AGENCE FRANCE LOCALE-SOCIETE TERRITORIALE - Consolidated financial statements (IFRS) as at 31 December 2014

1.1. Consolidated assets

ASSETS	Note	31/12/2014 (€K)
Customer loans and receivables	1	6 151
Financial assets held-to-maturity	2	31 873
Deferred tax assets	7	3 301
Accruals and miscellaneous assets	4	1 593
Tangible fixed assets	6	649
Intangible fixed assets	6	4 148
TOTAL ASSETS		**47 715**

1.2. Consolidated liabilities

LIABILITIES	Note	31/12/2014 (€K)
Debts owed to credit institutions	3	15 800
Accruals and miscellaneous assets	5	1 228
Provisions	12	3
Shareholders' equity		**30 684**
Equity Group Share		**30 683**
Capital and associated reserves		37 286
Consolidated reserves		-
Loss for the financial year		-6 603
Non-controlling interests		**1**
TOTAL LIABILITIES		**47 715**

1.3. Consolidated income statement

CONSOLIDATED INCOME STATEMENT	Note	31/12/2014 (€K)

Interest and related income	8	440
Interest payable and similar charges	8	-63
Fees (expenses)	9	-53
Net profit or loss on financial assets available for sale		1
Net banking proceeds		**325**
Total General Operating Expenses	10	-10 112
Depreciation, impairment and provisions for intangible and tangible fixed assets	6	-117
Gross operating income		**-9 904**
Cost of risk		-
Operating income		**-9 904**
Pre-tax results		**-9 904**
Income taxes		3 301
Consolidated net income		**-6 603**
Non-controlling interests		**-**
Net income Group share		**-6 603**
Earnings per share		-0.02
Diluted earnings per share		-0.02

1.4. **Net income and profit or loss directly recognised under equity**

Net income and profit or loss directly recognised under equity	Note	31/12/2014 (€K)
Net income		**-6 603**
Items reclassified [or recycled] in net income:		
Conversion adjustments		
Revaluation of financial assets classified as available for sale		
Fair value adjustments to hedging instruments		
Items from the share of other comprehensive income items		
Related taxes		
Items not reclassified [or recycled] in net income:		

Revaluation of fixed assets		
Revaluations [or actuarial adjustments] with regard to defined benefit schemes		
Items from the share of other comprehensive income items		
Related taxes		
Total profit or loss directly recognised under equity		**-6 603**
Group share		**-6 603**
Non-controlling interests share		

1.5. Changes in consolidated equity and non-controlling interests

Items	Capital and associated reserves			Consolidated reserves	Total profit or loss directly recognised under equity	Group share in net income	Group Share in equity	Non-controlling interest share in equity	Total consolidated equity
	Capital	Capital reserves	Treasury shares						
Opening shareholders' equity									
Capital increase	37 286						37 286	1	37 287
Share capital increases									
Cancellation of treasury shares									
Issue of preference shares									
Equity portion of hybrid instruments									
Share-based payment transactions									
Changes in interests in subsidiaries without loss of control									
Subtotal of movements linked to relations with shareholders	**37 286**						**37 286**	**1**	**37 287**
Change in profit or loss directly accounted under equity									
Net income as at 31.12.2014						-6 603	-6 603		-6 603
Sub-total	**37 286**					**-6 603**	**30 683**	**1**	**30 684**
Effect of acquisitions and the transfers of non-controlling shares									
Share of the change in equity of joint ventures and associates									
Equity as at 31 December 2014	**37 286**					**-6 603**	**30 683**	**1**	**30 684**

The share capital is made up of 372 860 ordinary shares with a face value of 100 Euros per share. None of ST's shares is held by it or by its subsidiary, the Issuer.

1.6. Consolidated cash flow statement

The cash flow statement is presented according to the indirect method model.

Investment activities represent cash flows due to the acquisition and transfer of financial assets held to maturity and tangible and intangible fixed assets.

Financing activities are the result of changes related to financial transactions with equity and subordinated debt.

Operational activities include cash flows that are not included in the other two categories.

The concept of net cash flow includes cash, receivables and debts from central banks, and bank call accounts (assets and liabilities).

Items	31/12/2014 (€K)
Pre-tax results	**-9 904**
+/- Net depreciation on intangible and tangible fixed assets	117
- Depreciation of Goodwill and other fixed assets	-
+/- Net provisions and impairment	3
+/- Income share related to equity-consolidated companies	-
+/- Net profit/loss from investment activities	-88
+/- Finance activity expenses	63
+/- Other changes	-420
= Total of the non-monetary elements included in the net income before tax and other adjustments	**-325**
+/- Flow linked to transactions with credit institutions	-
+/- Flows linked to transactions with customers	-
+/- Flows related to the other transactions affecting financial assets or liabilities	-
+/- Flows related to the other transactions affecting non-financial assets or liabilities	55
- Taxes paid	-
= Total decrease/(increase) of the non-monetary elements included in the net income before tax and other adjustments	**-**
= TOTAL NET CASH FLOWS FROM TRANSACTION ACTIVITY (A)	**-10 174**
+/- Flows related to financial assets and shareholdings	-31 784
+/- Flows related to investment property	-
+/- Flows related to tangible and intangible fixed assets	-4 914
= TOTAL CASH FLOWS RELATED TO INVESTMENT ACTIVITIES (B)	**-36 698**
+/- Cash flow from or to shareholders	37 286
+/- Other cash flows from financing activities	15 737

Items	31/12/2014 (€K)
= TOTAL CASH FLOW RELATED TO FINANCING ACTIVITIES (C)	**53 023**
EFFECT OF EXCHANGE RATE VARIATION ON CASH AND CASH EQUIVALENTS (D)	-
Increase/Decrease in net cash and cash equivalents (A+B+C+D)	**6 151**
Net cash flow generated by operational activity (A)	-10 174
Net cash flow related to investment transactions (B)	-36 698
Net cash flow related to financing activities (C)	53 023
Effect of exchange rate variation on cash and cash equivalents (D)	-
Opening cash and cash equivalents	**-**
Cash, central banks (assets and liabilities)	-
Call accounts (assets and liabilities) and loans/borrowing from credit institutions	-
Closing cash and cash equivalents	**6 151**
Cash, central banks (assets and liabilities)	-
Call accounts (assets and liabilities) and loans/borrowing from credit institutions	6 151
VARIATION IN NET CASH FLOW	**6 151**

2. Notes to the consolidated financial statements

2.1. General background

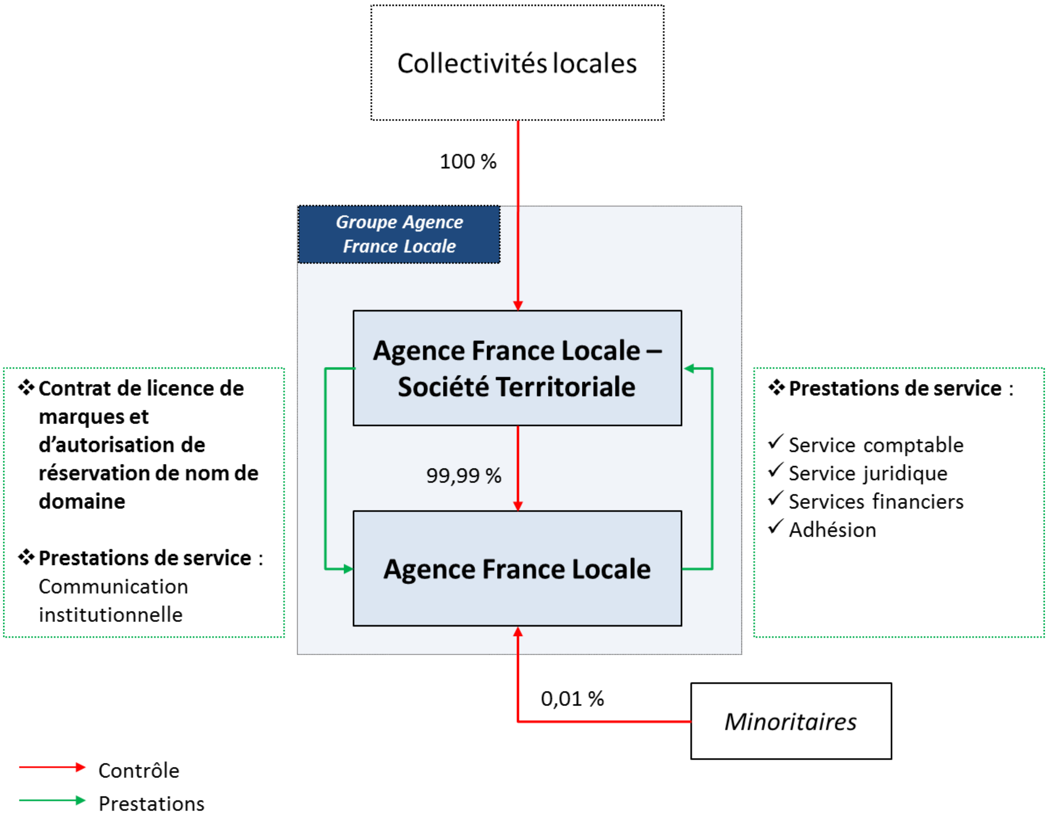
2.1.1. <u>Presentation of Agence France Locale Group</u>

Agence France Locale Group ("AFL Group") includes ST and AFL ("the Issuer")

ST was registered with the Trade and Companies Register (*Registre des Commerces et des Sociétés* or *RCS*) on 9 December 2013 with a start-up capital of 99 000 Euros. The Issuer was registered with the RCS on 27 December 2013 with a start-up capital of 50 000 Euros.

ST is a limited liability company (Société Anonyme) with a Board of directors, of which the shareholding is made up exclusively of Local Authorities that are members of AFL Group. ST is the majority shareholder of the Issuer.

The diagram below shows the structure of AFL Group:



A new issue of capital was carried out on 28 January 2014 for a total par value of €17,631 K. This increase enabled 15 new Local Authorities to become shareholders of ST. A second capital increase was carried out on 5 June 2014, for a total amount of €13,800 K, enabling twenty-six new Local Authorities to become shareholders. A third capital increase was carried out on 5 December 2014, for a total amount of €5 756k, allowing thirty new Local Authorities to become shareholders.

95% of these new capital issues were returned to the Issuer (cf below).

At 31 December 2014, the amount subscribed and paid by ST is €37 286k.

Upon the Issuer'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.

As at 31 December 2014 the Issuer's share capital therefore amounted to €35 800K.

2.1.2. 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.

ST is a holding company and does not carry out any operational or financial activities.

The Issuer will lend to member local authorities. It will finance its activities by raising funds on financial markets, thereby positioning itself as the ideal link between financial markets and the member Authorities.

2.1.3. Significant events

2014 is the first financial year for Agence France Locale Group.

During this financial year, on 22 December 2014, the Issuer obtained an approval as a specialist credit institution from the *Autorité de contrôle prudentiel et de résolution* (l'ACPR).

Net Banking Income was €325k for the 2014 financial year. It includes €440K of income from equity investment products in financial assets held-to-maturity and €116k of expenses related to refinancing operations in the first financial year.

Development of the in-house IT system ("IS") began in February 2014, leading to a first version of the system in November 2014, in line with the initial plan. During the second half of 2014, Management undertook initial work on the IT system security, including drafting an IT System Security Policy (ISSP), carrying out an IT risk assessment and preparing for the French data protection and freedom of information law (*Loi Informatique et Libertés*). Office space and equipment has developed in line with the growth of the Issuer. IT costs related to setting up the main IT tool amounted to €3 861K at 31 December 2014 reported in intangible fixed assets.

In parallel, Management established a secure telecoms system in the Tour Oxgène premises in Lyon, to allow for the arrival of the Issuer's staff in September 2014. A project to set up an IT portal for Local Authorities was launched in September.

Operating expenses for this financial year are €10 112K, of which €2 021K is staff expenses and €8 091K is administrative expenses. The latter include in particular €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).

Tax losses over the financial year activated tax deferrals which gave tax proceeds of €3 301K.

The Group had a negative consolidated net income for FY2014 of €6 603K.

2.1.4. 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. **Rules and accounting methods:**

In accordance with IFRS 1 *First adoption of the international financial information standards* and pursuant to the European payment regulation 1606/2002 adopted on 19 July 2002 by the European Parliament and the European Council, AFL Group has prepared its first consolidated financial statements in accordance with IFRS (International Financial Reporting Standards) published by the IASB (International Accounting Standards Board) at 31 December 2013 and such as adopted by the European Union and whose application was mandatory at that date. IFRS includes IFRS and IAS (International Accounting Standard) standards, and their IFRIC (International Financial Reporting Committee Interpretations) and SIC (Standing Committee Interpretations) interpretations.

As at 31 December 2014, AFL has applied the following standards:

Standards	
IFRS 1	*First adoption of the international financial information standards*
IAS 1	*Presentation of the financial statements*

Standards	
IAS 32	*Financial instruments: Presentation*
IAS 39	*Financial instruments: Accounting and evaluation*
IFRS 7	*Financial instruments: Information required*
IFRS 13	*Fair value measurement*
IAS 19R	*Employee benefits*
IAS 17	*Leases*
IAS 24	*Related party disclosures*
IAS 16	*Tangible fixed assets*
IAS 38	*Intangible fixed assets*
IAS 12	*Income taxes*

In addition, the Issuer decided to apply in advance, on a voluntary basis, the following texts published in the Official Journal of the European Union and whose application will be compulsory only from the financial year beginning 1 January 2014.

- IFRS 10 *Consolidated financial statements* introduces a new definition of control based on the power, exposure (and rights) to variable yields and the capacity to exercise this power to influence the yields. Consolidation principles and methods adopted by the Group are set out in paragraph 3.3.

- IFRS 12 *Disclosure of interests in other entities* includes all of the information to be provided in the notes with regard to subsidiaries, partnerships, associates and non-consolidated structured companies.

The summary financial statements are prepared in accordance with the format proposed by the French accounting standards authority (*Autorité des normes comptables*) in its recommendation no. 2013-04 of 7 November 2013 relating to the format of the consolidated financial statements of banking institutions drawn up in accordance with international accounting standards.

2.3. **Principles and methods of consolidation**

2.3.1. Scope of consolidation and control

AFL Group is structured as follows:

- The Group parent company is ST

- The only subsidiary company at 31 December 2014 is the Issuer

At 31 December 2014, the consolidation comprises exclusively the subsidiary Issuer, over which ST has exclusive control through its 99.99% holding of voting rights.

2.3.2. Consolidation methods

A subsidiary company is an entity controlled by the group. The Group has exclusive control over an entity to the extent that it is able to directly or indirectly direct the financial and operational policies of that entity. The financial statements of the subsidiary companies are included in the consolidated financial statements as from the date on which control is obtained until the date on which control ceases. Balance sheet balances, income and expenses resulting from intragroup transactions are eliminated.

Changes in the Group's shareholding in a subsidiary that do not lead to the loss of control are booked as equity transactions.

As ST exercised exclusive control over the Issuer, the full consolidation method is therefore used.

2.3.3. Financial assets and liabilities

Upon initial recognition, the financial assets and liabilities are measured at fair value net of costs directly attributable to acquisition (with the exception of financial instruments recognised at fair value through profit or loss).

Assets and liabilities are classified in the following categories:

2.3.3.1. Financial assets held-to-maturity

Financial assets held to maturity are fixed or determinable income or maturity financial assets that the company intends and is able to hold until maturity.

IAS 39 prohibits, except in limited cases, the disposal or transfer of these securities before maturity. Contravention of this standard is subject to a penalty barring the Group from classifying securities in this category for two years.

Interest rate hedging transactions for this category of security do not qualify for hedge accounting as defined in IAS 39.

On the reporting date, the securities are valued at their amortised cost in accordance with the effective interest rate method, which includes amortisation of premiums and discounts corresponding to the difference between the acquisition value and the redemption value of these securities.

The income received from these securities is presented under the heading "Interest and similar proceeds" in the financial statements.

In the event of an objective sign of depreciation, the depreciation is measured as the difference between the carrying amount and the estimated recoverable amount, discounted at the original effective interest rate. This depreciation is recorded in terms of the cost of risk. In case of subsequent improvement, the excess provision becomes unfounded and is written-back.

2.3.3.2. Financial assets available for sale

Pursuant to IAS 39, the Group classifies the following as “Financial assets available for sale”:

- - non-consolidated equity holdings
- - marketable securities

These securities are recorded initially at their purchase price and fair value measurements and depreciation tests are carried out at the end of each reporting period.

If these securities are listed on an active market, the fair value recorded is equal to the market value of such securities; in the absence of listing on an active market, the fair value is determined by using the most appropriate valuation techniques: discounted cash flows, multiples of financial ratios (net positions, net customer exposures), net assets at adjusted book value, among others.

The difference between the fair value of securities on the period closing date and their net book value is accounted in equity, with the exception of depreciation.

The securities may depreciate if criteria for prolonged or significant loss in value are met. Meeting these criteria leads to a complementary individual qualitative analysis, which can lead to a depreciation.

Depreciations are irreversible for capital securities; they are recorded in the statements within the net banking proceeds in the section "Net losses or gains on financial assets available for sale". Once a security has been depreciated, any further depreciation must also be recorded in the statements.

2.3.3.3. Recording dates

AFL Group records securities held-to-maturity on the settlement date. Other securities, regardless of their type or category, are recorded on the trade date.

2.3.4. Tangible fixed assets

Tangible fixed assets are amortised on a straight-line basis over their estimated useful lives.

Fixed asset	Amortisation period
Premises and fixtures	10 years
Computer equipment	3 years
Furniture	9 years

2.3.5. Intangible fixed assets

Computer software was recorded as an intangible fixed asset because it meets the following three criteria, pursuant to IAS 38:

- it is identifiable,
- it is controlled by the entity,
- it gives future economic advantages.

Intangible fixed assets are amortised on a straight-line basis over their estimated useful lives.

Fixed asset	Amortisation period
Software	5 years
Website	3 years
Development expenses	5 years

2.3.6. Financial debts

Debts, which are not classified as fair value financial liabilities, are initially booked at cost, corresponding to the fair value of borrowed amounts net of transaction costs. At the financial year end they are recorded at their amortised cost in accordance with the effective interest rate method and booked under "Debts owed to credit institutions", "Debts owed to customers", "Debts represented by a security" or "Subordinated debts".

Debts to credit institutions are broken down according to their initial duration or their type: demand (demand deposits, current accounts) and term borrowings (special savings account) .

2.3.7. Guarantee commitments

According to IAS 39 a contract meets the definition of a financial guarantee if it includes an indemnity principle under which the issuer will reimburse the beneficiary for losses suffered as a result of a payment default by a specified debtor on a debt instrument.

2.3.8. Determination of fair value or market value

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At the time of the initial accounting of an instrument, its fair value is generally the transaction price.

IFRS 13 primarily recommends the use of a price quoted on an active market to determine the fair value of a financial asset or liability. A market is considered to be active if the prices are easily and regularly available from a stock market, broker (multi-contribution), trader, price evaluation service or regulatory agency, and if these prices represent actual transactions (in terms of volume, price) on the market under normal conditions of competition.

In the absence of an active market fair value must be determined using valuation techniques.

These techniques include the use of recent transactions in a context of normal competition. They are based on observable market data, the fair values of substantially identical instruments, cash flow discounting or option valuation models and use recognised valuation methods.

The aim of a valuation technique is to establish what the price of the instrument would have been in a normal market.

The 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.

The fair value of the booked financial instruments in the statement at amortised cost is set out in an appendix.

2.3.9. Interest income and expense

Interest income and expense is included in the financial statements for all financial instruments measured at amortised cost using the effective interest rate method. This interest income and expense is accounted net of the difference between the acquisition and redemption price, which is spread over the remaining life of the securities on a discounted basis.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument so as to obtain the net accounting value of the financial asset or liability. The calculation of this rate includes commissions received or paid and forming by their nature part of the effective rate of the contract.

2.3.10. Corporation taxes

The relevant rate to determine the taxes payable is 33.1/3%, legal rate in force as at 31 December 2014.

2.3.11. Deferred taxes

In accordance with IAS 12, the income tax includes all taxes based on income, regardless of whether they are payable or deferred.

Adjustments in consolidation, together with the differences between company and tax statements or between the values of assets and liabilities for tax or accounting purposes are temporary differences. Deferred taxes are assessed according to the so-called "variable carry forward" method.

The active deferred taxes are booked when their chances of recovery are considered probable.

IAS 12 prohibits the discounting of deferred taxes.

2.3.12. Use of estimates in the preparation of the financial statements

The preparation of the financial statements requires assumptions and estimates to be made which imply uncertainties regarding their future updating. These estimates, on the basis of information available on the closing date, call for the exercise of judgement by those preparing and managing particularly during the fair value measurement of financial instruments.

Future updates depend on a number of factors: interest and exchange rate fluctuations, economic situation, changes to regulation or legislation, etc. This means that the definitive results from relevant activities mat be different from these estimate and have an effect on the accounts.

Valuation of financial instruments that are not listed on organised markets is based on models of market data available for most over-the-counter instruments. Measuring some complex instruments that are not listed on an active market is based on valuation techniques which in some cases include non-observable parameters.

Information on the fair value of financial assets and liabilities booked at cost is set out in the appendix.

2.3.13. Retirement benefits and other employment liabilities

In accordance with IAS 19 - *Employee benefits*, in the context of defined benefit schemes, retirement and other related liabilities are evaluated by independent actuaries, according to the projected unit credit method.

Under this method, each period of service gives an additional unit of rights to benefits and each of these units is evaluated to obtain the final obligation. This final obligation is then discounted. These calculations mainly include:

- an assumption as to retirement start date,
- a financial discounting rate,
- a rate of inflation,
- assumptions on salary increases and staff turnover.

Actuarial profit and loss are generated by changes in assumptions or experience variances (difference between projected and actual) in respect of commitments or financial assets. These actuarial variations are booked under “Income and expenses recognised directly through equity”, which are non-recyclable in the financial statements.

Therefore the net expense in relation to defined benefit schemes corresponds to the sum of:

- the cost of past and performed services (in Operating income, under "General operating expenses - Staff”),
- the expense in relation to accretion of the net obligation of the return on plan assets (in "Non-operating expenses", under "Return or expenses on employment liabilities").

These two components (accretion and return on assets) are determined on the basis of the discounting rate of the liabilities.

2.4. Notes on the balance sheet

2.4.1. Note 1: Customer loans and receivables

Bank loans and receivables are sight drafts.

2.4.2. Note 2: Financial assets

At 31 December 2014, AFL Group's financial assets comprise the following items (in €K):

Accounting category IAS 39	Fair value	Balance sheet value	Variation
Financial assets available for sale	-	-	-
Financial assets held-to-maturity*(1)	34 618	31 418	3 200

**Interest incurred on liabilities of €455K are excluded in determining the fair value.*

(1) Level 1 liabilities according to the IFRS 13 hierarchy:

- UNEDIC, rate: 2.375%, 10 year term
- AFD, rate: 2.25%, 12 year term
- OAT, rate: 3.5%, 12 year term

All held-to-maturity financial assets have a term greater than 5 years.

The 3 level hierarchy for fair value accounting of financial instruments on the balance sheet as defined by IFRS 13 is as follows:

- Level 1: inputs are quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs are quoted priced on active markets for similar financial instruments or inputs for which all significant data is based on observable market data.
- Level 3: Valuation techniques for which meaningful data is not based on observable market data.

The estimated fair values have been determined on the basis of available market information and appropriate valuation methods according to the type of instrument.

The fair values were determined on the basis of information available at the financial year end date and do not therefore take into account the effect of any subsequent variations.

At 31 December 2014, the primary assumption and valuation methods used are the valuation of bond securities obtained from renowned financial institutions.

2.4.3. Note 3: Debts owed to banks and commitments received

The banks HSBC France and Natixis, as arrangers, 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 arranger or dealer commitments for debt securities is distributed as follows:

- -HSBC France - up to €12 500K
- -Natixis - up to €12 500K

At 31 December 2014, the Issuer has drawn down €15 800K, which is therefore 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 arrangers' residual commitment amounts is €9 200K. Interest accrued in respect of these debts is booked as related payables through profit or loss.

2.4.4. Note 4: Accruals and miscellaneous assets

Items	Amounts at 31/12/2014 (€K)	Term < 12 months	Term > 12 months
Guarantees and deposits paid	62	-	62
Trade payables - advances and instalments	35	35	-
Deductible VAT on goods and services	54	54	-
Carry forward VAT input credit	724	724	-
VAT refund	652	652	-
VAT on accrued invoices	40	40	-
Prepaid expenses	26	26	-
Related - non-paid up capital	-	-	-
Total	**1 593**	**1 531**	**62**

Items	Amounts at 31/12/2014 (€K)	Term < 12 months	Term > 12 months
Social welfare organisations	332	332	-
Suppliers	369	369	-
Suppliers - invoices not received	247	247	-
Staff - Salaries payable	25	25	-
Personnel - Paid-leave and compensatory time-off	25	25	-
Staff expenses payable	121	121	-
Employment expenses covered by provisions	78	78	-
Suspense account - Creditor	31	31	-
Total	**1 228**	**1 228**	**-**

2.4.5. Note 5: Accruals and miscellaneous assets

2.4.6. Note 6: Tangible and intangible fixed assets

At 31 December 2014, tangible fixed assets comprise computer equipment, furniture, expenses for furnishing premises, depreciations, detailed as follows:

Fixed assets	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 comprise computer software and depreciation, detailed as follows:

Fixed assets	Amount (in €K)
Intangible fixed assets	4 129
Intangible fixed assets in progress	122
Gross value of the intangible fixed assets	**4 251**
Depreciation, impairment and provisions for intangible fixed assets	-103
Net value of the intangible fixed assets	**4 148**

2.4.7. Note 7: Deferred taxes

The deferred comprise the following:

Type	Deferred tax asset	Deferred tax liability
Tax losses	2 741	-
Deferred taxes related to withdrawals and elimination from consolidation	560	-
Total	**3 301**	**-**

At 31 December 2014, the Group noted deferred tax assets corresponding to carry forward tax losses. At the end of the financial year, the Group considered it likely to recover these deficits. Projections of results prepared

on the basis of the most recent forecasts indicate that the issuer's activities should generate sufficient taxable results to absorb all of the carry forward tax losses over a period of 3 years.

2.5. Notes relating to the income statement

2.5.1. Note 8: Interest payable, proceeds and similar charges

Items	Amounts at 31/12/2014 (€K)	
	Proceeds	Expenses
Interest and similar income on treasury and interbank transactions	-	63
Interest and similar income on transactions with customers	-	-
Interest on hedging transactions	-	-
Interests on assets available for sale and held-to-maturity	440	-
Total	**440**	**63**

2.5.2. Note 9: Commissions

Items	Amounts at 31/12/2014 (€K)	
	Proceeds	Expenses
Commissions on treasury and interbank transactions	-	53
Commissions on the provision of financial services	-	-
Commissions on securities transactions	-	-
Commissions on insurance services	-	-
Commissions on financial instruments	-	-
Other commissions	-	-
Total	**-**	**53**

2.5.3. Note 10: General Operating Expenses

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

At the closing date of the accounts, the operating costs are distributed as follows:

Items	Amounts
Staff costs	
Salaries	1 384
Retirement and similar expenses	144
Other employment expenses	493
Total Staff Expenses	**2 021**
Administrative expenses	
Taxes	19
External services	12 055
Total Administrative Charges	**12 074**
Chargeback and transfers of administrative expenses	-3 983
Total General Operating Expenses	**10 112**

The transfers of administrative expenses include the expenses transferred in fixed assets in progress, representing, essentially, the amount of expenses related to IT systems.

2.5.4. Note 11: Staff-related liabilities: short-term benefits

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

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

2.5.5. Note 12: Staff-related liabilities: post-employment benefits

For each defined benefit scheme, AFL 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	Amounts (€K)
Post-employment benefits (1)	**3**
Provision for retirement indemnities	3
Total post-employment benefits	**3**

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

2.5.6. Note 13: Related party transactions

The Group's main management is the Members of the Executive Board of the Issuer and the Managing Director and Assistant Managing Director of Agence France Locale – Société Territoriale. The amount of remuneration paid to them was €607k 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.

2.5.7. Note 14: Auditors' Fees

	Cailliau Dedouit et Associés		KPMG Audit	
	2014		2014	
	In €K	In %	In €K	In %
Auditing				
Auditor, certification, review of individual and consolidated financial statements				
AFL-ST (parent company)	10	21%	10	21%
Fully integrated subsidiary companies	37	79%	37	79%
Sub-total	**47**		**47**	
TOTAL	**47**		**47**	**100%**

AGENCE FRANCE LOCALE – SOCIETE TERRITORIALE

STATUTORY AUDITORS' REPORT
ON THE CONSOLIDATED 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 consolidated 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 consolidated 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 Group's management report.

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

KPMG AUDIT FS I
3, cours du Triangle
92939 Paris La Défense

Cailliau Dedouit et Associés
19, rue Clément Marot
75008 Paris

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2014

To the Shareholders
AGENCE FRANCE LOCALE – SOCIETE TERRITORIALE
41, quai d'Orsay
75007 PARIS

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 consolidated financial statements of Agence France Locale – Société Territoriale (AFL Group),
- the justification of our assessments,
- the specific verification required by law.

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

I. Opinion on the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2014 and of the results of the operations for the year then ended, in accordance with IFRSs as adopted by the European Union.

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

Your group has purchased a bonds portfolio for investment purposes of the liquidity received from the shareholders. These financial assets have been registered in "Held to maturity financial assets" categories in accordance with the principles set out in notes 3.3.3.1. and 3.4.2. of the Notes to the consolidated financial statements.

In the framework of assessing the accounting principles used by your Group, we have verified the appropriateness of these accounting methods, as well as the information provided in the Notes to the consolidated financial statements, and have made sure of their correct application.

Accounting estimates

Your group has carried out accounting estimates concerning recognition of deferred tax assets relating to tax losses carried forward in accordance with the principles set out in notes 3.3.11 and 3.4.7. of the Notes to the consolidated financial statements.

We have examined the accounting method and main assumptions used and verified that the estimations done rely on documented procedures in accordance with the principles set out in the Notes to the consolidated financial statements.

These assessments were made as part of our audit of the consolidated 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 verification

As required by the law we have also verified, in accordance with professional standards applicable in France, the information presented in the Group's management report. We have no matters to report regarding its presentation and its consistency with the consolidated 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