A debt instrument is valued at amortized cost if it meets the following two conditions:

- the asset is held under a business model where the objective is to collect contractual cash flows; and
- the contractual terms of the financial asset define it as basic (SPPI) within the meaning of the standard.

A debt instrument is valued at fair value through other comprehensive income if it meets the following two conditions:

- the asset is held under a business model where the objective is both to collect contractual cash flows and to sell financial assets; and
- the contractual terms of the financial asset define it as basic (SPPI) within the meaning of the standard.

All other financial assets are recorded at fair value through profit or loss. These financial assets include financial assets held for trading purposes, financial assets at fair value through profit or loss and non-basic (non-SPPI) assets.

Recognition at fair value through profit or loss as an option for financial assets only applies in the case of the elimination or significant reduction of an accounting mismatch. This option enables the elimination of accounting mismatches stemming from the application of different valuation rules to instruments managed in accordance with a single strategy.

Embedded derivatives are no longer recognized separately to their host contract when these are financial assets, such that the entire hybrid instrument must now be recognized at fair value through profit or loss.

Debts, which are not classified as financial liabilities at fair value, are initially recorded at cost, which is the fair value of the amounts borrowed net of transaction costs. At the closing date, they are measured at amortized cost using the effective interest rate method and recorded in the balance sheet under "Debts due to credit institutions" or "Debt securities".

Financial assets at amortized cost

Financial assets at amortized cost include loans and receivables due from credit institutions and customers.

Loans and receivables from credit institutions are broken down according to their initial maturity or their nature: demand debts (demand deposits, ordinary accounts) or term deposits (term accounts).

They are recognized, after their initial recognition, at amortized cost using the effective interest rate method and may be subject to an impairment, if any.

The effective interest rate is the rate that exactly discounts estimated future cash flows (payments or receipts) to the carrying amount of the loan at inception. This rate includes any discounts recorded in respect of loans granted at below-market rates, as well as any external transaction income or costs directly related to the issue of the loans, which are treated as an adjustment to the effective yield on the loan.

When loans are extended under conditions that are less favorable than market conditions, a discount corresponding to the difference between the nominal value of the loan and the sum of future cash flows discounted at the market interest rate is deducted from the nominal value of the loan. The market interest rate is the rate applied by the vast majority of local financial institutions at a given time for instruments and counterparties with similar characteristics.This premium is spread over the life of the loans through the calculation of a new effective interest rate.

Financial assets at fair value through profit or loss

This asset category includes:

• financial assets held for trading, i.e. securities acquired or issued principally for the purpose of selling them in the near term;

• financial assets that the Group has chosen to recognize at fair value through profit or loss at inception using the fair value option available under IFRS 9.

The Agence does not hold financial assets at fair value through profit or loss as such.

They are investment portfolio fair value hedging derivatives in a fixed-rate borrower position, which hedged items has been sold, which have been neutralised by fixed-rate lender derivatives. Those contracts, concluded in a clearing house, present positions which are rigorously symmetric in terms of rates and maturities. These financial assets and liabilities, although they are the object of a framework netting agreement, are presented as assets and liabilities because future cash flows payable and receivable differ in the amount of the fixed-rate coupon payable and receivable.

These assets are measured at fair value at the date of initial recognition and at each balance sheet date. Changes in fair value over the period, interest, dividends, and gains or losses on disposals on these instruments are recognized in “Net gains or losses on financial instruments at fair value through profit or loss”.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are initially recognized at fair value, plus any transaction costs.

- Debt instruments measured at fair value through other comprehensive income recyclable to income

On the balance sheet date, they are carried at their fair value and changes in fair value (excluding accrued interest) are recorded under "Gains and losses recognized directly in other comprehensive income recyclable to income”.

In the event of disposal, these changes in fair value are not transferred to income but directly to retained earnings under equity.

These instruments are subject to IFRS 9 impairment requirements. If they are sold, these changes in fair value are taken to income.

Interest income accrued or received on debt instruments is recorded under “Interest and similar income” based on the effective interest rate method.

Upon disposal of these securities, unrealized gains or losses previously recognized in equity are recycled in the income statement within "Net gains or losses on at fair value through other comprehensive income".

Recognition date of securities

AFL records financial securities on the settlement date.

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

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

Financial information regarding financial instruments

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

Impairment of assets at amortized cost and at fair value through other comprehensive income, and provisioning of loan and guarantee commitments

Debt instruments classified as financial assets at amortized cost or at fair value through other comprehensive income, loan commitments and financial guarantee contracts are impaired or covered by a provision for expected credit losses (ECL) as of the date of initial recognition.

These financial instruments are divided into three categories depending on the increase in credit risk observed since their initial recognition.

An impairment or a provision is recognized on outstanding amounts in each category, as follows:

Stage 1 (Performing assets)

· these are performing loans for which credit risk has not increased materially since the initial recognition of the financial instrument;

· the impairment or the provision for credit risk corresponds to 12-month expected credit losses;

Stage 2 (Non-performing assets)

· performing loans for which credit risk has increased materially since the initial recognition of the financial instrument are transferred to this category;

Factors to detect an increase in credit risk for local government loans are:

- Degradation of three (3) points or more of the internal note

- Change to an internal note greater than 6.5
- Non-technical outstanding payment for more than 30 days all loans combined,
- Restructuring of a loan meaning that the local hautority is having difficulty meeting its deadlines,
- Significant internal or external event

Regarding the assets of the liquidity reserve the criteria retained are:

- Degradation of two (2) notchs or more of the internal note
- Non-technical outstanding payment for more than 30 days from a contractual cash flow, a security or any other product with the counterparty,
- Significant internal or external event
- Restructuring of the debt

· the impairment or the provision for credit risk is determined on the basis of the financial instrument's lifetime expected credit losses;

When all the elements allowing to note a degradation of the risk are solved, the exposures are considered as having no more risk of degradation.

Stage 3 (Doubtfull assets)

· non-performing loans within the meaning of IFRS 9 are transferred to this category. These are loans for which there is objective evidence of impairment loss due to an event which represents a credit risk occurring after the initial recognition of the instrument in question. In particular, objective evidence of impairment includes any payments that are past due by at least three months, or regardless of whether any payment has been missed, the observation of financial hardship experienced by the counterparty leading to the expectation that some or all of the amounts owed may not be recovered or to the initiation of legal proceedings;

· these events are liable to lead to the recognition of incurred credit losses, that is, expected credit losses for which the probability of occurrence has become certain.

. the impairment or the provision for credit risk is calculated based on the financial instrument's lifetime expected credit losses on the basis of the recoverable amount of the receivable, i.e., the present value of estimated recoverable future cash flows taking into account the impact of any collateral;

When all the criteria having triggered the classification in default are cleared, that there is no new one whatever its nature, the counterparty can leave the default category.

All outstanding payment must have been regularized, no unpaid must therefore continue at the time of the release of the the default category.

A probationary period of 6 months begins when all the conditions of the default are met and the healthy return has been decided by the Credit Committee.

During the probationary period, payments must continue on a regular basis and without delay, an unpaid amount immediately causes the return to default category.

The Credit Committee instructs and validates the exit of the default category.

Depreciation charges and reversals amounts are registred in "Cost of risk" in income statement.

Estimation of Expected Credit Losses (ECL)

IFRS 9 requires institutions to calculate expected credit losses based on statistics produced from historical data that account for business cycles that affect their counterparties.

Agence France Locale has less than three years of existence at implementation of the standard, it does not have a default data history.

To overcome this lack of data, and considering the low level of risk represented by its exposures, AFL Group has decided to base its ECL method on external public data and on the documented opinion of its experts given at quarterly meetings.

The process is framed by two committees. The Provision Committee deals with the parameters used in the calculation of provisions: it sets the probability of realization of business cycle evolution scenarios and validates the calculation of default probabilities and losses in case of default. The Provision Credit Committee scans line by line exposures and validates their treatment in terms of provision.

- The exposures classification in the 3 phases is a function of the evolution of the ratings of these exposures since their entry in the balance sheet. The ratings used are rating agencies ratings or internal[1] ratings in the case of local governments, possibly supplemented by expert opinion to reflect recent information and future risks. The thresholds used are relative and absolute.

- The calculation of default probabilities (PD) is based on historical default rates ("point in time" default) and cumulated default rates ("through the cycle") published by rating agencies with a historical depth of 35 years. The default rates of the high point and low point of the cycle scenarios are derived from the first and last deciles of the histories; the average default rates are used for the central scenario.

- Beyond 10 years, cumulated default rates are extrapolated using a Weibull statistical law;

- For the liquidity reserve exposures, regulatory default losses (LGD) of the standard approach (45%) are used. For exposures on local authorities, an LGD was calculated by expert opinion;

- The experts decide on future developments in the business cycle and establish the forward-looking vision by defining the weightings of the 3 scenarios (central, low point of the cycle and high point of the cycle). The experts' expectations are underpinned by the macroeconomic, sectoral and geographical studies published by recognized institutions such as the World Bank, the European Central Bank, the economic research of the big banks or the rating agencies.

The process is framed by two committees. The “Comité expert provisions” deals with the parameters used in the calculation of provisions: it sets the probability of realization of scenarios of evolution of the economic cycle and validates the calculations of probabilities of default and losses in case of default. The “Comité de crédit provisions” scans line by line exposures and validates their treatment in terms of impairment.

Fixed assets

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

After initial recognition fixed assets are valued at their nominal value less accumulated depreciation and possible impairment losses.

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

If evidence of a loss of value is recorded, the recoverable value of the asset is compared with its net book value. In the event of a loss of value, an impairment charge is

Tangible assets

Tangible assets are depreciated linearly over their expected useful life.

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

Intangible assets

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

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

Intangible assets are depreciated linearly over their expected useful life.

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

Debt

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

Debts due to credit institutions are broken down according to their initial maturity or their nature: demand debts (demand deposits, ordinary accounts) or term deposits (term accounts)

Hedge accounting

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

- The hedging instrument and the instrument hedged must be eligible;
- There must be formal documentation from inception, primarily including the individual identification and characteristics of the hedged item, the hedging instrument, the nature of the hedging relationship and the nature of the hedged risk to assess whether the hedging relationship meets the effectiveness constraints of the hedge.

The hedging relationship satisfies the effectiveness constraints of the hedge if there is an economic link between the hedged item and the hedging instrument.

For an economic link to exist, the value of the hedging instrument and that of the hedged item must generally vary inversely with each other as a result of same risk, which is the risk covered.

The effectiveness of the hedge is the extent to which changes in the fair value or cash flows of the hedging instrument offset changes in the fair value or cash flows of the hedged item.

Depending on the factors involved, the method of assessing the effectiveness of the hedge may consist of a qualitative or quantitative assessment.

For example, when the critical terms (such as the nominal amount, maturity and underlying) of the hedging instrument and the hedged item match or are closely aligned, it might be possible for an entity to conclude on the basis of a qualitative assessment of those critical terms that the hedging instrument and the hedged item have values that will generally move in the opposite direction because of the same risk and hence that an economic relationship exists between the hedged item and the hedging instrument

Fair value hedge

Any revaluation of the derivative is recognised in profit and loss in a way that mirrors the revaluation of the item hedged. Gains or losses attributable to the hedged risk are recognised in “Net gains or losses on financial instruments at fair value through profit and loss” in the profit and loss statement. As soon as the hedge relationship becomes effective, movements in the fair value of the hedged item are mirrored by the movements in the fair value of the hedging instrument. Any potential failure in the hedge is directly recognised in profit and loss.

The potential ineffectiveness of the hedge is recognized directly in the income statement. The relative ineffectiveness of the bi-curve valuation of collateralised derivatives is taken into account in the efficiency calculations.

The portion relating to the accrued income or expenses of the derivative instrument is recognised in Income and interest expense in the profit and loss statement at the same time as the interest income and expense relating to the hedged item.

In case of interruption of the hedging relationship (management decision, non-compliance with the effectiveness criteria or sale of the hedged item before maturity), the hedging derivative is transferred to the trading portfolio. The amount of revaluation recorded in the balance sheet for the hedged item is amortized over the remaining life of the original hedge. If the hedged item is sold before maturity or redeemed early, the cumulative amount of the revaluation is recognized in the income statement for the period.

Cash flow hedge

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

Macro-hedging

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

Determining fair value or market value

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

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

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

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

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

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

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

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

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

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

Level 2 is composed of:

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

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

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

Provisions

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

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

Interest income and expense

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

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

The effective interest rate is the rate that discounts future cash outflows or inflows exactly over the expected life of the financial instrument, so as to arrive at the net book value of the financial asset or liability.
The calculation of this rate factors in commissions received or paid, which are by nature an integral part of the effective contract rate.

Cost of risk
The cost of credit risk includes impairment charges and reversals on fixed-income securities, and customer loans and receivables, as well as charges and reversals of

Current tax expense

The current income tax expense is calculated using a 33 1/3% rate which is the effective tax rate for the 30 June 2018 period.

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

Deferred taxes

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

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

Deferred tax is recognised as tax income or expense in the profit and loss statement, except for tax relating to unrealised gains and losses on assets available for sale, and for movements in the value of derivatives classified as cash flow hedges, for which deferred tax is charged directly to equity capital.
IAS 12 prohibits discounting of deferred tax assets and liabilities.

Post-employment benefits

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

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

• an estimated date of payment of the benefit,

• a financial discount rate

• an inflation rate

• assumptions on salary increases, staff turnover

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

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

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

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

V - Notes to the Balance Sheet

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

	31/12/2018		01/01/2018	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Financial assets held for trading	26,299	26,747	13,711	14,267
Financial assets at fair value option through profit or loss				
Total financial assets at fair value through profit or loss	**26,299**	**26,747**	**13,711**	**14,267**

Financial assets held for trading

	31/12/2018		01/01/2018	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Equity instruments				
Debt securities				
Loans and advances				
Derivatives	26,299	26,747	13,711	14,267
Total Financial assets held for trading	**26,299**	**26,747**	**13,711**	**14,267**

	31/12/2018				01/01/2018			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**965,116**	**965,116**	**26,299**	**26,747**	**873,964**	**873,964**	**13,711**	**14,267**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate contracts								
Other contracts								
Over-the-counter markets	**965,116**	**965,116**	**26,299**	**26,747**	**873,964**	**873,964**	**13,711**	**14,267**
Interest rate contracts	965,116	965,116	26,299	26,747	873,964	873,964	13,711	14,267
FRA								
Cross Currency Swaps								
Other contracts								
CONDITIONAL TRANSACTIONS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Organised markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Over-the-counter markets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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

Note 2 - HEDGING DERIVATIVES

Analysis by type of hedge

	31/12/2018		01/01/2018	
(€ '000s)	Assets	Liabilities	Assets	Liabilities
Derivatives designated as fair value hedges	43,441	73,474	13,690	59,768
Derivatives designated as cash flow hedges				
Derivatives designated as portfolio hedges	1,220	4,825	1,939	2,073
Total Hedging derivatives	**44,661**	**78,300**	**15,629**	**61,841**

Detail of derivatives designated as fair value hedges

	31/12/2018				01/01/2018			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**2,968,583**	**2,300,829**	**43,441**	**73,474**	**2,352,036**	**1,221,321**	**13,690**	**59,768**
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	**2,968,583**	**2,300,829**	**43,441**	**73,474**	**2,352,036**	**1,221,321**	**13,690**	**59,768**
Interest rate contracts	2,875,000	2,300,829	43,441	67,716	2,250,000	1,221,321	13,690	49,831
FRA								
Cross Currency Swaps	93,583			5,759	102,036			9,938
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	-	-	-	-	-	-	-	-

Detail of derivatives designated as interest rate hedged portfolios

	31/12/2018				01/01/2018			
	Notional amount		Fair value		Notional amount		Fair value	
(€ '000s)	To receive	To deliver	Positive	Negative	To receive	To deliver	Positive	Negative
FIRM TRANSACTIONS	**62,610**	**358,002**	**1,220**	**4,825**	**42,950**	**259,334**	**1,939**	**2,073**
Organised markets	-	-	-	-	-	-	-	-
Interest rate contracts								
Other contracts								
Over-the-counter markets	**62,610**	**358,002**	**1,220**	**4,825**	**42,950**	**259,334**	**1,939**	**2,073**
Interest rate contracts	62,610	358,002	1,220	4,825	42,950	259,334	1,939	2,073
FRA								
Cross Currency Swaps								
Other contracts								
CONDITIONAL TRANSACTIONS	-	-	-	-	-	-	-	-
Organised markets	-	-	-	-	-	-	-	-
Over-the-counter markets	-	-	-	-	-	-	-	-

PORTFOLIO

Note 3 - FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Fixed-income securities - Analysis by nature

(€ '000s)	**31/12/2018**	**01/01/2018**
Government paper and similar securities	489,486	271,912
Bonds	13,001	37,775
Other fixed income securities		
Net amount in balance sheet	**502,487**	**309,687**
Including depreciation	(229)	(143)
Including net unrealised gains and losses	4,054	(753)

Expected credit losses on debt instruments	**12-month expected losses**	**Lifetime expected losses**		**Incurred losses**
		Individual	**collective**	
Expected losses as of 1rst January 2018	**(143)**	**-**	**-**	**-**
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	**(86)**	**-**	**-**	**-**
Acquisitions	(289)			
Re-estimate of parameters	16			
Bad debts written off				
On sales	188			
Expected losses as of 31 December 2018	**(229)**	**-**	**-**	**-**

Fixed-income securities - Analysis by contreparty

(€ '000s)	**31/12/2018**	**01/01/2018**
Local public sector	445,417	211,424
Financial institutions and other financial corporations	42,070	83,137
Non-financial corporations	15,000	15,125
Net amount in balance sheet	**502,487**	**309,687**

Fixed income securities held on Financial institutions include € 44,070k 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 01/01/2018**	**Additions**	**Disposals**	**Change in fair value recognised in equity**	**Change in accrued interest**	**Prem/Disc Amort.**	**Total amount as of 31/12/2018**
Government paper and similar s	271,912	1,417,729	(1,204,032)	4,548	(34)	(636)	489,486
Bonds	37,775	8,862	(33,020)	14	(56)	(574)	13,001
Other fixed income securities	-	-	-	-	-	-	-
TOTAL	**309,687**	**1,426,590**	**(1,237,052)**	**4,562**	**(90)**	**(1,210)**	**502,487**

Subsequent to the first application of IFRS 9, which resulted in a reclassification of € 53.9m from the portfolio of Financial assets at fair value through other comprehensive income to Securities at amortized cost, there were no transfers from one portfolio to another during the year.

PORTFOLIO

Note 4 - SECURITIES AT AMORTIZED COST

Fixed-income securities - Analysis by nature

(€ '000s)	31/12/2018	01/01/2018
Government paper and similar securities	88,889	14,978
Bonds	86,262	34,295
Other fixed income securities		
Net amount in balance sheet	**175,152**	**49,273**
Including expected credit losses on debt instruments	(145)	(45)

Expected credit losses on securities at amortized cost	12-month expected losses	Lifetime expected losses		Incurred losses
		Individual	collective	
Expected losses as of 1rst January 2018	**(45)**	**-**	**-**	**-**
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	**(100)**	**-**	**-**	**-**
Acquisitions	(125)			
Re-estimate of parameters	25			
Bad debts written off				
On sales				
Expected losses as of 31 December 2018	**(145)**	**-**	**-**	**-**

The documentation of IFRS 9 business models in the second half of 2018 led the AFL Group to reconsider the classification of its securities portfolio, which it had adopted on 1 January 2018 as described in its accounts as at 30 June 2018. Related to these published financial statements, the Group has since reclassified as at 1 January 2018 € 49.3m of debt securities of the category Financial assets available for sale to the Securities at amortized cost IFRS 9 category.

Fixed-income securities - Analysis by contreparty

(€ '000s)	31/12/2018	01/01/2018
Local public sector	22,822	
Financial institutions and other financial corporations	152,330	49,273
Non-financial corporations		
Net amount in balance sheet	**175,152**	**49,273**

Fixed income securities held on Financial institutions include € 33,251k of securities guaranteed by States of the European Economic Area.

Changes in securities at amortized cost

(€ '000s)	Total amount as of 01/01/2018	Additions	Disposals	Interest rate Reevaluation	Change in accrued interest	Prem/Disc Amort.	Expected credit losses change	Total 31/12/2018
Government paper and similar	14,978	73,889		229	86	(231)	(62)	88,889
Bonds	34,295	52,204		91	9	(299)	(38)	86,262
Other fixed income securities	-	-	-	-	-	-		-
TOTAL	**49,273**	**126,092**	**-**	**321**	**95**	**(529)**	**(100)**	**175,152**

Note 5 - RECEIVABLES ON CREDIT INSTITUTIONS

Accounts with central banks

(€ '000s)	31/12/2018	01/01/2018
Mandatory reserve deposits with central banks	121,654	420,351
Other deposits		
Cash and central banks	**121,654**	**420,351**
Impairment	(4)	(12)
Net amount in balance sheet	**121,650**	**420,340**

Receivables on credit institutions

(€ '000s)	31/12/2018	01/01/2018
Loans and receivables		
- on demand and short notice	7,103	161,233
- term	50,000	50,000
Cash collateral paid	52,841	68,310
Securities bought under repurchase agreements		
TOTAL	**109,944**	**279,543**
Impairment for expected losses	(2)	(9)
NET CARRYING AMOUNT	**109,942**	**279,534**

Note 6 - LOANS AND ADVANCES TO CUSTOMERS

(€ '000s)	31/12/2018	01/01/2018
Short-term credit facilities	2,954	2,172
Other loans	2,227,003	1,428,657
Customers transactions before impairment charges	**2,229,957**	**1,430,829**
Impairment	(46)	(27)
Net carrying amount	**2,229,911**	**1,430,802**
Of which individual impairment	(46)	(27)
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 1rst January 2018	**(48)**	**-**	**-**	**-**
Transfers from 12-month to maturity	0.05	(0.05)		
Transfers from maturity to 12-month				
Transfers from expected to incurred losses				
Total transfer movment	**0.05**	**(0.05)**	**-**	**-**
Movment attributable to financial instruments recognized over the period	(1)	(2)	-	-
Production and acquisition	(23)			
Re-estimate of parameters	(3)	(2)		
Bad debts written off				
Repayments	25	0.1		
Expected losses as of 31 December 2018	**(49)**	**(2)**	**-**	**-**

SUMMARY OF PROVISIONS ON SECURITIES, LOANS AND FINANCING COMMITMENTS

(€ '000s)	01/01/2018	Depreciation charges	Reversals amounts not used	Net charge	Utilised	31/12/2018
Financial assets at fair value through other comprehensive income						
Depreciations on performing assets	143	289	(203)	**86**		**229**
Depreciations on non-performing assets						**-**
Depreciations on doubtfull assets						**-**
Total	**143**	**289**	**(203)**	**86**		**229**
Financial assets at amortized cost						
Depreciations on performing assets	93	151	(50)	**101**		**194**
Depreciations on non-performing assets		2	(0.1)	**2**		**2**
Depreciations on doubtfull assets						**-**
Total	**93**	**153**	**(50)**	**103**		**196**

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	121,654			(4)			**121,650**
Financial assets at fair value through other comprehensive income	502,716			(229)			**502,487**
Securities at amortized cost	175,296			(145)			**175,152**
Loans and receivables due from credit institutions at amortized cost	109,944			(2)			**109,942**
Loans and receivables due from customers at amortized cost	2,227,831	2,126		(44)	(2)		**2,229,911**

Note 7 - DEFERRED TAX

The movement on the deferred tax account is as follows:

(€ '000s)	31/12/2018	01/01/2018
Net asset as at 1st of january	**5,116**	**5,826**
Of which deferred tax assets	5,334	5,887
Of which deferred tax liabilities	219	61
Recognised in income statement	**(210)**	**(577)**
Income statement (charge) / credit	(210)	(577)
Recognised in equity	**765**	**(134)**
Financial assets at fair value through other comprehensive income	765	(158)
Cash flow hedges		
Other		24
Net asset as at	**5,671**	**5,116**
Of which deferred tax assets	5,671	5,334
Of which deferred tax liabilities		219

Deferred tax are attributable to the following items:

(€ '000s)	31/12/2018	01/01/2018
Financial assets at fair value through other comprehensive income	546	
Cash flow hedges		
Losses carried forward	5,031	5,051
Other temporary differences	94	303
TOTAL DEFERRED TAX ASSETS	**5,671**	**5,354**

(€ '000s)	31/12/2018	01/01/2018
Financial assets at fair value through other comprehensive income		219
Cash flow hedges		
Other temporary differences		
TOTAL DEFERRED TAX LIABILITIES	**-**	**219**

Note 8 - OTHER ASSETS AND ACCRUALS

(€ '000s)	31/12/2018	01/01/2018
Other assets		
Deposits	68	67
Other assets	45	104
Impairment		
Total	**113**	**171**
Accruals		
Prepaid charges	213	147
Other deferred income	1	
Transaction to recieve and settlement accounts		
Other accruals	53	51
Total	**267**	**198**
TOTAL OTHER ASSETS AND ACCRUALS	**380**	**369**

Note 9 - BREAKDOWN OF FIXED ASSETS

(€ '000s)

Intangible fixed assets	01/01/2018	Additions	Transfers	Disposals	Amort.	Other	31/12/2018
Intangible fixed assets							
IT development costs	8,947	357				53	9,357
Other intangible assets	455	42					496
Intangible assets in progress	102	95				(72)	125
Intangible fixed assets gross amount	**9,504**	**493**	**-**	**-**	**-**	**(19)**	**9,978**
Depreciation and allowances - Intangible fixed assets	(4,815)				(1,901)		(6,715)
Intangible fixed assets net carrying amount	**4,689**	**493**	**-**	**-**	**(1,901)**	**(19)**	**3,263**

Tangible fixed assets	01/01/2018	Additions	Transfers	Disposals	Amort.	Other	31/12/2018
Property, plant & equipment	766	51					817
Tangible fixed assets gross amount	**766**	**51**	**-**	**-**	**-**	**-**	**817**
Depreciation and allowances - Tangible fixed assets	(297)				(83)		(380)
Tangible fixed assets net carrying amount	**469**	**51**	**-**	**-**	**(83)**	**-**	**437**

Note 10 - DEBT SECURITIES

(€ '000s)	31/12/2018	01/01/2018
Negotiable debt securities		8,330
Bonds	2,996,909	2,327,472
Other debt securities		
TOTAL	**2,996,909**	**2,335,802**

Note 11 - ACCRUALS AND OTHER LIABILITIES

(€ '000s)	31/12/2018	01/01/2018
Other liabilities		
Miscellaneous creditors	817	761
Total	**817**	**761**
Accruals		
Transaction to pay and settlement accounts		
Other accrued expenses	824	743
Unearned income		
Other accruals	34	38
Total	**858**	**781**
TOTAL ACCRUALS AND OTHER LIABILITIES	**1,675**	**1,543**

Note 12 - PROVISIONS

(€ '000s)	Balance as of 01/01/2018	Depreciation charges	Reversals amounts used	Reversals amounts not used	Other movements	Balance as of 31/12/2018
Provisions						
Financing commitment execution risks	3	8		(6)		5
Provisions for litigations						
Provisions for employee retirement and similar benefits	19					19
Provisions for other liabilities to employees						
Other provisions						
TOTAL	**21**	**8**	**-**	**(6)**	**-**	**23**

OFF-BALANCE SHEET

(€ '000s)	31/12/2018	01/01/2018
Commitments given	**365,646**	**238,783**
Financing commitments	365,646	238,783
For credit institutions		
For customers	*365,646*	*238,783*
Guarantee commitments		
For credit institutions		
For customers		
Commitments on securities		
Securities to be delivered to the issuance		
Other securities to be delivered		
Commitments received	**2,469**	**2,591**
Financing commitments		
From credit institutions		
Guarantee commitments	2,469	2,591
From credit institutions		
From customers	*2,469*	*2,591*
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 1rst January 2018	3	-	-	-
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	2			
Charge	8			
Utilised				
Reversal untilised	(6)			
Expected losses as of 31 December 2018	5	-	-	-

VI - Notes to the Income Statement

Note 13 - INTEREST INCOME AND EXPENSES

(€ '000s)	31/12/2018	31/12/2017
Interest and similar income	**64,339**	**38,296**
Due from banks		5
Due from customers	19,754	12,547
Bonds and other fixed income securities	1,830	714
Financial assets at fair value through other comprehensive income	*1,957*	*714*
Securities at amortized cost	*(127)*	
Income from interest rate instruments	42,755	25,031
Other interest income		
Interest and similar expenses	**(56,534)**	**(31,789)**
Due to banks	(1,975)	(1,944)
Due to customers		
Debt securities	(16,863)	(10,694)
Expense from interest rate instruments	(37,695)	(19,151)
Other interest expenses		
Interest margin	**7,805**	**6,507**

Note 14 - NET FEE AND COMMISSION INCOME

(€ '000s)	31/12/2018	31/12/2017
Fee & Commission Income	**289**	**73**
Interbank transactions		
Customer transactions	178	
Securities transactions		
Forward financial instruments transactions		
Currencies transactions		
Financing commitments and guarantee	111	73
Other commissions recieved		
Fee & Commission Expense	**(119)**	**(90)**
Interbank transactions	(3)	(2)
Securities transactions		
Forward financial instruments transactions	(117)	(87)
Currencies transactions		
Financing commitments and guarantee		
Other commissions paid		
Net Fee and Commission income	**169**	**(17)**

Note 15 - NET RESULT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(€ '000s)	31/12/2018	31/12/2017
Gains/(losses) on Trading book	(0.1)	(1)
Net result of hedge accounting	868	140
Net result of foreign exchange transactions	0.2	1
TOTAL	**868**	**141**

Analysis of net result of hedge accounting

(€ '000s)	31/12/2018	31/12/2017
Fair value hedges		
Fair value changes in the hedged item attributable to the hedged risk	(18,948)	17,281
Fair value changes in the hedging derivatives	19,213	(17,208)
Hedging relationship disposal gain	871	443
Cash flow hedges		
Fair value changes in the hedging derivatives – ineffective portion		
Discontinuation of cash flow hedge accounting		
Portfolio hedge		
Fair value changes in the hedged item	2,836	(2,054)
Fair value changes in the hedging derivatives	(3,105)	1,678
Net result of hedge accounting	**868**	**140**

Note 16 - NET GAINS (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(€ '000s)	31/12/2018	31/12/2017
Gains from disposal of fixed income securities	3,439	5,933
Losses from disposal of fixed income securities	(2,576)	(1,881)
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	**863**	**4,051**

Note 17 - GENERAL OPERATING EXPENSES

(€ '000s)	31/12/2018	31/12/2017
Employee expenses		
Wages and salaries	2,970	2,980
Post-employment benefit expenses	320	317
Other expenses	1,268	1,295
Total Employee expenses	**4,558**	**4,592**
Operating expenses		
Taxes and duties	478	87
External services	4,092	4,032
Total Administrative expenses	**4,571**	**4,118**
Charge-backs and reclassification of administrative expenses	(96)	(91)
Total General operating expenses	**9,033**	**8,619**

A €488k provision for liabilities & charges has been reversed during 2017. This reversal was recorded as a reduction of taxes for this period.

Note 18 - COST OF RISK

(€ '000s)	31/12/2018	31/12/2017
Net charge to provisions	(190)	
for financial assets at fair value through other comprehensive income	*(86)*	
for financial assets at amortized cost	*(104)*	
Net charge to provisions	(2)	
for financing commitments	*(2)*	
for guarantee commitments		
Irrecoverable loans written off not covered by provisions		
Recoveries of bad debts written off		
Total Cost of risk	**(191)**	**-**

Note 19 - EXTERNAL AUDITOR FEES

	Caillau Dedouit et Associés		KPMG Audit	
	2018 (€ '000s)	2017 (€ '000s)	2018 (€ '000s)	2017 (€ '000s)
Audit				
Fees related to statutory audit, certification, examination of:				
AFL-Société Opérationelle	59	67	68	75
Sub-total	**59**	**67**	**68**	**75**
Other fees and benefits (*) :				
AFL-Société Opérationelle	37	37	73	46
Sub-total	**37**	**37**	**73**	**46**
TOTAL	**97**	**103**	**141**	**121**

(*) Other fees and benefits are related to issue prospectus audit, capital increases and social, to the review of the first application of IFRS 9, reliance letter review and environmental and societal data audits.

Note 20 - RELATED PARTIES

There are, on 31 December 2018, an agreement of administrative services and a licensing for the use of a brand, which have been concluded between the Agence and the Agence France Locale - Territorial Corporation at normal market conditions.

Remuneration for Board of AFL and the CEO of the Territorial Company :

Neither members of AFL Board nor the CEO of the Territorial Company benefited from a payment in actions in conformance with the exercise 2017 and a compensation was settled because of termination of contract of employment. No other long-term advantage was granted to them.

Their Director's remunerations on the exercise 2018 were the following ones :

(€ '000s)	31/12/2018
Fixed remuneration	788
Variable remuneration	62
Payments in kind	8
Total	**858**

Philippe ROGIER left the AFL Board on December 5, 2018. His remuneration has been taken into account until that date in the table above.

In addition, members of the AFL Supervisory Board received €140k attendance fees. No attendance fees were paid to members of the Board of Directors of Agence France Locale - Société Territoriale.

VII - Notes to Risk exposure

A - Fair value of financial instruments

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

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

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

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

Fair value of instruments carried at fair value:

	31/12/2018			
	Total	Measured using		
(€ '000s)		Level 1	Level 2	Level 3
Financial assets				
Financial assets at fair value through profit or loss	**26,299**	-	26,299	-
Hedging derivative instruments	**44,661**	-	44,661	-
Government paper and similar securities	489,486	489,486	-	-
Bonds	13,001	13,001	-	-
Other fixed income securities	-	-	-	-
Total Financial assets at fair value through other comprehensive ir	**502,487**	**502,487**	**-**	**-**
Total Financial assets	**573,446**	**502,487**	**70,959**	**-**
Financial liabilities				
Financial liabilities at fair value through profit or loss	**26,747**	-	26,747	-
Hedging derivative instruments	**78,300**	-	78,300	-
Total Financial liabilities	**105,046**	**-**	**105,046**	**-**

Fair values of instruments carried at amortised cost:

	31/12/2018				
	Net Carrying value	Fair value	Measured using		
(€ '000s)			Level 1	Level 2	Level 3
Financial assets					
Cash, central banks and issuing institutions	**121,650**	121,650	-	-	121,650
Government paper and similar securities	88,889	88,767	88,767		
Bonds	86,262	86,103	86,103		
Other fixed income securities	-	-	-		
Total Securities at amortized cost	**175,152**	**174,870**	**174,870**	**-**	**-**
Loans and receivables due from credit institutions	**109,942**	109,942	-	-	109,942
Loans and advances to customers	**2,231,784**	2,231,784	-	-	2,231,784
Total Financial assets	**2,638,528**	**2,638,246**	**174,870**	**-**	**2,463,377**
Financial liabilities					
Debt securities	**2,996,909**	2,998,285	2,912,113	86,172	-
Total Financial liabilities	**2,996,909**	**2,998,285**	**2,912,113**	**86,172**	**-**

The fair value of loans and receivables to customers includes the outstanding capital and the revaluation in interest rates of the loans hedged on the closing date.
For Loans and receivables due from credit institutions, which are deposits, the fair value used was the nominal value.

B - Credit risk exposure

The tables below disclose the maximum exposure to credit risk at 31 December 2018 for financial assets with exposure to credit risk, without taking account of collateral held or other credit risk mitigation.

(€ '000s)	Performing assets	Past due but not impaired	Impairment allowance	Total 31/12/2018
Cash, central banks	121,654		(4)	**121,650**
Financial assets at fair value through profit or loss	26,299			**26,299**
Hedging derivative instruments	44,661			**44,661**
Financial assets at fair value through other comprehensive income	502,487			**502,487**
Securities at amortized cost	175,296		(145)	**175,152**
Loans and receivables due from credit institutions	109,944		(2)	**109,942**
Loans and advances to customers	2,229,957		(46)	**2,229,911**
Revaluation adjustment on interest rate hedged portfolios	1,873			**1,873**
Current tax assets				
Other assets	113			**113**
Sub-total Assets	**3,212,284**	**-**	**(196)**	**3,212,088**
Financing commitments given	263,636			**263,636**
TOTAL Credit risk exposure	**3,475,921**	**-**	**(196)**	**3,475,725**

Exposure analysis by counterparty

(€ '000s)	Total 31/12/2018
Central banks	121,650
Local public sector	3,013,664
Credit institutions guaranteed by the EEA States	62,321
Credit institutions	215,981
Other financial corporations guaranteed by the EEA States	
Other financial corporations	47,041
Non-financial corporations guaranteed by the EEA States	15,000
Non-financial corporations	68
Total Exposure by counterparty	**3,475,725**

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

Exposure analysis by geographic area

(En milliers d'euros)	Total 31/12/2018
France	2,970,116
Supranational	201,478
Netherlands	87,276
Canada	83,562
Finland	66,752
China	25,629
New Zealand	25,378
Japan	7,187
Sweden	5,000
Denmark	3,346
Exposition totale par zone géographique	**3,475,725**

As credits are solely granted to French local authorities, the largest exposure is to France.
Exposures to other countries (EEA, North America, Asia and Oceania) result from Agence France Locale's cash management policy and its investment in sovereign or equivalent securities.

C - Liquidity risk : Assets and liabilities, analysed by remaining contractual maturity

(€ '000s)	Less than 3 month	3 month to 1 year	1 year to 5 years	more than 5 years	Total	Related receivables and payables	Revaluation	Total 31/12/2018
Cash, central banks	121,650				**121,650**			**121,650**
Financial assets at fair value through profit or loss		299	3,216	18,342	**21,857**	**4,442**		**26,299**
Hedging derivative instruments			8,640	26,420	**35,060**	**9,601**		**44,661**
Financial assets at fair value through other comprehensive income								
Government paper and similar securities	20,000		59,843	404,535	484,378	1,047	4,061	489,486
Bonds			12,531		12,531	477	(7)	13,001
Total Financial assets at fair value through other comprehensive income	**20,000**	**0**	**72,373**	**404,535**	**496,909**	**1,524**	**4,054**	**502,487**
Securities at amortized cost								
Government paper and similar securities		14,921	73,653		88,573	89	227	88,889
Bonds	5,016	53,048	28,046		86,111	52	100	86,262
Total Securities at amortized cost	**5,016**	**67,969**	**101,699**	**0**	**174,684**	**141**	**327**	**175,152**
Loans and receivables due from credit institutions	109,942				**109,942**			**109,942**
Loans and advances to customers	121,537	160,082	581,766	1,352,842	**2,216,228**	**5,130**	**8,553**	**2,229,911**
Revaluation adjustment on interest rate hedged portfolios							**1,873**	**1,873**
Current tax assets								
Other assets	113				**113**			**113**
TOTAL ASSETS								**3,212,088**
Central banks						**755**		**755**
Financial assets at fair value through profit or loss		299	3,214	18,343	**21,856**	**4,890**		**26,747**
Hedging derivative instruments	6,224	99	5,597	61,044	**72,964**	**5,336**		**78,300**
Debt securities	87,334		1,494,392	1,372,920	**2,954,646**	**10,648**	**31,615**	**2,996,909**
Due to credit institutions	9				**9**			**9**
Revaluation adjustment on interest rate hedged portfolios								
Other liabilities	817				**817**			**817**
TOTAL LIABILITIES								**3,103,537**

Agence France Locale has a surplus of long-term liabilities, which reflects its limited transformation goals. The difference in modified duration between assets and liabilities is negative; liabilities are still longer than assets. This situation is related to the business start and should evolve in a balanced situation, which should eventually see liabilities with a slightly shorter average life than assets. At 31 December 2018, assets are composed of short-term securities that will be transformed into medium-to-long-term loans.

D - Interest rate risk: sensitivity to interest rate changes

Exposure to interest rate risk relates to that of the Operational subsidiary, Agence France Locale.

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

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

AFL's interest rate hedging policy consists of:

a systematic micro-hedging of fixed-rate debt to be converted into floating-rate debt mainly indexed to the three-month Euribor reference using interest rate swaps;

- micro-hedging of loans contracted at a fixed or floating Euribor six-month or twelve-month rate to convert them into floating-rate loans indexed to the Euribor three-month reference, except for fixed-rate loans corresponding to a limited portion of the balance sheet at least equal to the re-use of prudential capital. The resulting exposure to interest rate risk is influenced by the sensitivity to AFL's net present value rate, which measures the impact of a predefined rate shock on the variation in discounted cash flows of all assets and liabilities on the AFL balance sheet; and

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

The hedging strategy for interest rate risk translated into a notional outstanding amount of swaps of €7.2 billion at December 31, 2018.

At December 31, 2018, the sensitivity of AFL's net present value of equity capital to a change of over 100 basis points was -3.9% to a change of over 100 basis points in the yield curve.

Throughout 2018, the sensitivity of AFL's net present value to a change of plus or minus 200 basis points remained below 15% of equity. The table below shows the sensitivity of the NPV as at December 31, 2016, December 31, 2017 and December 31, 2018.

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