AGENCE FRANCE LOCALE – Financial Statements (French GAAP) as at 31 December 2014

1.1 ASSETS at 31 December 2014

ASSETS	Notes	31/12/2014 In €K
CASH, CENTRAL BANKS, BANK CREDIT BALANCES		
GOVERNMENT STOCK AND SIMILAR SECURITIES	**1, 2**	13 309
AMOUNTS DUE FROM BANKS		5 919
CUSTOMER TRANSACTIONS		
BONDS AND OTHER FIXED INCOME SECURITIES	**1, 2**	17 446
SHARES AND OTHER VARIABLE INCOME SECURITIES		
SHAREHOLDINGS AND OTHER LONG-TERM SECURITIES		
SHARES IN RELATED COMPANIES		
LEASING AND HIRE-PURCHASE		
OPERATING LEASE		
INTANGIBLE FIXED ASSETS	**3**	5 829
TANGIBLE FIXED ASSETS	**3**	649
CALLED UP SHARE CAPITAL NOT PAID		
TREASURY SHARES		
OTHER ASSETS		1 536
ADJUSTMENT ACCOUNT		26
TOTAL ASSETS		**44 714**

1.2 LIABILITIES AT 31 DECEMBER 2014

LIABILITIES	Notes	31/12/2014 In €K
CASH, CENTRAL BANKS, BANK CREDIT BALANCES		
DEBTS TO BANKS	**4**	15 800
CUSTOMER TRANSACTIONS		
DEBTS REPRESENTEES BY A SECURITY		
OTHER LIABILITIES		1 157
ADJUSTMENT ACCOUNT		
PROVISIONS	**6**	3
SUBORDINATED DEBTS		
FUND FOR GENERAL BANKING RISKS (FRBG)		
EQUITY EXCEPT FRBG	**7**	**27 754**
SUBSCRIBED CAPITAL		35 800
ISSUE PREMIUMS		
RESERVES		
REVALUATION RESERVE		
TAX RELATED PROVISIONS AND CAPITAL GRANTS		
RETAINED PROFIT OR LOSS BROUGHT FORWARD (+/-)		
PROFIT OR LOSS FOR THE PERIOD (+/-)		-8 046
TOTAL LIABILITIES		**44 714**

1.3 OFF BALANCE SHEET COMMITMENTS at 31 December 2014

OFF BALANCE SHEET COMMITMENTS	Notes	31/12/2014 In €K
Commitments made		
Funding commitments		
Guarantee commitments		
Commitments on securities		
Received commitments		
Funding commitments	**4**	**9 200**
Commitments received from banks		9 200
Guarantee commitments		
Commitments on securities		

1.4 INCOME STATEMENT at 31 December 2014

INCOME STATEMENT	Notes	31/12/2014 In €K
+ Interest and related income	**2**	425
- Interest payable and similar charges		-63
+ Income from leasing and similar arrangements		
- Expenses from leasing and similar arrangements		
+ Operating lease income		
- Operating lease expenses		
+ Income from variable rate securities		
+ Fees (income)		
- Fees (expenses)		-53
+/- Profits or losses on trading portfolio transactions		1
+/- Profits or losses on investment portfolio and similar transactions		
+ Other banking income		
- Other banking running costs		
NET BANKING INCOME		**311**
- General Operating Expenses	**5**	-7 798
- Depreciation charges	**3**	-559
GROSS OPERATING INCOME (LOSS)		**-8 046**
- Cost of risk		
OPERATING INCOME (LOSS)		**-8 046**
+/- Profit or loss on fixed assets		
PRE-TAX INCOME (LOSS) BEFORE EXCEPTIONAL ITEMS		**-8 046**
+/- Exceptional income (loss)		
- Income taxes		
+/- FRBG increases/reversals and regulated provisions		
NET INCOME (LOSS)		**-8 046**
Earnings per share		**-0.02**

2. Notes to the annual financial statements

2.1 General background

2.2.1. Presentation of Agence France Locale ("the Issuer")

The Agence France Locale Group includes AFL - Société Territoriale ("AFT ST") and AFL ("the Issuer")

Agence France Locale, limited liability company (*Société Anonyme*) with an Executive and Supervisory Board was registered on 27 December 2013 at the Paris Trade and Companies Register (France) under number 799 379 649. Its registered office is located at 10 and 12 boulevard Marius Vivier Merle - Tour Oxygène 69 393 Lyon cedex 03.

The Issuer's first financial year ended on 31 December 2014.

Upon the company's establishment, capital amounted to €50K. Following the extraordinary general meeting on 17 February 2014, a decision was made to increase the share capital by €16,950K. A second increase in share capital of €13 200K was decided on 24 June 2014. A third new issue of capital of €5 600K was decided on 25 November 2014.

At 31 December 2014, the capital consists of 358,000 shares of €100 each.

2.2.2. Operations

AFL Group aims to allow Local Authorities to be more financially independent, in particular by contributing to the diversification of their sources of finance.

The Issuer will finance its activities by raising funds on financial markets, thereby positioning itself as the ideal middleman between financial markets and the member Authorities. The first loans to local authorities are scheduled for the first quarter 2015.

On 22 December 2014, the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR) issued an approval to the Issuer to carry out banking operations provided under the banking law of 24 January 1984. This approval will take effect following various administrative steps, including publication in a newspaper of a legal announcement regarding the Issuer's new status.

2.2.3. Post-closing events

No major event occurred at the beginning of the 2015 financial year which is likely to have an impact on these accounts.

2.2 Accounting methods and principles

The Issuer's financial statements have been prepared pursuant to French accounting standards applicable to banks.

2.2.1. Presentation method

The Issuer's financial statements are presented in accordance with the provisions of regulation 91-01 of the *Comité de la Réglementation Bancaire et financière* (CRBF), as amended by regulations 2001-02 of the *Comité de la Réglementation Comptable* (CRC) and 2010-08 of 7 October 2010 of the *Autorité des Normes Comptables* (ANC) and recommendation no.2001-R-02.

2.2.2. Accounting policies and assessment methods

General accounting conventions were applied in compliance with the principle and according to the following basis assumptions:

- the company is a going concern,
- accounting methods used were consistent,
- the financial years were independent.

And in accordance with the general rules relating to the preparation and presentation of annual financial statements.

The principal accounting methods used are as follows:

1.1 *2.2.2.1 Fixed assets*

The Issuer applies regulations CRC 2002-10 of 12 December 2002 relating to the amortisation and depreciation of assets and 2004-06 relating to accounting and valuation of assets, with the exception of provisions related to the Issuer's initial costs of establishment which were recorded on the balance sheet under intangible fixed assets as authorised by Article R.123-186 of the French *Code de Commerce*.

The acquisition cost of fixed assets includes, in addition to the purchase price, related expenses, including the expenses directly or indirectly related to the acquisition for the maintenance of the asset or its entry onto the company's balance sheet.

Any software acquired is recorded at a gross value of their acquisition cost.

IT costs are fixed where they meet the conditions provided in regulation 2004-06, i.e. they represent all of the expenses envisaged for the set-up of the IT system.

Fixed assets are depreciated according to their estimated usable life, with the exception of the costs of establishment, which are depreciated over a maximum of 5 years, pursuant to the French *Code de commerce* (Article R.123-187).

Finally, on the basis of the information available to the Issuer on the value of its fixed assets it has concluded that depreciation tests would not lead to a change in the existing basis for depreciation.

The table below sets out the depreciation period for each type of fixed asset:

Fixed asset	Depreciation period
Establishment costs	5 years
Software	5 years
Website	3 years
Premises and fixtures	10 years
Computer equipment	3 years
Furniture	9 years

Fixed asset	Depreciation period
Development expenses	5 years

Depreciation is calculated on a straight-line basis.

1.2 *2.2.2.2 Securities portfolio*

The rules relating to the accounting of securities transactions are defined by regulation CRB 90-01 as amended by regulations CRC 2005-01, 2008-07 and 2008-17 and by regulation CRC 2002-03 in relation to the determination of the credit risk and depreciation of fixed income securities.

The securities are set out in the financial statements by type: treasury bills (*Bons du Trésor* and similar securities), bonds and other fixed income securities (negotiable debt securities and interbank certificates), shares and other variable rate securities.

They are categorised in the portfolios provided by regulation (transaction, placement, investment, portfolio investment, other long-term securities, shareholdings) in accordance with the initial intention for holding the securities upon their acquisition.

Marketable securities

This category relates to securities that do not fall into the other categories of security.

Marketable securities are recorded on the basis of their acquisition cost, including fees.

- Bonds and other fixed income securities:

These securities are recorded by acquisition cost including accrued coupons and fees. The difference between acquisition cost and redemption value is spread on an actuarial basis over the residual term of the security.

Related income is recorded in the income statement under: "Interest and related income"

- Shares and other variable income securities:

Shares are recorded on the balance sheet at their purchase value including acquisition costs. Share dividend income is recorded in the income statement under: "Income from variable rate securities"

Income from unit trusts (SICAV) and mutual funds (*Fonds Communs de Placement*) are recorded in the same section upon receipt.

At the end of the financial year, investment securities are valued at the lowest of acquisition cost and market value. As such, when the inventory value of a series or homogenous group of securities (calculated for example on the basis of the market price on the closing date) is lower than the accounting value, unrealised capital losses are depreciated without offsetting the capital gains in other categories of security. Hedging profits, in accordance with Article 4 of Regulation 88-02 of the CRB, being purchases or sales of financial forward contracts, are taken into account in calculating depreciation. Potential gains are not recorded.

Investment securities

Fixed income fixed term securities acquired or reclassified in this category and which are intended to be held-to-maturity are recorded as investment securities.

Only securities for which the Issuer has the necessary financing capacity to hold-to-maturity and is not subject to any legal or other restriction in relation to his intention to hold-to-maturity are recorded in this category.

Investment securities are accounted at their acquisition price, including acquisition fees and accrued coupons.

The difference between acquisition price and redemption price is spread on an actuarial basis over the residual term of the security.

There is no depreciation of investment securities if their market value is lower than their cost price. However, where a credit risk with regard to the issuer of a security is identified, the security is depreciated in accordance with regulation CRC 2002-03 on credit risk. It is recorded under "Cost of risk".

In the event of the sale or transfer to another category of an investment security for a significant amount, the company is not authorised, during the relevant financial year and for two subsequent financial years, to categorise investment securities previously acquired or to be acquired in accordance with regulation CRC 2005-01, subject to exceptions therein and in CRC 2008-17.

Market price

Where applicable, the market price of different securities is determined as follows:

- securities traded on an active market are valued at their closing price,

- if the security traded on a market that is not or is no longer active, or if it is not listed, the Issuer uses valuation techniques to determine the likely trading price of the relevant security. Initially, these techniques are based on recent transactions carried out under normal terms of competition. If necessary, the Issuer uses standard market valuation techniques to value its securities, where it can show that such techniques give reliable estimates of real market prices.

Recording dates

The Issuer records investment securities as at the settlement date. Other securities, regardless of their type or category, are recorded on the trade date.

Investment and marketable securities

CRC regulation 2000-03, appendix 1, paragraph III. 1.2, supplemented by regulation no. 2004-16 of 23 November 2004 and CRC regulation no.2005-04, obliges credit institutions to provide:

- a breakdown between portfolios of marketable and investment securities and portfolio transactions, treasury bills and similar securities, bonds and other fixed income securities, shares and other variable income securities;

- With regard to marketable securities, unrealised gains on the difference between market value and acquisition value, unrealised losses on marketable securities and portfolio securities subject to a balance sheet provision and investment securities are included.

1.3 *2.2.2.3 Provisions relating to staff benefits*

This Issuer applies recommendation no. 2013-02 of the *Autorité des Normes Comptables* of 7 November 2013 relating to accounting and assessment rules on retirement commitments and similar benefits.

Pursuant to this recommendation, the Issuer funds its retirement and similar benefits through a defined benefit scheme.

These liabilities are valued on the basis of a set of actuarial, financial and demographic assumptions according to the "Projected Unit Credit Method". Under this method, an expense is recorded for each year of service of the employee corresponding to the rights acquired over that year. This expense is calculated on the basis of the projected benefit obligation.

The entity has chosen to use method 2 of recommendation 2013-12, which provides for profits or losses from changes to the defined benefit scheme to be recorded at the time of reduction or liquidation.

The entity has chosen to recognise actuarial gains and losses from the next financial year, in stages over the average remaining years of service of staff under the scheme. Consequently, the provision is equal to:

- the current value of the defined benefit obligation as at the closing data, calculated in accordance with the actuarial method advised in the recommendation,
- plus any non-booked actuarial gains (less any actuarial losses),
- minus, if applicable, the fair value of scheme assets. These may be represented by an eligible insurance policy. Where the obligation is completely covered by the insurance policy, the fair value of the policy will be considered as that of the corresponding obligation (i.e. the amount of corresponding actuarial debt).

It should be noted that the recommendation also allows for actuarial gains and losses to be measured according to the corridor method or any other method resulting in their prompt measurement.

2. 2.3 Additional notes

2.1 Note 1: Breakdown of unlisted fixed or variable rate securities

Paragraph III.1.2 of appendix 1 to CRC Regulation 2000.03 provides that credit institutions must provide, in their notes, breakdown of listed and unlisted bonds and other fixed income securities, and shares and other variable income securities.

At 31 December 2014, the Issuer's securities portfolio comprises exclusively investment securities:

	Bonds and other fixed income securities **In €K**	**Government stock and similar securities** **In €K**	**Shares and other variable income securities** **In €K**	**Total** **In €K**
Fixed or variable income securities	**17 446**	**13 309**		**30 755**
of which listed securities	17 202	13 118		30 320
of which unlisted securities				
Receivables	244	191		435
Depreciations				
Net balance sheet value	**17 446**	**13 309**		**30 755**
Of which goodwill premium	*202*	*762*		*964*

Breakdown of remaining term of fixed income securities (in €K)

	≤3 months	>3 months ≤ 1 year	>1 year ≤ 5 years	> 5 years	Total principal amount	Receivables	Total
Bonds and other fixed income securities							
Gross value				17 202	17 202	244	17 446
Depreciations							
NET BALANCE SHEET VALUE				**17 202**	**17 202**	**244**	**17 446**
Government stock and similar securities							
Gross value				13 118	13 118	191	13 309
Depreciations							
NET BALANCE SHEET VALUE				**13 118**	**13 118**	**57**	**30 755**

2.2

2.3 Note 2: Income from securities

At 31 December 2014, the breakdown of income from marketable and investment securities is as follows:

Categories	31/12/2014 (in €K)
Marketable securities (1)	1
Total income on variable income securities	**1**
Investment securities (2)	425
Total income on fixed income securities	**425**
Total income on securities	**425**

(1) UCITS shares

(2) Bonds and similar securities

2.4 Note 3: Fixed assets

At 31 December 2014, tangible fixed assets are as follows:

Components	Amount (in €K)
Tangible fixed assets	660
Tangible fixed assets in course of construction	3
Gross value of the tangible fixed assets	**663**
Depreciation of tangible fixed assets	-14
Net value of the tangible fixed assets	**649**

At 31 December 2014, intangible fixed assets are as follows:

Components	Amount (in €K)
Intangible fixed assets (1) and (2)	6 252
Intangible fixed assets in progress (3)	122
Gross value of the intangible fixed assets	**6 374**
Depreciation of intangible fixed assets	-545
Net value of the intangible fixed assets	**5 829**

The Issuer has recorded the following expenses in intangible fixed assets:

(1) €2 123 k of expenses related to the establishment of the Issuer (legal fees, rating fees, preparation of the business plan and obtaining the approval).

(2) €3 861K of IT costs related to the establishment of the main IT tool.

(3) €122K under intangible fixed assets in progress related to the agreement to launch a web portal.

2.5 Note 4: Debts owed to banks and financial commitments received

The banks HSBC France and Natixis opened a bridging loan in the form of a revolving credit line of up to €25 000K. This credit revolving facility allows the Issuer (the borrower) to have a continuous reserve in an account.

The amount of commitments is spread as follows:

- -HSBC France - up to €12 500K

- -Natixis - up to €12 500K

As at 31 December 2014, €15 800 has been drawn down and is thus recorded as a financial debt. The Issuer has a permanent option to extend the term of the revolving credit facility to a maximum repayment date of 24 February 2016. The remaining amount of the facility is €9 200K. Interest accrued in respect of these debts is booked as related payables through profit or loss.

2.6 Note 5: General Operating Expenses

At 31 December 2014, the Issuer has 18 paid staff.

Items	**Amounts**
Staff costs	
Salaries	1 359
Retirement and similar expenses	142
Other employment expenses	485
Total Staff Expenses	**1 986**
Administrative expenses	
Taxes	19
External services	12 233
Total Administrative Charges	**12 252**
Chargeback and transfers of administrative expenses	-6 440
Total General Operating Expenses	**7 798**

The section "External services" mainly comprises legal fees, and expenses incurred in setting up the Issuer and establishing the target IT tool.

The section “Chargeback and transfers of administrative expenses” includes in particular the transfers of running costs related establishment expenses (€2 123K) and IT costs in intangible fixed assets (€3 983K).

Note 6: Staff benefits

At 31 December 2014, short-term staff benefits comprise:

Items	**Amount** **In €K**
Provision and expenses for variable remuneration	188
Other staff benefits	36
Total short-term benefits	**224**

For each defined benefit scheme, the group makes an allowance equal to the liabilities, net of fair value of the scheme's financial assets.

At 31 December 2014, post-employment benefits for staff comprise:

Items	**Amount** **In €K**
Post-employment benefits	**3**
Provision for retirement indemnities (1)	3
Total post-employment benefits	**3**

(1) The valuation method used is the "Projected Unit Credit Method".

2.7 Note 7: Shareholders' equity

In €K	Capital	Reserves/Others	Balance brought forward	Income (loss)	**Equity except FRBG**
Equity upon establishment of the company	50				**50**
Issuance (repayment) of shares					
Appropriations					
Distribution of dividends					
Capital increase	35 750				**35 750**
Capital repayment					
Other changes					
Profit (loss) over the financial year				-8 046	**-8 046**
Total at 31 December 2014	**35 800**			**-8 046**	**27 754**

Number of securities					
	At the beginning of the financial year	Added during the financial year	Repaid during the financial year	At the end of the financial year	Face value in Euros
Ordinary shares		358 000			100
Amortised shares					
Shares with priority dividend without voting rights					
Preferential shares					
Capital holdings					
Investment certificates					

2.8 Note 8: Other information on the company

At 31 December 2014, ST holds 99.99% of the Issuer's shares, which included it within the scope of its consolidation. It is included in the tax-consolidated Group of which ST is the parent company.

2.9 Note 9: Related party transactions

The Issuer's main managers are the Members of the Executive Board. The amount of remuneration to them was €582k during the financial year 2014. This amount corresponds only to short-term benefits and includes all forms of consideration paid by the Group, in exchange for services.

The total amount of directors' fees will be set at the Annual general meeting of the Issuer's shareholders convened to approve the 2014 company accounts.

2.10 Note 10: Proposed allocation of income (loss) for FY2014

The Board of Directors will propose to the General Meeting of shareholders that the loss of €8 045 761 for the financial year be allocated as retained earnings.

AGENCE FRANCE LOCALE

STATUTORY AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS

Year ended December 31, 2014

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures.

This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.

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

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3, cours du Triangle
92939 Paris La Défense

Cailliau Dedouit et Associés
19, rue Clément Marot
75008 Paris

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

Year ended December 31, 2014

To the Shareholders
AGENCE FRANCE LOCALE
Tour Oxygène
10-12, boulevard Marius Vivier-Merle
69393 LYON CEDEX

In compliance with the assignment entrusted to us by the Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2014, on:

- the audit of the accompanying financial statements of Agence France Locale S.A.,
- the justification of our assessments,
- the specific verifications and information required by law.

These financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as 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 audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2014 and of the results of its operations for the year then ended, in accordance with French accounting principles.

II. Justification of assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code ("Code de commerce") relating to the justification of our assessments, we bring to your attention the following matters.

Accounting principles

As disclosed in paragraph 2.2.2.1 and in Note 3 to the financial statements, your company has chosen to book as an asset the constitution expenses of Agence France Locale, using option allowed by the French Commercial Code. We have verified the appropriateness of this accounting method and have examined the terms and conditions of the expenses booked as assets and their amortisation calculation, as well as the information provided in notes 2.2.2.1 and 3 of the Notes to the financial statements.

These assessments were made as part of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

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

Paris la Défense and Paris, February 3, 2015

French original signed by

KPMG Audit FS 1	**Cailliau Dedouit et Associés**
Fabrice Odent	Laurent Brun