Financial Report

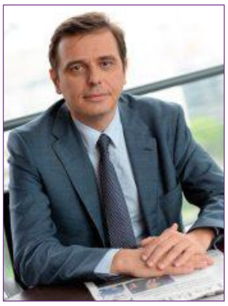
2014

Société de Financement Local

Financial Report 2014

Message of the Chairman and Chief Executive Officer

2014, a year of concrete fulfillment



In 2014, even if the challenges we had to face were multiple and complex, I am very pleased to report that the results are there. In just two years of existence, Sfil has become a solid operating structure that fully assumes its mission as a public development bank. In consequence, the three fundamental missions entrusted to our care by the French State are carried out with relevance.

Refinancing, the year 2014 confirms and amplifies the first results achieved in 2013

Caisse Française de Financement Local, Sfil's refinancing subsidiary, has become a reference player in international bond markets as illustrated by the completion as of September 2014 of our annual funding program in the amount of EUR 4 billion with, for the second year in a row, a longer maturity than expected and a lower financing cost.

Partnership with La Banque Postale, already in second place

With regard to our partnership with La Banque Postale (LBP), we can boast of the excellent performance of the services we provide with an average rate of respect for quality indicators of 92%, associated with production that exceeds the objective of EUR 3 billion in spite of the continued fierce competition. Today, with a market share of 25%, LBP ranks as the second largest lender in the sector, just behind the leader. This performance consecrates Sfil in just two years as a major player in the financing of local governments and public hospitals.

Stepped-up efforts to reduce loan sensitivity

The roll-out of our strategy to reduce loan sensitivity, associated with the effective introduction of support funds for local governments, picked up speed, in particular with the signing of emblematic financial agreements with the Conseil Général de Seine-Saint-Denis and the municipalities of Saint-Étienne and Asnières-sur-Seine. We exceeded our objective in terms of the reduction of loan sensitivity, which had been set at EUR 1 billion in 2014, by achieving the sum of EUR 1.2 billion.

At the end of the year, we had thus reduced by more than a quarter the initial inventory of sensitive loans. Sfil found a solution for 160 different customers, and one out every five customers concerned is now definitively free of the risk inherent in this type of contract.

Structuring projects with promise

Throughout the year, we also conducted a large number of projects that help structure our future.
One example is our marked success in the review of the quality of assets and stress tests, a performance that is of major importance in terms of image and trust for our shareholders, partners and investors.
We also put an end to all cooperation with Dexia in information technology, six months before the scheduled date, and we therefore achieved complete operating autonomy.
Likewise, we launched a comprehensive program to simplify our information system to achieve our objectives in operational security and lower costs.
Finally, we moved to new offices in Issy-les-Moulineaux, which are perfectly functional and adapted to our size, thereby symbolizing a new stage in our development.

On the occasion of the 2014 financial report, I wish to express my sincere gratitude to all those who have enabled us to achieve our ambitions in this fiscal year, including the whole staff, whose commitment was entire, as well as our partners and shareholders – the French State, our reference shareholder, Caisse des Dépôts et Consignations and La Banque Postale, which have maintained their confidence with unfailing determination and support.

2015, new horizons open up

The year 2015 promises to be as exciting as the previous fiscal period, and will mark for Sfil the beginning of a new stage in its development, thus amplifying our role as a public development bank working hand in had with its reference shareholder, the State.
In February, the State announced the creation of initiatives to boost public export financing, and entrusted Sfil with the project. This new activity enhances our status and increases profitability while keeping the same low risk profile.
Personally, and speaking as well for my teams, I am honored and happy to see Sfil called to carry out this new mission. Our motivation is strong – to be the foremost illustration of relevant public financing in the service of France and its citizens.

Philippe Mills
Chairman and Chief Executive Officer

FINANCIAL REPORT 2014
Société de Financement Local

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This free translation of the financial report published in French is provided solely for the convenience of English-speaking readers.

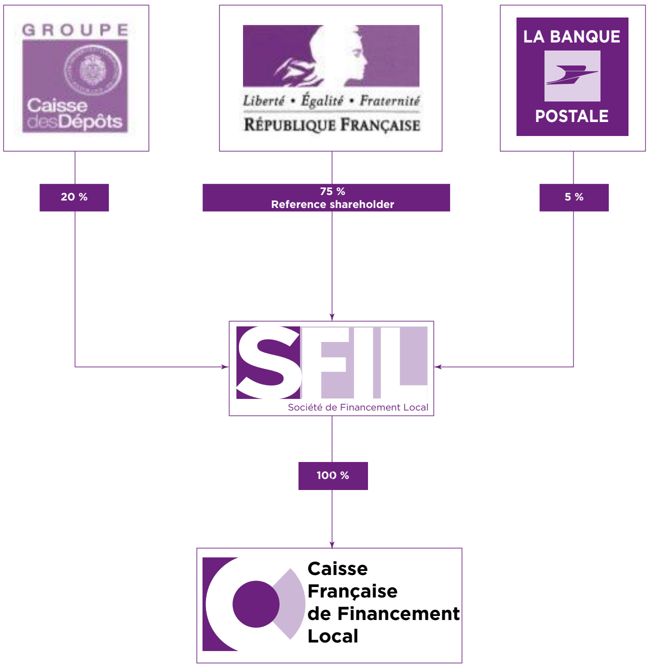
Management Report

Context

Société de Financement Local (Sfil) was approved by the Autorité de contrôle prudentiel et de résolution (ACPR) to operate as a bank on January 16, 2013.
It is at the heart of a system that meets the State's determination to provide French local governments and public hospitals with continuous and efficient access to long-term bank financing, in addition to the offers proposed by commercial banks and French or European public institutions operating in this segment.
This organization is based on the very close cooperation uniting the State, Sfil's reference shareholder, and the promoter of the project, Caisse des Dépôts et Consignations (CDC), mainly as a supplier of a part of the funding required to ensure efficient operation, and La Banque Postale (LBP), which through its network, markets new financing offers to local governments and public hospitals
This system was launched subsequent to the approval of the European Commission on December 28, 2012, which in particular authorized Sfil's purchase of all of the capital and balance sheet of Dexia Municipal Agency (DMA), which was renamed Caisse Française de Financement Local.

The State plays a special role in this system by contributing 75% of the capital of Société de Financement Local and, as the reference shareholder by supplying prudential authorities with a strong commitment to provide needed financial support, in keeping with current banking regulations.
Caisse des Dépôts et Consignations and La Banque Postale respectively hold 20% and 5% of the capital of Société de Financement Local. Sfil's shareholders are thus strongly rooted in the public sphere, reflecting the mission entrusted to it by the State.
Since January 31, 2013, Sfil holds 100% of the capital of Caisse Française de Financement Local, its sole subsidiary with the status of a *société de crédit foncier* (SCF) governed by articles L.513-2 and following of the Monetary and Financial Code (see below: General business environment).

Capital structure of Sfil and its sole subsidiary



Highlights of 2014

During the year 2014, Société de Financement Local (Sfil) accomplished its fundamental missions, which involve 1) refinancing, *via* its subsidiary Caisse Française de Financement Local, loans granted by La Banque Postale to eligible local governments and public hospitals, 2) supplying specialized services to La Banque Postale and Caisse Française de Financement Local, and 3) implementing a policy to reduce the sensitivity of the portfolio of structured loans. Sfil also conducts several structuring projects to ensure its future.

1. Issues by Caisse Française de Financement Local

Caisse Française de Financement Local issued a total volume of EUR 4.0 billion in 2014 compared with EUR 3.06 billion in 2013.
It benefited from a favorable environment for its issues, in particular with the announcement at the beginning of September by the European Central Bank of a new program to purchase covered bonds, and another at the beginning of October by the European Commission of the classification of covered bonds among some of the most liquid assets.

2. Partnership with La Banque Postale

At EUR 3.3 billion, La Banque Postale (LBP) increased its annual production by almost 10% compared with 2013. This second year of business also enabled Caisse Française de Financement Local to acquire almost EUR 1,662 million in loans from La Banque Postale in four quarterly transfers.

3. Policy to reduce loan sensitivity

The initial objective in the reduction of loan sensitivity, set at EUR 1 billion, was exceeded and finished the year at approximately EUR 1.2 billion. The number of loans transformed was multiplied by two in 2014, compared with 2013. At the end of the year 2014, the initial inventory of sensitive loans was down a quarter, from EUR 8.5 billion to EUR 6.3 billion with a complete elimination of sensitive loans for more than 150 customers. Financial agreements were signed with the Conseil Général de Seine-Saint-Denis and the municipalities of Asnières-sur-Seine and Saint-Étienne.

4. Law to secure structured loan agreements and the creation of support funds for local governments and public hospitals

In order to find a permanent and comprehensive solution for the problem of the most sensitive structured loans contracted by local governments, and in compliance with its press releases dated June 18, and July 16, 2013, the French government took the following measures:

- the creation of a multi-year support fund endowed with EUR 1.5 billion (this amount was raised to EUR 3 billion by the government on February 24, 2015 – cf. 9. Post-closing events) to allow local governments to finish with structured loans; a similar structure is planned for public hospitals through the endowment of a fund with a total intervention capacity of EUR 100 million (this amount was raised to EUR 400 million by the government on February 24, 2015 – cf. 9. Post-closing events);
- legislative measures targeting a legal basis to secure existing loan agreements.

5. Ratings of the entities

Société de Financement Local

At the beginning of February 2013, from the three rating agencies Moody's, Standard and Poor's and Fitch, which underlined the strong ties existing between Sfil and the State, Sfil had received a first set of ratings that were equal to or a notch lower than those of the State: Aa2 for Moody's, AA+ for Standard & Poor's and AA+ for Fitch.
Since the State's rating was lowered in 2013 and 2014, Sfil's ratings were reviewed as well. As of December 31, 2014, Sfil's ratings stood at Aa2 for Moody's, AA for Standard & Poor's and AA- for Fitch.

Caisse Française de Financement Local

By the same token, the rating of the *obligations foncières* issued by Caisse Française de Financement Local was modified in 2014, subsequent to changes in the rating of the French Republic. Fitch and Standard & Poor's applied a ceiling to the rating of Caisse Française de Financement Local linked to the French sovereign rating, in light of the strong link between Caisse Française de Financement Local and the State, and the concentration of the cover pool in the French local public sector.
At the end of December 2014, the ratings were as follows: AA+ for S&P, Aaa for Moody's and AA for Fitch.

6. AQR, stress tests and supervision mechanism of the ECB

Within the framework of the Single Supervision Mechanism, the European Central Bank (ECB) directly oversees the 120 largest banks in the eurozone as of November 4, 2014. The group made up of Caisse Française de Financement Local and its parent company Sfil (Sfil Group) is included among the banks directly supervised by the ECB. Before assuming its oversight obligations, the ECB launched in October 2013 a vast review to make a comprehensive assessment of bank balance sheets. This assessment included a thorough analysis of the quality of the assets (Asset quality Review – AQR) and a stress test.
The definitive results, published on October 26, 2014, by the EBC, confirm the prudence of the risk management system set up by the bank and the quality of its economic model based on public sector assets with a low risk profile. The prudential adjustments determined by the ECB subsequent to its review of the quality of assets are very limited. More details are provided in the part of this report that deals with risk management.

7. Launch of a program to simplify information systems

While putting an end to all cooperation with Dexia and thereby achieving complete operating autonomy for Sfil, from the point of view of human resources as well as systems resources, Sfil launched a program to simplify its information system over the next three years. The goal is to equip Sfil with an information system adapted to its missions that would make it possible to respond efficiently to the risk control and management requirements of Sfil and Caisse Française de Financement Local as well as to the different requests made by regulators.

8. Change in address – new headquarters

Between December 2014 and January 2015, the whole Sfil staff moved to new headquarters located at 1-3, rue du Passeur de Boulogne in Issy-les-Moulineaux, France.

9. Post-closing events

Appreciation of the Swiss franc

On January 15, 2015, the Swiss National Bank (SNB) announced its decision to let its national currency, the Swiss franc (CHF), appreciate. This brutal and unexpected decision had the immediate consequence of a sharp increase in the

Swiss franc vis-à-vis the other currencies and especially the euro.
For local governments and public hospitals that had subscribed structured loans with an interest rate highly dependent on the EUR/CHF exchange rate, this decision of the SNB led to a considerable increase in future installments of the loan repayment and indemnities in the event of early reimbursement.
The French government immediately announced that it would review the conditions whereby local governments would benefit from the support fund set up to deal with sensitive structured loans, in close cooperation with all the stakeholders. It will ensure that the support fund continue to attain the goals that had been set, i.e. to enable the entities concerned to finish with their sensitive loans under acceptable and achievable financial conditions.

Thus on February 24, 2015, the French government announced a massive increase in the intervention capacity of the funds earmarked to support public sector entities having contracted sensitive structured loans.

- The amount of the funds set aside for local governments will be increased from EUR 1.5 billion to EUR 3.0 billion, and the ceiling for assistance from the fund (initially set at 45% of the penalties due) will be raised for the most vulnerable entities.
- The amount of funding dedicated to public hospitals will rise from EUR 100 million to EUR 400 million.

The government also insisted on the necessity to finish definitively with sensitive structured contracts, and called on local governments to submit as soon as possible a request for assistance from the support funds. The banks will contribute to the additional financing for half of the local government fund and the entire hospital fund, by raising the rate of the tax on systemic risk.
This bolstering of the support funds aims to cover the additional cost of the appreciation of the Swiss franc so that the penalties for early reimbursement remaining the responsibility of the customers concerned, after assistance from the funds, will not be greater than they would have been without the decision of the SNB.

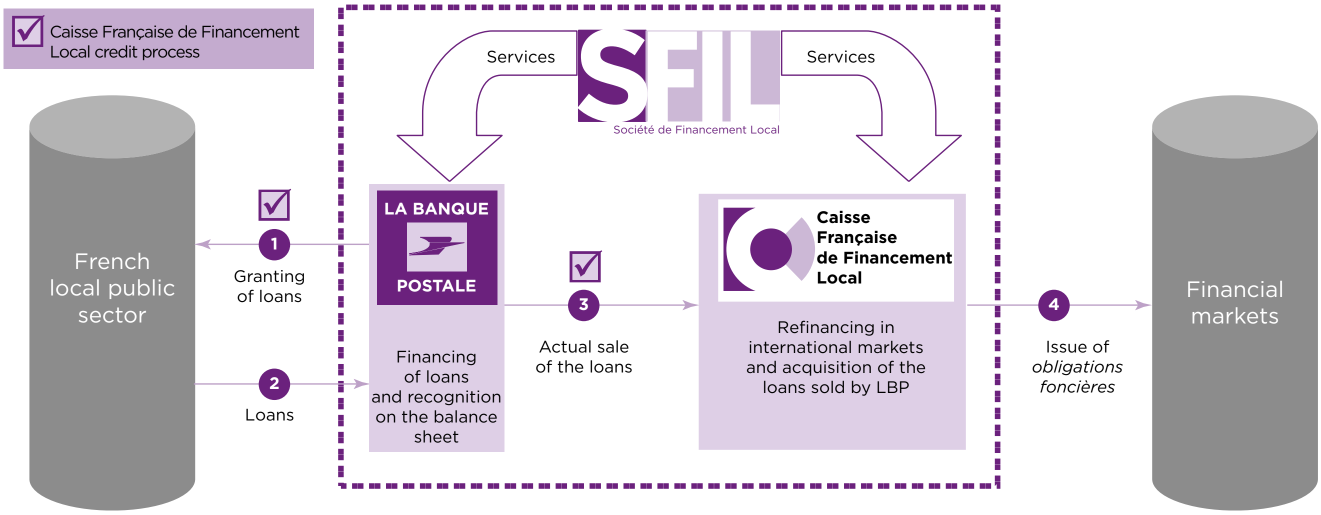
Business expansion
At the beginning of 2015, the French State announced the creation of a national scheme dedicated to the refinancing of export credit, which it decided to entrust to Sfil. Sfil will work closely on this new mission with all the players in the export credit market, primarily Coface, an insurance company specialized in insuring foreign credit-buyer contracts signed with French banks.
This new scheme will enable exporters and lending banks to take advantage of the capacities of Caisse Française de Financement Local to raise funds in the market under conditions that are those of the best French issuers of covered bonds and with volumes adapted to the refinancing of large-sized export credits. Importing companies will thus benefit from markedly improved financial conditions for purchases up to several billion euros with maturities of 10, 20 and more years.

General business environment

Within the framework of the scheme presented above, Sfil has been assigned three missions:

- refinancing, within a strictly defined framework, of loans initially granted by La Banque Postale to eligible[1] local governments and public hospitals *via* the issue of *obligations foncières* by Caisse Française de Financement Local;
- specialized services rendered by Société de Financement Local to La Banque Postale and Caisse Française de Financement Local allowing for the proper operation of the scheme;
- a reduction in the sensitivity of certain structured loans contained in the assets on the balance sheet of Caisse Française de Financement Local, in line with the objectives defined by the State in terms of the management of public finances and respecting the strategic interests of Société de Financement Local.

Operational flow diagram of the scheme



1. Refinancing by Caisse Française de Financement Local of local public sector loans initiated by La Banque Postale

The business of refinancing local public sector loans initiated by La Banque Postale has become the responsibility of the subsidiary of Société de Financement Local, Caisse Française de Financement Local.

Caisse Française de Financement Local is a credit institution approved as a *société de crédit foncier (*SCF*)*. Société de Financement Local serves as a backer for the activities of Caisse Française de Financement Local, as specified by regulations concerning its status as a *société de crédit foncier (*SCF), in particular in accordance with articles L.513-15 and L.513-2 of the Monetary and Financial Code.

In this context, Société de Financement Local is the servicer of Caisse Française de Financement Local, and provides full operational management of its subsidiary within the framework of the management agreement it signed with Caisse Française de Financement Local.

In 2014, Caisse Française de Financement Local benefited from a favorable environment. Its issues, like all covered bonds, were classified by the European Commission as some of the most liquid assets with the best quality, and the European Central Bank launched a program to purchase covered bonds on a large scale. These two decisions, which will have lasting effects on the market, bolstered and consolidated investor demand for quality issues like those of Caisse Française de Financement Local.

Within this framework, Caisse Française de Financement Local, sought funding in the public primary market for a total of EUR 2.75 billion. After a ten-year issue in January (EUR 1 billion) and an increase of EUR 500 million in its 15-year souche, it took advantage of the good market conditions to launch a jumbo five-year issue (EUR 1.25 billion) in September.
Each of these transactions met significant demand on the part of investors, in all segments, with the high point being the five-year transaction, which benefited from excellent market conditions to collect almost EUR 5 billion, making it possible to price the first issue of French covered bonds with a negative spread vis-à-vis Euribor.

In addition to these public transactions, Caisse Française de Financement Local was very active in the private placement segment and, in particular, in registered covered bonds (RCB). This allowed the bank to satisfy investors' search for long and very long maturities. Altogether, EUR 1.27 billion was raised in this market segment.

Caisse Française de Financement Local had issued a volume of issues totaling EUR 4.0 billion by the end of the third quarter, representing its entire program for 2014.

(1) Eligibility in the sense defined by legislation on sociétés de crédit foncier *in its definition of assets in the cover pool that may be recognized on the balance sheet in guarantee of* obligations foncières *issued.*

2. Services for La Banque Postale

Société de Financement Local supplies services for La Banque Postale and for the LBP-CDC "Banque Postale Collectivités Locales" joint venture to support the marketing initiatives of La Banque Postale, which grants long-term loans to the local public sector (local governments and hospitals). These services, defined in the service agreement signed by Société de Financement Local and La Banque Postale, concern different areas (assistance in product design and in the management of loan offerings, back office management of loans, ALM reporting, accounting, etc.).
In 2014, Société de Financement Local also continued to assist La Banque Postale in expanding the range of the products it offers.

3. Reduction in loan sensitivity

The efforts Sfil made in 2014 to reduce loan sensitivity on outstanding assets on the balance sheet of its subsidiary, Caisse Française de Financement Local, were undertaken, as in 2013, in line with initiatives validated by the Board of Directors of Société de Financement Local.

Sensitive outstanding assets include those classified as outside of the Gissler Charter (code of good conduct signed between banks and local governments in December 2009) and assets labeled 3E, 4E and 5E according to the breakdown of the Charter.

The method used consists in a definitive reduction in the sensitivity of the most sensitive structured loans. Thus, if required, Sfil may allocate new liquidity to borrowers in the form of additional funding or refinancing of the indemnity for early reimbursement.

In order to find a permanent and comprehensive solution for the problem of the most sensitive structured loans contracted by local governments and public hospitals, the French government took the following measures:

- support funds for local governments and public hospitals:
  - a multi-year support fund was created by the 2014 law of Finances voted in December 2013. It is endowed with EUR 1.5 billion and has a life span of 15 years maximum (EUR 100 million per year). It is managed by a new administrative department created by the State, the *Service de pilotage du dispositif de sortie des emprunts sensibles*.
    The framework in which the fund is working has been described in the decree of application dated April 29, 2014, in the *arrêté* dated November 4, 2014, and in the guidelines for using the funds, approved by a *Conseil national d'orientation et de suivi* (CNOS) on November 13, 2014. The main features of this framework are the following:
    - eligible customers: local governments and groups of such holding the most sensitive loans;
    - amount of aid: it is defined by several criteria, in particular the financial situation of the local public entity making the request and the portion of eligible contracts in the entity's total debt; the maximum amount of aid may represent up to 45% of the indemnity (the maximum aid being granted to entities with the worst financial situation);
    - use of the aid received by local governments: it will be paid in equal parts over a period of 15 years and will compensate a part of the early reimbursement indemnity; exceptionally and for a limited time, aid could be granted to pay for a portion of the interest on the loan in question (which would not be reimbursed in that case);
    - renunciation by the entities that benefit from the fund of current or future litigation on the loans benefiting from the fund, formalized in an agreement signed with the bank;
    - management of the fund insured by the State, with a CNOS bringing together representatives of the State, local governments and qualified individuals;
    - banks provide 60% of the funds and the French State the remaining part.
  - a similar scheme was launched for public hospitals by ministerial instruction DGOS/PF1/DGFIP/CL1C/CL2A/2014/363 of December 22, 2014. It is endowed with a contribution of EUR 100 million, which will be paid out to public hospitals in equal annual fractions over three years. The main features are the following:
    - eligible customers: public hospitals whose total income is less than EUR 100 million according to 2013 financial statements;
    - eligible contracts: structured loan contracts considered to be outside of the Charter;
    - amount of aid: aid corresponds, for each loan contract, to a fraction of the total indemnity for early reimbursement owed by the hospital. This fraction may not exceed 45% and the amount of aid, a ceiling of EUR 5 million. The percentage taken into account by the scheme includes a number of criteria for each beneficiary of the contribution, in particular, the weight of outstanding debt outside of the Charter in the debt total, its level of debt, its financial situation and its capacity to deal with the cost-overruns generated by the structured loans classified outside of the Charter as well as its borrowing needs in the years to come.
    - conditions of granting aid: the payment of the aid is subordinated to the early reimbursement of the eligible contract(s) concerned and to the negotiation previously concluded with the credit institution of a financial agreement in the sense of article 2044 of the Civil Code concerning the contract(s).

Caisse Française de Financement Local, the subsidiary that carries the Sfil Group's assets, has committed to contribute to the fund dedicated to local governments for EUR 10 million per year for 15 years, as well as to the analogous arrangements planned for public hospitals for a total amount of EUR 18 million. All of these contributions have been recorded in the Company's accounts.

The French government made new decisions about these funds on February 24, 2015, subsequent to the decision taken by the Swiss National Bank on January 15, 2015, to let the Swiss currency appreciate, causing significant repercussions for local governments and public hospitals. The French government announced it would double the volume of the support funds earmarked for local governments (the amount was raised from EUR 1.5 billion to EUR 3 billion) and multiply by four the sum for public hospitals (the amount was raised from EUR 100 million to EUR 400 million). As of the date this report was prepared, the modalities had not yet been determined by new legislation and regulations.

- New legislative measures targeting a legal basis to secure loan agreements with public sector entities took effect on July 30, 2014, after having been validated by the Conseil Constitutionnel, on July 24, 2014. Certain provisions had been amended to take into account the comments of the Conseil Constitutionnel at the end of December 2013.

Within this framework, the year 2014 was characterized by:
- the acceleration of the number of operations processed in comparison with 2013: 158 operations to reduce loan sensitivity in 2014, versus 98 in 2013;
- success in exceeding the objective of EUR 1 billion in the volume of loans with reduced sensitivity and achieving EUR 1.2 billion; at the end of the year, the initial inventory of sensitive structured loans was reduced by a quarter, from EUR 8.5 billion to EUR 6.3 billion.
- the signing of financial agreements with, in particular, the *Conseil Général* of Seine-Saint-Denis and the municipalities of Saint-Étienne and Asnières-sur-Seine.
- borrowers who were increasingly receptive to the interest of the scheme proposed by Caisse Française de Financement Local in tandem with reduced sensitivity: additional funding granted rose to EUR 0.8 billion in 2014 versus EUR 0.3 billion in 2013.

**Anthony,
Project Manager,
Financial Engineering**

"After earning a second-level Master's Degree in Banking, Finance and International Trade in Bordeaux, I worked for two banks in the management of local public debt before coming to financial operations at Sfil on February 1, 2013. I focused on the rescheduling of vanilla loans and certain delegated structured loans, while helping to train new recruits. This experience led me to the financial engineering department in March 2013, and since then, I have worked on reducing the sensitivity of structured loans within the framework of Sfil's third mission and in application of the sensitivity reduction policy."

SFIL profiles

**Nathalie,
Middle Office & Software Applications**

"I had held several local public sector jobs before I came to Sfil in 2013. Here, I oversee a team of ten specialists who work in two areas . First is the Middle Office, which is in charge of late payments, borrower transfers and updates of third-party references.
The second focus is Software Applications and Reporting, designed to produce tools to report and monitor the commercial operations of Sfil and LBP, and keep them adapted and secure. My job is to supervise the department and maintain a positive and convivial spirit."

Changes in the main balance sheet items

The main items on the Sfil Group's consolidated balance sheet (management data) as of December 31, 2014, are presented in the table below.

(EUR billions, value after currency swaps)

ASSETS	LIABILITIES
88.0	**88.0**
The main items of which	The main items of which
66.3	**66.3**
Cash assets 0.9	
Securities 14.2	*Obligations foncières* 52.2
Loans 47.6	Refinancing by shareholders 9.8
Cash collateral paid 3.6	Cash collateral received 2.7
	Equity and other items 1.6

The assets on the Sfil Group's balance sheet mainly consist of:
- the cash assets of Société de Financement Local and Caisse Française de Financement Local;
- the loans and securities on the balance sheet of Caisse Française de Financement Local and the assets held in the form of securitization on the balance sheet of Société de Financement Local;
- the cash collateral paid by Société de Financement Local on its derivative portfolio.

The liabilities on the Sfil Group's balance sheet mainly consist of:
- the *obligations foncières* in the liabilities of Caisse Française de Financement Local;
- the financing provided by the shareholders (Caisse des Dépôts et Consignations and La Banque Postale) to the liabilities of Société de Financement Local;
- the cash collateral received by Caisse Française de Financement Local;
- equity and other resources.

1. Changes in assets

1.1 – MAIN CHANGES IN ASSETS DURING YEAR 2014

The net change in the main assets of the Sfil Group in 2014 was EUR -1.2 billion. This change can be analyzed as follows.

(EUR billions) Value after currency swaps	12/31/2014
BEGINNING OF YEAR	**67.5**
Purchase of loans from La Banque Postale	**1.7**
New loans paid out after reduction in sensitivity	**0.8**
Cash collateral paid by Société de Financement Local	**0.3**
Amortization of loans and securities in the French public sector	**(1.8)**
Amortization of loans and securities outside the French public sector	**(1.0)**
Change in cash assets	**(1.0)**
Other	**(0.2)**
END OF YEAR	**66.3**

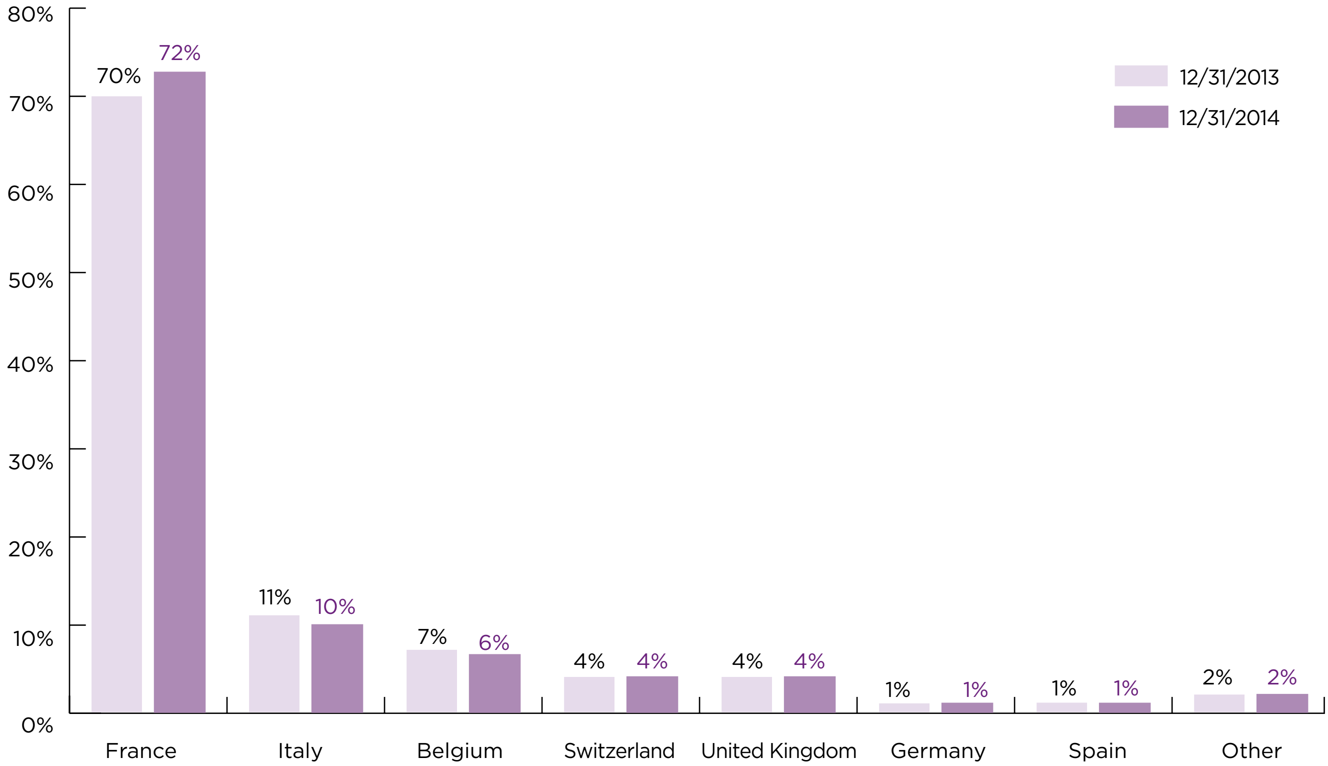
- Through its subsidiary Caisse Française de Financement Local, Société de Financement Local acquired EUR 1.7 billion in loans marketed by La Banque Postale to the French local public sector.
- The transactions to reduce sensitivity resulted in EUR 0.8 billion in new payments on the balance sheet.
- As intermediary in the derivative transactions between Caisse Française de Financement Local and certain of its counterparties, Société de Financement Local paid a total of EUR 3.6 billion in collateral in 2014, up EUR 0.3 billion from 2013.
- The other changes in assets pertained mainly to the natural amortization of the loans and securities portfolio (EUR 2.8 billion) and the reduction in the balance of the Banque de France account (EUR -1.0 billion). It should be noted that Société de Financement Local held EUR 1.5 billion in French Treasury bonds as of December 31, 2014.

1.2 – BREAKDOWN OF OUTSTANDING LOANS AND SECURITIES

The outstanding loans and securities on Sfil's balance sheet represented a total of EUR 62 billion. The predominant recipient is the French local public sector (LPS), with 72% of total outstandings in 2014. New loans are granted exclusively to the French local public sector.

Loans and securities with counterparties outside France accounted for 28% of total outstandings and corresponded to granular and geographically diverse exposures to public sector entities. These exposures were originated in the past and are now in run-off.

The following graph shows the change in the relative proportion of Sfil's loans and securities on a consolidated basis by country between 2013 and 2014.



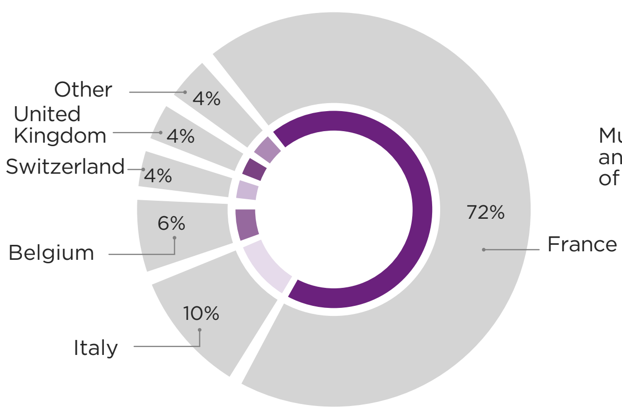
Outside of France, Italian and Belgian local governments represented the two largest exposures. France's relative portion increased by 2% between 2013 and 2014. The other exposures remained stable or decreased slightly.

The French local public sector is the only area of activity that continued to develop for the following reasons:

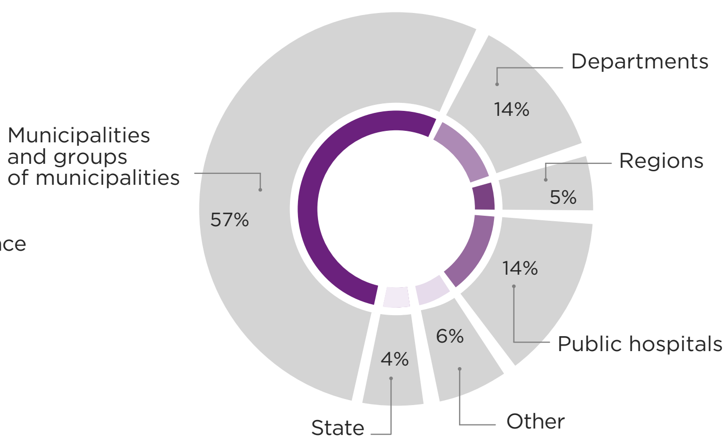
- the acquisition of the loans granted by La Banque Postale to local governments and public hospitals; in this respect, Caisse Française de Financement Local acquired EUR 1.7 billion in loans in 2014, i.e. 339 loans for EUR 533 million in outstandings in March 2014, 241 loans for EUR 308 million in outstandings in June 2014, 199 loans for EUR 381 million in outstandings in September 2014, and 328 loans for EUR 439 million in outstandings in December 2014;
- the new loans paid within the framework of the reduction in the sensitivity of structured loans for a total of EUR 0.8 billion.

For France's relative portion of 72% in 2014, the following graph shows the breakdown of loans and securities granted to the French local public sector by type of counterparty.

Geographic breakdown



Breakdown of local public service loans and securities France



Municipalities and groups of municipalities, departments and regions accounted for almost 76% of the exposures in the French local public sector portfolio.

1.3 – EXPOSURES TO BANKS (CASH ASSETS AND CASH COLLATERAL)

The exposures to banks recognized in the assets on the Sfil Group's balance sheet are of two types:

- the balance of its cash assets or of assets Caisse Française de Financement Local holds at other institutions. Cash assets deposited with the Banque de France totaled EUR 0.9 billion as of December 31, 2014;
- collateral payments made to banking counterparties to hedge counterparty risk on the derivative portfolio (swaps).
- This derivative portfolio requires that Sfil constitute collateral, generating a need for Sfil to finance its operations. Sfil paid out EUR 3.6 billion in this regard as of December 31, 2014.

2. Changes in liabilities

2.1 – MAIN CHANGES IN LIABILITIES IN 2014

The net change in the Sfil Group's main liabilities in 2014 was EUR -1.2 billion.

This change can be analyzed as follows.

(EUR billions, value after currency swaps)	12/31/2014
BEGINNING OF YEAR	**67.5**
Obligations foncières	**(0.6)**
Issues	*4.0*
Amortization	*(3.9)*
Buybacks	*(0.7)*
Change in cash collateral received	**0.2**
Senior unsecured refinancing	**(0.7)**
Equity and other	**(0.1)**
END OF YEAR	**66.3**

- Outstanding *obligations foncières* decreased by EUR -0.6 billion as a result of the amortization of loans and the buybacks partly offset by the new 2014 program.
- At the same time, the cash collateral paid by the derivative counterparties of Caisse Française de Financement Local increased by EUR 0.2 billion.
- The EUR -0,7 billion decrease in unsecured financing is linked to the progressive amortization of the balance sheet and to the reduction in the rate of over-collateralization of Caisse Française de Financement Local, which slid from 15% to 14% between 2013 and 2014.

2.2 – CHANGES IN OUTSTANDING *OBLIGATIONS FONCIÈRES* AS OF DECEMBER 31, 2014

In 2014, Caisse Française de Financement Local raised a total of EUR 4 billion by the issue of bonds benefiting from the legal privilege. All the issues were carried out as public or private issues in the euromarket, which is Caisse Française de Financement Local's domestic market.
Caisse Française de Financement Local launched three public primary issues for a total of EUR 2.7 billion. After a 10-year transaction in January (EUR 1 billion) and an increase of EUR 500 million in its 15-year *souche*, Caisse Française de Financement Local took advantage of the good market conditions to launch a five-year jumbo issue (EUR 1.25 billion) in September.
In addition to its public issues, Caisse Française de Financement Local decided to implement an active private placement policy in response to demand from investors not satisfied by the public issues offered in the primary market, especially those with long maturities. Through this activity, it raised EUR 1.3 billion with an average maturity of more than 15 years. Twenty-five percent of this amount was documented under a Euro Medium Term Note (EMTN) program, with the balance (75%) issued in the form of registered covered bonds.
Outstanding *obligations foncières* totaled EUR 52.2 billion as of December 31, 2014.

(EUR billions, value after currency swaps)	12/31/2014
BEGINNING OF YEAR	**52.8**
Issues	**4.0**
Amortization	**(3.9)**
Buybacks	**(0.7)**
END OF YEAR	**52.2**

2.3 – SENIOR UNSECURED REFINANCING OF SOCIÉTÉ DE FINANCEMENT LOCAL IN 2014

Sfil obtained unsecured debt from Caisse des Dépôts et Consignations and La Banque Postale under credit agreements in the amount of EUR 12.5 billion and EUR 1.1 billion, respectively. As of December 31, 2014, the financing received by Sfil from these two shareholders totaled EUR 9.8 billion. The amount of this financing decreased by EUR 0.7 billion between December 2013 and December 2014.
This support allows Sfil to fully play its role as parent company and sponsor of Caisse Française de Financement Local by providing it with the unsecured liquidity it needs to finance its overcollateralization. This also enables it to meet its own financing needs, almost all of which are related to the cash collateral paid on its derivatives.
To broaden its sources of financing, Sfil plans to roll out a program of negotiable debt instruments in 2014 targeting institutional investors.

Risk management

Since November 4, 2014, the Sfil Group, made up of Caisse Française de Financement Local and its parent company Sfil, is included among the banks directly supervised by the ECB. Before assuming its supervisory obligations, the ECB launched a vast review in October 2013 to make a comprehensive assessment of bank balance sheets. This assessment included a thorough analysis of the quality of the assets (Asset Quality Review – AQR) and a stress test.

The Asset Quality Review of the ECB had no significant impact on Sfil's financial statements nor on the rules governing the valuation and presentation of these accounts. The adjustment resulting from this review concerned the two main portfolios, i.e. involving French and Italian local governments. They had an impact of approximately -3% on regulatory equity and of -0.97% on the CET1 ratio (Common Equity Tier One).

The Sfil Group's CET1 ratio – 24.28% at the end of 2013 – is very high and allows the bank to measure up to the most unfavorable stress scenarios. Therefore, even in the event of the adverse scenario, the ratio remains robust at 13.17%.

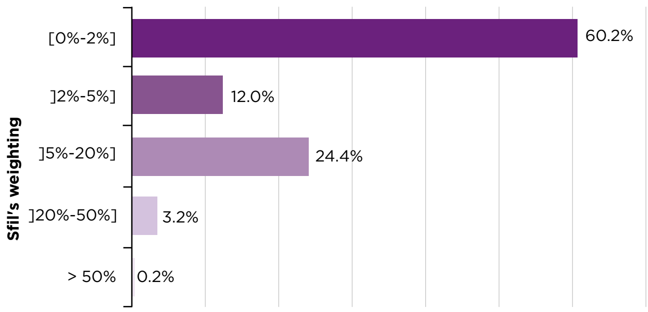
1. Credit risk

Credit risk represents the potential loss that Sfil may incur by reason of the deterioration of a counterparty's solvency.

1.1 – BREAKDOWN OF EXPOSURES ACCORDING TO BASEL III RISK WEIGHTING

The quality of the portfolio of Sfil and Caisse Française de Financement Local can also be seen in the weighting of risk-weighted assets (RWA) assigned to its assets to calculate the solvency ratio.
The Group chose the advanced method to calculate its solvency ratio and capital adequacy. It therefore uses its advanced internal models approved by the regulator to calculate its equity requirements for credit risk.
As of December 31, 2014, the breakdown of exposures by risk weighting (calculated on the basis of the probability of default and loss given default of the counterparty) was as follows.

Risk weighting (Basel III) of Société de Financement Local's portfolio as of December 31, 2014 (consolidated basis)



This analysis confirms the excellent quality of the assets in Société de Financement Local's portfolio, for which the average weighting is 6% and of which only 3.4% has a weighting of more than 20%.
The amount of weighted exposure with respect to credit risk amounts to EUR 5,335 million. Including market and operating risks, total weighted assets come to EUR 6,193 million. Given a CET1 level of EUR 1,478 million, Société de Financement Local had a CET1 ratio of 24%(1) as of December 31, 2014. Adjusted to meet the requirements of Pillar II, the ratio was 23%(1).

1.2 – DOUBTFUL AND DISPUTED DEBT

Doubtful and disputed debt totaled EUR 463 million at the end of December 2014, compared with EUR 254 million at the end of December 2013. This amount represents 0.7% of Caisse Française de Financement Local's cover pool (EUR 62.3 billion).
It consists of:
- EUR 396 million in doubtful debt on local governments and public hospitals;
- EUR 67 million in disputed debt which basically corresponds to unpaid interest on structured loans subject to litigation (cf. the point below).

Doubtful debt is carried by a small number of counterparties. The increase in doubtful debt was mainly due to customers whose whole outstanding was downgraded to doubtful debt even though there were few or no late payments (EUR 33 million in unpaid loans resulting in a downgrade of EUR 362 million owing to the application of the principle of contagion).

1.3 – PROVISIONS

At the end of December 2014, specific provisions totaled EUR 46.7 million. These provisions pertained to the capital of non-performing debt for EUR 13.2 million (recorded as Cost of risk provisions) and to Interest and other for EUR 33.5 million (recorded as a decrease in net banking income).
In addition, collective provisions are calculated on the various portfolios of Loans and advances. Collective provisions amounted to EUR 63 million as of December 31, 2014.

Finally, to take into account the status of the structured loan portfolio, Société de Financement Local, through Caisse Française de Financement Local, integrated respectively in the 2013 and 2014 results a contribution of EUR 150 million paid out over 15 years to the local government support fund and EUR 18 million to support public hospitals (see above).

EUR millions	12/31/2014
Collective provisions	63
Specific provisions	47
Contribution to support fund still to pay	158
TOTAL	**268**

As of December 31, 2014, the provisions covering the risks on the entire portfolio totaled EUR 268 million.
The amount of doubtful and disputed debt as well as the amount of provisions remained low (less than 0.5% of the total balance sheet), attesting to the excellent quality of the portfolio and its low risk profile.

(1) Ratios calculated according to the CRD IV standard including transitory provisions

1.4 – AFS RESERVE

As of December 31, 2014, the total amount of the AFS reserve before tax went from EUR -221 million in 2013 to EUR -182 million as of December 31, 2014. Italian sovereign securities accounted for EUR -82 million of this reserve in 2014, compared with EUR -110 million at the end of 2013. The tightening of spreads on sovereign exposures during the year was the primary reason for this improvement.

2. Market and ALM risk

2.1 – MARKET RISK

a. Scope

The notion of regulatory market risk is limited to the market risk of the trading portfolio on a consolidated basis. However, the institution does not carry out trading operations, and is therefore not subject to market risk in the regulatory sense of the term. Moreover, on a consolidated basis, all swaps are carried out for hedging purposes.

Nevertheless, from a conservative point of view, a hedging derivative was downgraded to outside of the scope of an IFRS hedging relationship, subsequent to a customer default on a loan that was micro-hedged by the derivative. This swap is therefore deemed equivalent to a market position in the regulatory sense; French regulations use the IFRS accounting classification regardless of the management intention itself.

The positions or activities of the banking book of Sfil and Caisse Française de Financement Local that pose a risk resulting from exposure to the volatility of market parameters are monitored in terms of non-regulatory market risks. These are mainly market risks stemming from fluctuations in the AFS reserve or in the provision for investment securities in French GAAP. This risk can also materialize at the Sfil company level if the derivative transactions carried out externally by Sfil are not fully replicated with Caisse Française de Financement Local as part of its derivative intermediation activity on behalf of Caisse Française de Financement Local.

b. Risk monitoring

A certain number of indicators (sensitivity, value at risk, etc.) have been defined to control market risks.

- Greek exposures or sensitivities correspond to a change in fair value of instruments for a movment (or shock) in market parameters.
- Value at Risk (VaR) is a comprehensive measure of risk that favors an approach based on the notion of maximum potential loss. This maximum potential loss corresponds to the measurement of the least favorable impact on income of changes in market conditions over a given period and with a specific level of probability.

The Risks division applies market standards to calculate VaR based on a 10-day time horizon, which is the minimum time needed to close a position with a 99% confidence interval.

Given the type of market risk assumed by Sfil and Caisse Française de Financement Local, limits on the sensitivity and VaR indicators are nil except for the swap that is no longer classified as having a hedging relationship with structured loans for customers currently in default, for whom VaR was EUR 6,000 as of December 31, 2014.

Securities classified as AFS or investment securities in French GAAP are systematically hedged by swaps. Residual risk is limited to credit spread risk. The Risks division calculates sensitivity and VaR indicators on the basis of the issuers' credit spread.

2.2 – BALANCE SHEET MANAGEMENT

The ALM policy of Sfil and its subsidiary Caisse Française de Financement Local is designed to protect the value of equity and limit the volatility of income while maintaining the equilibrium of their balance sheet.

a. Foreign exchange risk

Foreign exchange risk is the verified or potential risk of volatility of income related to adverse movements in foreign exchange rates.

The reference currency of Société de Financement Local is the euro. The foreign exchange risk thus reflects any change in the value of assets and liabilities denominated in a currency other than the euro by reason of a fluctuation of this currency vis-à-vis the euro. The Company's policy is to avoid all foreign exchange risk. To this end, liabilities and assets denominated in foreign currencies give rise, once recognized on the balance sheet, to a cross-currency swap against the euro. The floating-rate exposures resulting from this management are incorporated into interest rate risk management (see next paragraph).

b. Interest rate risk

Interest rate risk is the risk incurred in the event of a change in interest rates resulting from all balance sheet and off-balance sheet transactions, with the exception of transactions subject to market risk, where applicable. Sfil defines three types of interest rate risk:

- long-term interest rate risk reflects the difference in volume and maturity between fixed-rate assets and liabilities for which the initial maturity is longer than one year;
- basis risk reflects the gap that may exist in the matching of variable-rate assets and liabilities indexed on indices with the same currency but different frequencies;
- fixing risk reflects, for each index, the gap between the revision dates applied to all the variable-rate balance sheet and off-balance sheet items linked to this index.

To limit the impact of these risks, Sfil has implemented a finely honed hedging strategy.

- In the first step, balance sheet items that do not naturally have a euro floating rate are hedged as soon as they are recognized on the balance sheet to limit the impact of changes in euro long rates on the interest margin. For Caisse Française de Financement Local, these transactions mainly concern the issue of *obligations foncières* and the acquisition of assets from La Banque Postale. The Sfil parent company has no exposure to long-term interest rate risk: its assets and liabilities are linked exclusively to short-term euro indices.
- In the second step, Euribor lending and borrowing flows are swapped against Eonia to protect income against the basis risk, resulting in different frequencies in Euribor (1, 3, 6 or 12 months) and against the fixing risk due to refixing dates which are different for assets and liabilities. Macro-hedging is then used for the residual fixing risk. This entails matching the fixings of assets and liabilities of the

same tenor index over a one-week management horizon and swapping the balance against Eonia.

ALM is subject to limits that are revised annually.
- For the Sfil parent company, the sensitivity limit is expressed in sensitivity of the gap and it is zero since there is no interest rate position.
- For Caisse Française de Financement Local, the overall sensitivity limit is expressed in sensitivity of the Net Present Value (NPV). The overall limit of sensitivity is set at EUR 25 million for a variation of 100 bp in the euro yield curve. This system is completed by imposing limits on the sensitivity of the NPV by using time buckets, the aim of which is to provide a better defined framework for the interest rate risk, in particular to avoid exposure to a non-parallel deformation in the yield curve.

c. Liquidity risk

Liquidity risk can be defined as the risk that the institution may not be able to find the necessary liquidity to cover the financing needs related to its activity.

In terms of liquidity, the Sfil Group's activity is centered almost entirely on the management of its subsidiary Caisse Française de Financement Local, a *société de crédit foncier*. As a result, the Group's requirements are mainly of two types:
- financing of loans and securities (EUR 47.6 billion in loans and EUR 14.2 billion in securities) to cover the *obligations foncières* of Caisse Française de Financement Local;
- financing of the cash collateral of hedging derivatives intermediated by Sfil between Caisse Française de Financement Local and the market (EUR 3.6 billion).

The sources of financing used, other than the entity's equity and accruals (EUR 1.4 billion), are also of two types:
- privileged debt, i.e. the *obligations foncières* issued by Caisse Française de Financement Local (EUR 52.2 billion) and cash collateral received by Caisse Française de Financement Local (EUR 2.7 billion);
- the credit agreements signed in 2013 between Société de Financement Local and its shareholders, which finance the difference between the cover pool assets and the privileged debt of Caisse Française de Financement Local (i.e. over-collateralization), and the cash collateral of intermediated derivatives. The financing provided by CDC and LBP totaled EUR 9.8 billion as of December 31, 2014.

In addition, the Sfil Group has a large number of assets held by Caisse Française de Financement Local which are directly eligible for refinancing by the central bank and can be made available either through European Central Bank refinancing operations, via the Banque de France, or through interbank financing in the form of repurchase agreements. There were no operations of this type in 2014.

In the long term, the financing of cash collateral paid by Sfil is ensured by the credit agreements. Sfil's main liquidity risk thus resides in a cash risk, which may, for example, be generated by unanticipated variations in cash collateral subsequent to market fluctuations or to the activation of a CSA trigger. In the short term, Sfil may deal with the situation by using financing lines provided for within the framework of the credit agreements. More structurally, the management of Sfil's liquidity aims to reduce the amount of cash collateral paid and to limit the volatility of cash collateral. Within the framework of the management of its liquidity, Sfil naturally strives to respect its own regulatory liquidity ratios. Moreover, any potential cash surpluses at Sfil are subject to placement in the form of the purchase of liquid assets that are eligible for the LCR liquidity buffer (BTF, OAT, etc.).

Since the financing of the over-collateralization of Caisse Française de Financement Local is ensured by the credit agreements, the main liquidity risk comes down to the risk that Caisse Française de Financement Local may not be able to settle its privileged debt commitments by the due date because the gap between the repayment of its assets and privileged liabilities is too great. This risk is controlled by monitoring the following indicators:
- the liquidity coverage ratio, which represents the ratio between assets and liabilities benefiting from the privilege under the law on *sociétés de crédit foncier*. It currently stands at 113%, while the regulatory minimum is 105%;
- the duration gap between assets and privileged liabilities (limited to three years), which is published quarterly. It stood at 1.84 as of December 31, 2014;
- projected cash requirements over 180 days: Caisse Française de Financement Local ensures that its 180-day cash requirements are covered at all times by replacement assets;
- regulatory liquidity indicators:
  - the limit of 100% on the one-month regulatory liquidity ratio calculated according to the procedure defined in the *arrêté* of May 5, 2009;
  - the LCR ratio calculated at the end of each month in line with the procedure defined in the *Acte Délégué* published in September 2014.

3. Legal risk

At the end of December 2014, the number of borrowers who had undertaken legal proceedings totaled 210[(1)] versus 205 at the end of 2013.
A limited number of suits were decided in first hearing.
Decisions were handed down in 2014 by the Tribunal de Grande Instance de Nanterre in the proceedings that pitted four local governments against Dexia Credit Local (and Caisse Française de Financement Local, which voluntarily took part in the suit in order to defend its own interests). These decisions concerned structured loans marketed by Dexia Credit Local and recognized on the balance sheet of Caisse Française de Financement Local, representing a total capital of EUR 98 million. As in the decisions of February 2013, the Tribunal's decision did not address the core issues (validity of the agreement, failure to provide mandatory information, advice and warning, etc.), but was motivated by the formal absence in the faxed loan agreement of intermediary data with which to calculate the annual rate of charge (TEG). This item led the Tribunal to decide to apply the official rate

(1) Out of the 210 suits brought against Dexia Credit Local and/or Caisse Française de Financement Local and/or Sfil, 86 borrowers did not sue Sfil.

instead of the contractual rate. For these suits, Dexia Crédit Local and Caisse Française de Financement Local decided to appeal, and proceedings are still in process.

In order to provide a comprehensive long-lasting solution to the problem of structured loans contracted by public local goverments and public hospitals, the French government set up a system described above in General Business Environment (see point 3).
The first financial agreements were signed within the framework of the local government support fund, thereby putting an end to several suits, in particular with the Conseil Général de la Seine-Saint-Denis and the municipalities of Asnières-sur-Seine and Saint-Étienne.
In addition, as mentioned above, legislation targeting a legal basis to secure structured loan agreements in effect with public sector entities took effect on July 30, 2014.

4. Operating risk and permanent control

Operating risks involve risks of loss resulting from the inadaptation or failure of procedures, individuals, systems and possibly external events.

4.1 – OPERATING RISK

In terms of operating risk management, Sfil's policy is to identify and regularly assess the various risks and controls in place to ensure compliance with the tolerance level defined for each activity. If this is not the case, the governance scheme implemented must result in the rapid development of corrective or improvement measures to make the situation acceptable. In addition to this, a prevention policy has been implemented, particularly in terms of IT security and business continuity guarantee and, when necessary, certain risks are transferred through insurance.
The systematic collection and monitoring of operational incidents provides the necessary information to assess exposure to operating risk and develop a policy aimed at controlling and minimizing this risk.

The collection of data on operational incidents allows Sfil to comply with regulatory requirements and, above all, obtain key information to improve the quality of its internal control system. Various collection thresholds have been defined and communicated to Sfil's divisions. The mandatory declaration threshold was set at EUR 2,500. The Executive Committee receives regular reports on key events, including action plans defined by the managers of the operating divisions to reduce risk.

4.2 – PERMANENT CONTROL

Permanent control must provide assurance of the efficiency and reliability of the risk control system, the quality of accounting and financial information, the quality of information systems, and the existence and quality of key controls in all activities to allow coverage of major risks, regardless of their nature.

5. Security of means of payment

The means of payment managed by Société de Financement Local for its own activity or as the managing institution of Caisse Française de Financement Local or service provider of La Banque Postale include the following:
- the SWIFT and TARGET2 networks, for the execution of interbank payments related to trades negotiated by the front office operators of the Market Activities Operating division and of requests for fund movements made by other divisions of Société de Financement Local (mainly payment of invoices in foreign currencies);
- the SCBCM network (*Service contrôle budgétaire et comptable ministériel* – Ministerial budget and accounting control unit), used for payments and collections of the loans of Caisse Française de Financement Local to the public and for the services provided on behalf of La Banque Postale;
- the CORE (Compensation Retail – retail clearing house) system, used for most payments to customers of Caisse Française de Financement Local with bank accounts and to pay invoices in euros;
- in addition, certain invoices can be paid by check.

Société de Financement Local does not make means of payment available to its customers or those of Caisse Française de Financement Local.
Various procedures and systems are in place to ensure the security of means of payment, including payment processes under the responsibility of the back offices, segregation of duties, clearly defined rules for validating individual payments, secure message management, business continuity plan, specific controls related to compliance, etc.

Operating results

1. Consolidated financial statements prepared in accordance with IFRS

At the end of 2014, the Sfil Group posted a net consolidated loss of EUR -34 million, with outstanding loans (on the balance sheet) of EUR 88 billion as of this date. The Group's CET1 solvency ratio, including Pillar 2 adjustments stood at 23%, confirming its financial strength.

This loss in 2014 is mainly due to two non-recurring items:
- recognition of the Group's contribution to the public hospital support fund in the amount of EUR -18 million before tax, and
- accounting for volatility factors linked to the valuation of the derivative portfolio in the amount of EUR -21 million before tax.

Excluding non-recurring items[(1)], there was a net loss of EUR -4 million.

On the basis of non-restated accounting items, net income before tax improved by EUR +35 million compared with 2013, basically owing to the cost of risk.

An item-by-item analysis of this change highlights the following elements.
- Net banking income for 2014 was EUR 75 million. It reflects a net decrease (EUR -80 million) compared with the previous year, which stems mainly from the following points.
  - Volatility factors linked to the valuation of the derivative portfolio, in particular with the first application of IFRS 13 in 2013, had a positive impact on net banking income in 2013. Since a charge was recorded in this item in 2014, the variation between these two years was EUR -21 million.
  - The rest of the decline in net banking income was primarily linked to the decrease in the interest margin caused by the amortization of the balance sheet and to the rise in the average cost of inventory in *obligations foncières*.
- The Group's operating expenses totaled EUR -99 million, up EUR -12 million from 2013. This increase was due to the progressive formation of Sfil teams in 2013 and 2014. Charges remained under control and are in line with the initial business plan.
- At EUR -18 million, the cost of risk, basically corresponded to the contribution that Sfil will make to the support fund for public hospitals. It was up EUR +160 million from 2013. Readers are reminded of the EUR 150 million contribution of Caisse Française de Financement Local to the local government support fund, that was recorded in 2013 and explains the brunt of the variation noted between the two fiscal years.

2. Annual financial statements prepared in accordance with French GAAP

Société de Financement Local posted a net loss of EUR 3.6 million at the end of 2014, compared with a loss of EUR 2 million at the end of 2013.

(1) Restatements of non-recurring items represent:
• a net sum after tax of EUR 18.4 million for the review of the valuation of derivatives against Eonia, the assessment of hedged risks, and the change in the IFRS result;
• EUR -11.8 million (net impact after tax) for the contribution to the multi-year support fund for public hospitals.

Net banking income stood at EUR 1.7 million and its operating expenses net of re-billing totaled EUR -6.3 million.
The balance sheet of Société de Financement Local includes the refinancing granted to its subsidiary Caisse Française de Financement Local in the amount of EUR 6.2 billion for the portion of over-collateralization required as a result of its SCF status, as well as a portfolio of investment securities totaling EUR 3.9 billion.

Shareholding

Sfil acquired all the shares of Caisse Française de Financement Local on January 31, 2013, for EUR 1. It thereby holds 100% of the Company. There was no other trading of the Company's shares in 2014.

Aquisition of interest in 2013 representing more than 66% of the capital
* Caisse Française de Financement Local SA with a share capital of EUR 1,315,000,000

Invoice payment periods

Pursuant to articles L.441-6-1 and D.441-4 of the French Commercial Code, Sfil must publish annual information on the due dates of its trade payables. Sfil's trade payables represent a non-material amount of the Company's total balance sheet. Sfil's practice is to always pay its invoices within 45 days unless a contractual agreement signed with the supplier provides for a 30- or 60-day payment period.

As of December 31, 2014, there were no trade payables on the balance sheet.

Trade payables amounted to EUR 1.03 million as of December 31, 2013, and date from less than 30 days.

Proposed distribution of profit

Given the results of the year 2014, the annual general meeting of May 28, 2015, will not be asked to distribute a dividend. The loss recorded in 2014, namely EUR 3,632,192.80, will be debited to Retained earnings. This allocation will result in a negative balance of EUR 5,634,411.46 for the Retained earnings account.

Non-deductible costs and expenses

Pursuant to the provisions of article 223 *quater* of the French General Tax Code, we specify that during the past year the total sum of non-deductible costs and expenses covered by article 39-4 of the French General Tax Code amounted to EUR 41,450.31, a sum which did not result in additional corporate income tax given the net loss incurred by the Company.
The amount of general operating expenses reintegrated following a definitive tax adjustment (articles 223 quinquies, 39-5 and 54 *quater* of the French General Tax Code) is nil given the absence of any adjustment.

Research and development

As the Company does not conduct any activities relating to research and development, no such data is mentioned in the financial statements.

3. Indicators of return on assets

Article R.511-16-1 of the French Monetary and Financial Code, created by decree 2014-1315 of November 3, 2014, stipulates that credit institutions publish in their annual financial report their return on assets, defined as the ratio of net income to the balance sheet total. For 2014, this ratio stood at -0.04% for the consolidated IFRS accounts and at -0.02% for the French GAAP accounts.

4. Sfil's income for the last five years

Income for the last five years

	2010	2011	2012	2013	2014
FINANCIAL POSITION					
Share capital (EUR thousands)	49	37	74	130,000	130,000
Number of shares	5,315	5,315	5,315	9,285,725	9,285,725
RESULTS OF OPERATIONS (EUR thousands)					
Revenues[1]	–	–	–	111,912	118,636
Income before income tax, amortization, depreciation and contingencies net of reversals	(6)	(11)	(9)	(1,979)	(3,504)
Income tax	–	–	–	–	–
Income after income tax, amortization, depreciation and contingencies net of reversals	(6)	(11)	(9)	(1,982)	(3,632)
Exceptional distribution	–	–	–	–	–
Dividend	–	–	–	–	–
PER SHARE DATA (EUR)					
Revenues	–	–	–	12.05	12.78
Income after income tax, before amortization, depreciation and contingencies net of reversals	(1.21)	(2.06)	(1.72)	(0.21)	(0.38)
Income tax	–	–	–	–	–
Income after income tax, amortization, depreciation and contingencies net of reversals	(1.21)	(2.06)	(1.72)	(0.21)	(0.39)
Exceptional distribution	–	–	–	–	–
Dividend per share	–	–	–	–	–

(1) Revenues consist of the following items:
- interest and similar income, net of macro-hedging costs,
- fee income,
- net income on foreign exchange transactions,
- other operating income.

Dexint Developpement, which subsequently became Société de Financement Local, did not operate before 2013.

5. Statutory Auditors' fees in 2014

EUR thousands	Mazars				Deloitte & Associés			
	Amount excluding VAT		%		Amount excluding VAT		%	
	2013	2014	2013	2014	2013	2014	2013	2014
Audit								
Audit, certification and review of the annual and consolidated financial statements	605	373	100%	68%	621	382	100%	100%
including Sfil social	*313*	*125*	*100%*	*100%*	*326*	*125*	*100%*	*100%*
Other tasks	-	-	0%	0%			0%	0%
Subtotal	**605**	**373**	**100%**	**68%**	**621**	**382**	**100%**	**100%**
Other services								
Legal, tax, labor issues	-	-	-	-	-	-	-	-
Internal audit	-	-	-	-	-	-	-	-
Other (specify if > 10% of audit fees)(1)	-	175	-	32%				
Subtotal	-	**175**	-	**32%**				
TOTAL	**605**	**547**	**100%**	**100%**	**621**	**382**	**100%**	**100%**

(1) This item concerns an audit on pricing models for interest rate products.

Outlook

The year 2014 was marked by the continued expansion of the arrangements set up by the State in 2013 to finance the French local public sector through Société de Financement Local and its subsidiary Caisse Française de Financement Local together with La Banque Postale and Caisse de Dépôts et Consignations.

In addition, the strategy to reduce the sensitivity of structured loans allowed Caisse Française de Financement Local to lower outstandings in this category by EUR 1.3 billion during the year with a particularly strong movement at the end of the year, as can be seen in the transactions concluded with the Conseil Général de Seine-Saint-Denis and the municipalities of Saint-Étienne and Asnières-sur-Seine.

For Société de Financement Local and its subsidiary Caisse Française de Financement Local, 2015 will be a year in which they will consolidate their initial missions and develop their activities.
The amount of *obligations foncières* scheduled for issue in 2015 is in the range of EUR 4 billion to EUR 6 billion. At the beginning of January, Caisse Française de Financement Local launched its first public issue with a 20-year maturity, and the results confirmed its excellent credit quality.
The partnership with La Banque Postale will continue to develop.
At the same time, the French State decided to create a new public scheme to finance exports, which it has entrusted to Sfil. For this new mission, Sfil will work in close cooperation with all the players in export financing, and first of all with Coface, an insurance company specialized in insuring, on behalf of the State, the financing banks grant to foreign buyers.

The strategy to reduce loan sensitivity will remain very active in 2015 at an even faster pace than in 2014, despite the January 15, 2015, decision by the Swiss National Bank to allow the Swiss currency to appreciate in value *vis-à-vis* the euro.
The French government clearly reaffirmed the efficiency of the creation of the two support funds by doubling the fund to support local governments to EUR 3 billion and the quadrupling of the hospital support fund, which now stands at EUR 400 million.

Information on the capital and shares

1. Share capital, number and types of shares

The share capital of Société de Financement Local is EUR 130,000,150. It is divided into 9,285,725 shares, each carrying one voting right and not subject to any pledge.

Shares are divided into two categories:
- 7,428,580 ordinary shares,
- 1,857,145 preferred shares issued in accordance with article L.228-11 of the French Commercial Code and having the rights and obligations defined in the bylaws.

There are no other securities that grant rights to the capital of Société de Financement Local.

2. Shareholding structure

The share capital of Société de Financement Local is held as follows:
- 75% by the French government *via* the Agence des Participations de l'État (French government shareholding agency), i.e. 6,964,293 ordinary shares;
- 20% by Caisse des Dépôts et Consignations, i.e. 1,857,145 preferred shares; and
- 5% by La Banque Postale, i.e. 464,287 ordinary shares.

3. Dividends paid over the last three years

Pursuant to the provisions of article 243bis of the French General Tax Code, no dividends were paid out over the last three years.

4. Report on delegations of authority granted to the Board of Directors by the shareholders' meetings

Pursuant to the provisions of article L.225-1 of the French Commercial Code, it is specified that no delegations of authority were granted to the Board of Directors by the general shareholders' meeting in respect of capital increases by application of articles L.225-129-1 and L.225-129-2 of the French Commercial Code.

Composition of the Board of Directors (as of March 1, 2015)

Chairman and Chief Executive Officer

Philippe Mills

Jean-Pierre Balligand*
Chairman of the Local Finance Steering Committee,
La Banque Postale

Corso Bavagnoli
Inspector of Finances, Assistant Director,
Banks and Public Interest Financing,
Ministry of Finances and Public Accounting,
Treasury division – Office of Financing
of the Economy

Catherine Boyaval
Employee representative – Head of Regulatory
and Finance Solutions, Steering IT Strategic Projects

Pascal Cardineaud
Employee representative
Financial Engineering Manager

Delphine de Chaisemartin
Head Financial Institutions and Capital Investment,
Group Steering division,
Caisse des Dépôts et Consignations

Lorraine Coudel
Employee representative – Central Services Manager

Frédéric Guillemin
Employee representative, Head of Reporting
in the Risks division

Cathy Kopp*

Françoise Lombard
Deputy Director of Equity Holdings
Services and Finances
Agence des Participations de l'État

Chantal Lory*

Serge Morvan
Director General, Local Governments, Ministry
of the Interior – Ministry of Government Reform,
Decentralization and the Civil Service

Françoise de Panafieu*
Honorary member of the National Assembly,
Former Minister

Sandrine Vion
Employee representative – In charge of the Cover Pool,
Caisse Française de Financement Local

Rémy Weber
Deputy Chief Executive Officer,
La Poste
Head of Financial Services

* Independent member of the Board

Concerning the organization of executive management, readers are reminded that the Board of Directors' meeting of January 31, 2013, chose to combine the roles of Chairman of the Board of Directors and Chief Executive Officer. This principle of non-separation of roles was approved by the French regulatory authority (ACPR).

Terms and functions of corporate officers

Pursuant to article L.225-102-1 of the French Commercial Code, the following list presents the terms and functions of each corporate officer of Société de Financement Local between January 1, and December 31, 2014.

Chairman of the Board of Directors and Chief Executive Officer

Philippe Mills

Age 49

Société de Financement Local – 1-3, rue du Passeur de Boulogne – 92130 Issy-les-Moulineaux

- Chairman of the Executive Committee, Société de Financement Local
- Chairman of the Supervisory Board, Caisse Française de Financement Local
- Alternate expert on the Board of Directors, European Investment Bank
- Member of the Board of Directors, European Association of Public Banks - EAPB (since November 2014)

Members of the Board of Directors

Jean-Pierre Balligand

Age 64

Chairman of the Local Finance Steering Committee, La Banque Postale

La Banque Postale – 115, rue de Sèvres – 75275 Paris Cedex 06

- Member of the Appointments and Compensation Committee (until November 12, 2014), member of the Appointments Committee and member of the Compensation Committee (since November 12, 2014), Société de Financement Local
- Member of the Supervisory Board and member of the Strategic Steering Committee, Société Nationale Immobilière (SNI)
- Member of the Board of Directors, ADOMA
- Co-chairman of the Board of Directors, Institut de la Décentralisation
- Chairman and Chief Executive Officer, Société d'équipement du département de l'Aisne
- Member of the Conseil Général de l'Aisne

Corso Bavagnoli

Age 41

Inspector of Finances, Assistant Director, Banks and Public Interest Financing, Ministry of Finances and Public Accounting

Ministry of Finances and Public Accounting – 139, rue de Bercy – 75572 Paris Cedex 12

- Member of the Audit and Risks Committee (until November 12, 2014), member of the Accounts Committee and member of the Risks and Internal Control Committee (since November 12, 2014), Société de Financement Local

Catherine Boyaval

Age 56

Head of Regulatory and Finance Solutions, Steering of IT Strategic Projects, Société de Financement Local

Société de Financement Local – 1-3, rue du Passeur de Boulogne – 92130 Issy-les-Moulineaux

Pascal Cardineaud

Age 53

Financial Engineering Manager, Société de Financement Local

Société de Financement Local – 1-3, rue du Passeur de Boulogne – 92130 Issy-les-Moulineaux

- Member of the Appointments and Compensation Committee (until November 12, 2014), member of the Appointments Committee and member of the Compensation Committee (since November 12, 2014), Société de Financement Local

Delphine de Chaisemartin

Age 44

Head of the Financial Institutions unit in the Group management division – Caisse des Dépôts et Consignations

Caisse des Dépôts et Consignations – 56, rue de Lille – 75007 Paris

- Member of the Appointments and Compensation Committee and member of the Audit and Risks Committee (until November 12, 2014), member of the Appointments Committee, member of the Compensation Committee, member of the Accounts Committee and member of the Risks and Internal Control Committee (since November 12, 2014), Société de Financement Local
- Member of the Board of Directors, member of the Appointments and Compensation Committee, member of the Financing and Guarantees Committee, member of the Audit Committee and member of the Innovations Committee (since June, 2014), Bpifrance Financement
- Member of the Board of Directors, La Banque Postale Collectivités Locales
- Member of the Board of Directors, member of the Audit Committee and the Appointments and Compensation Committee, Sofired (until October 2014)
- Member of the Board of Directors, SEF Forêts durables (since October 2014)
- Member of the Board of Directors, France Brevet (until October 2014)
- Member of the Board of Directors, Innovation Capital (since June 2014)
- Member of the Board of Directors and member of the Investment Consulting Committee, Qualium Investissement (since July 2014)

Monique Cohen (until June 5, 2014)[1]

Age 58

Partner, Apax Partners

Apax Partners – 45, avenue Kléber – 75784 Paris Cedex 16

- Chairman of the Audit and Risks Committee, Société de Financement Local (until June 5, 2014)
- Deputy Chief Executive Officer, Atlamir Gérance
- Chairman of the Supervisory Board, Trocadéro Participations
- Chairman of Trocadéro Participations II
- Member of the Supervisory Board and Audit Committee, JC Decaux
- Member of the Board of Directors, Altran Technologies
- Member of the Board of Directors, Safran
- Member of the Board of Directors, Apax Partners MidMarket

(1) The mandates listed below are those held as of the date of the end of the term in the Company.

- Member of the Board of Directors, Financière MidMarket
- Manager of Fabadari
- Member of the Board of the Autorité des Marchés Financiers (French Financial Markets Authority) (until September 2014)
- Member of the Board of Directors, BNP Paribas (since June 2014)
- Vice Chairman of the Board of Directors and Chairman of the Audit Committee, Hermès International (since June 2014)
- Member of the Board of Directors, Altitude
- Member of the Board of Directors, Buy Way Personal Finance Belgium and Buy Way Tech
- Member of the Supervisory Board, Global Project
- Member of the Board of Directors, Proxima Investissement
- Chairman of the Supervisory Board, Texavenir II
- Chairman of Wallet, Wallet Investissement 1 and Wallet Investissement 2

Lorraine Coudel

Age 55
Central Services Manager, Société de Financement Local
Société de Financement Local – 1-3, rue du Passeur de Boulogne – 92130 Issy-les-Moulineaux

Frédéric Guillemin (since December 12, 2014)

Age 51
Head of Reporting in the Risks division, Société de Financement Local
Société de Financement Local – 1-3, rue du Passeur de Boulogne – 92130 Issy-les-Moulineaux

Cathy Kopp

Age 65
22, square Alboni – 75016 Paris

- Chair of the Appointments and Compensation Committee (until November 12, 2014), Chair of the Appointments Committee and of the Compensation Committee (since November 12, 2014), Société de Financement Local
- Member of the Board of Directors and member of the Compensation, Human Resources and Social Responsibility Committee, Schneider Electric SA
- Member of the Board of Directors, Fondation SNCF

Françoise Lombard (since October 13, 2014)

Age 33
Administratrice civile hors classe, Deputy Director of Equity Holdings, Services and Finances, Agence des Participations de l'État
Agence des Participations de l'État – 139, rue de Bercy – 75572 Paris Cedex 12

- Member of the Appointments Committee and member of the Compensation Committee (since November 12, 2014), Société de Financement Local
- Member of the Board of Directors, Imprimerie Nationale (since July 2014)
- Member of the Board of Directors, La Française des Jeux (since April 2014)
- Member of the Board of Directors, Radio France (since December 2014)

Chantal Lory (since June 5, 2014)

Age 61
10, square Henry Paté – 75016 Paris

- Chair of the Audit and Risks Committee (from June 6 to November 12, 2014), Chair of the Accounts Committee and Chair of the Risks and Internal Control Committee (since November 12, 2014), Société de Financement Local
- Member the Board of Directors, Imprimerie Nationale (since October 2014)
- Chair of the Executive Board, La Banque Postale Asset Management (until May 2014)
- Permanent representative of La Banque Postale Asset Management, member of the Supervisory Board, La Banque Postale Structured Asset Management (until May 2014)
- Permanent representative of La Banque Postale Asset Management, member of the Board of Directors, LBPAM Actions Indice Euro (until May 2014)
- Permanent representative of La Banque Postale Asset Management, member of the Board of Directors, Liberté et Solidarité (until May 2014)

Antoine de Mieulle (until December 12, 2014)[1]

Age 39
163, rue de La Convention – 75015 Paris

- Member of the Audit and Risks Committee (until November 12, 2014), member of the Accounts Committee and member of the Risks and Internal Control Committee (from November 12, 2014, to December 12, 2014), Société de Financement Local
- Manager, SCI du Chapitre

Serge Morvan

Age 55
Administrateur civil hors classe, Director General of Local Governments, Ministry of Government Reform, Decentralization and the Civil Service
Ministry of Government Reform, Decentralization and the Civil Service – 80, rue de Lille – BP 10445 – 75327 Paris Cedex 07

- Member of the Supervisory Board, Société du Grand Paris
- Member of the Board of Directors, Etablissement Public National d'Aménagement et de Restructuration des Espaces Commerciaux et Artisanaux (EPARECA)
- Member of the Board of Directors, Agence Nationale pour la Rénovation Urbaine (ANRU)
- Member of the Board, Agence de Services et de Paiement (ASP)

Françoise de Panafieu

Age 66
Honorary member of the National Assembly, Former Minister
56, rue Boileau – 75016 Paris

- Member of the Board of Directors, Les Amis du Musée des Arts Premiers (Quai Branly Museum)
- Member of the Board of Directors, Les Rencontres d'Arles
- Member of the Board, Fondation des Parcs et Jardins de France

Antoine Saintoyant (until October 13, 2014)[1]

Age 37
Director of Equity Holdings (Services and Finances), Agence des Participations de l'État
Agence des Participations de l'État – 139, rue de Bercy – 75572 Paris Cedex 12

- Member of the Appointments and Compensation Committee, Société de Financement Local (until October 13, 2014)
- Member of the Board of Directors, La Poste
- Member of the Board of Directors, Orange
- Member of the Board of Directors, Odas (until October 2014)
- Member of the Board of Directors, CNP Assurances (since September 2014)

(1) The mandates listed below are those held as of the date of the end of the term in the Company.

- Member of the Board of Directors, Bpifrance Participations (since September 2014)
- Member of the Board of Directors, Bpifrance Investment (since September 2014)

Sandrine Vion
Age 31
In charge of the Cover Pool, Société de Financement Local
Société de Financement Local – 1-3, rue du Passeur de Boulogne – 92130 Issy-les-Moulineaux

Rémy Weber
Age 57
Deputy Chief Executive Officer, La Poste – Financial Services
La Banque Postale – 115, rue de Sèvres – 75275 Paris Cedex 06

- Member of the Audit and Risks Committee (until November 12, 2014), member of the Accounts Committee and member of the Risks and Internal Control Committee (since November 12, 2014), Société de Financement Local
- Member and Chairman (since May 2014) of the Supervisory Board and Chairman of the Compensation Committee, La Banque Postale Asset Management
- Chairman of the Executive Board, La Banque Postale
- Member and then Chairman and CEO (since March 2014), Sopassure
- Permanent representative of La Banque Postale, Manager of CRSF DOM
- Permanent representative of La Banque Postale, Manager of CRSF Métropole
- Permanent representative of La Banque Postale, Manager of SCI Tertiaire Saint Romain (since January 2014)
- Member of the Board of Directors and member of the Audit Committee, CNP Assurances
- Vice Chairman of the Board of Directors and director, L'Envol Le Campus La Banque Postale
- Chairman of the Board of Directors, La Banque Postale Assurance Santé
- Chairman of the Board of Directors and Chairman of the Compensation Committee, La Banque Postale Assurances IARD
- Chairman of the Board of Directors and Chief Executive Officer, SF2
- Chairman of the Board of Directors and Chairman of the Appointments and Compensation Committee, La Banque Postale Prévoyance
- Vice President, Association Française des Banques (AFB)
- Representative of Association Française des Banques (AFB), member of the Management Committee of Fédération Bancaire Française (FBF)
- Member of the Board of Directors, Poste immo (since February 2014)
- Member of the Board, Paris Europlace (since April 2014)
- Member of the Supervisory Board, Fonds de Garantie des Dépôts et de Résolution (until April 2014)

Representative of the Works Council

Sandrine Barbosa

Statutory Auditors

The Statutory Auditors of Société de Financement Local and their alternates are:

Mazars
Exaltis – 61, rue Henri Regnault – 92075 – La Défense Cedex

Represented by Virginie Chauvin, Partner, and Anne Veaute, Partner

Appointed by the Ordinary and Extraordinary Shareholders' Meeting of January 29, 2013, to replace the firm Caderas Martin, until after the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2016

Alternate: Franck Boyer

Appointed by the Ordinary Shareholders' Meeting of October 17, 2013, to replace Anne Veaute, until after the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2016

Deloitte & Associés
185, avenue Charles de Gaulle – 92524 Neuilly-sur-Seine Cedex

Represented by Charlotte Vandeputte, Partner, and José-Luis Garcia, Partner

Alternate: BEAS, represented by Mireille Berthelot, Partner

Appointed by the Ordinary and Extraordinary Shareholders' Meeting of January 29, 2013, for six years, until after the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2018

Compensation and benefits granted to the Chairman and Chief Executive Officer in 2014

EUR thousands	Fixed gross compensation	Variable gross comprensation	Exceptional gross compensation	Benefits in kind [2]	Total
Philippe Mills [1]	320 [2]	-	-	-	320

(1) Chairman of the Board of Directors and Chief Executive Officer
(2) Fixed gross compensation excluding additional pension and retirement

Fees paid to the members of the Board of Directors by Société de Financement Local

Board members	Fees paid for 2014 (EUR)
Philippe Mills	/
Jean-Pierre Balligand	10,500.00[1]
Corso Bavagnoli	/[2]
Catherine Boyaval	/[3]
Pascal Cardineaud	/[3]
Delphine de Chaisemartin	13,500.00[4]
Monique Cohen	4,535.71[5]
Lorraine Coudel	/[3]
Frédéric Guillemin	/[3]
Cathy Kopp	13,500.00[1]
Françoise Lombard	/[2]
Chantal Lory	10,714.29[5]
Antoine de Mieulle	/[3]
Serge Morvan	/[2]
Françoise de Panafieu	6,250.00
Antoine Saintoyant	/[2]
Sandrine Vion	/[3]
Rémy Weber	11,250.00[6]

(1) Including the compensation paid for his participation in the Appointments and Compensation Committee
(2) Pursuant to the provisions of law 83-675 of July 26, 1983, on the democratization of the public sector, no compensation is paid to members of the Board of Directors representing the government.
(3) Pursuant to the provisions of law 83-675 of July 26, 1983, on the democratization of the public sector, no compensation is paid to members of the Board of Directors representing the employees.
(4) Including the compensation paid for her participation in the Audit and Risks Committee and the Appointments and Compensation Committee. The fees are paid to Caisse des Dépôts et Consignations.
(5) Including the compensation paid for her participation in the Audit and Risks Committee
(6) Including the compensation paid for his participation in the Audit and Risks Committee. The fees are paid to La Banque Postale.

Social and environmental information

1. Social information

1.1 – INFORMATION RELATED TO EMPLOYMENT

Société de Financement Local employed 383 people as of December 31, 2014. In 2014, Société de Financement Local hired a total of 111 people, including 73 under contracts for an unlimited period of time, 30 under fixed-term contracts and 8 under work-study contracts. Six interns were also hired under their internship program.

Breakdown of employees by gender

	2014	2013
	Number of employees	Number of employees
Men	204	157
Women	179	168
TOTAL	**383**	**325**

1.2 – COMPENSATION AND BENEFITS

Compensation policy

Sfil's Compensation Committee prepares all items related to the compensation policy. Its proposals are submitted to the Board of Directors of Société de Financement Local which decides on the appropriate measures and approves the compensation policy.
Sfil defines its compensation policy in accordance with five key principles. The compensation policy must:
- be in line with market practices;
- be transparent;
- comply with regulations;
- ensure equal opportunity;
- guarantee a balance between fixed and variable compensation and motivate employees.

This approach relates to both fixed compensation (not performance-related) and variable compensation (performance-related) and the general principles apply to all employees. The principle of balance between fixed and variable compensation seeks to discourage excessive risk-taking and to encourage a sufficiently flexible and coherent variable compensation policy at Société de Financement Local.

Cap on variable compensation

By virtue of the transposition into French law of the measure to cap the variable compensation of bankers adopted at the European level on April 16, 2013 (CRD IV approved in 2013 for application in 2015 for 2014), the variable compensation for a given year cannot exceed 100% of the fixed compensation.

Compensation of the Chairman and Chief Executive Officer

Pursuant to the provisions of the decree of 1953 amended by decree 2012-915 of July 26, 2012, related to government control of the compensation of executives of public companies, which apply to Société de Financement Local, the annual gross compensation of the Chairman and Chief Executive Officer may not exceed EUR 450,000.
On this basis, the compensation of the Chairman and Chief Executive Officer of Société de Financement Local is proposed by the Compensation Committee for the approval of the Board of Directors, subject to the authorization of the Ministry in charge of the Economy.

Compensation paid to the members of the Management Committee, the auditor general and individuals whose professional activities have a material impact on the Company's risk profile

Sfil's compensation policy contains special provisions applicable to a clearly identified group of people whose duties may impact the risk profile of Société de Financement Local.
They include members of the Executive Committee, the auditor general, financial market professionals, risk managers, those engaged in internal control and compliance, and all employees whose variable compensation exceeds EUR 75,000 during a given year.
The compensation of members of the Executive Committee and the auditor general, with the exception of the Chairman and Chief Executive Officer, is determined by the Board of Directors based on the recommendation made by the Chairman and Chief Executive Officer to the Compensation Committee.
If the variable compensation paid for year N exceeds EUR 75,000, a portion of the variable compensation will be paid on a non-deferred basis (60%) during year N+1, and a portion will be paid on a deferred basis (40%) over three years (starting in the year following that in which it was awarded). This deferred portion will be subject to the level of performance being maintained. This principle of spreading out variable compensation applies to all Société de Financement Local employees (including members of the Executive Committee and the auditor general).
In 2014, the gross compensation paid to the aforementioned group of people totaled EUR 3.7 million and concerned 26 employees.

Gross payroll

In 2014, the annual gross payroll was EUR 23.41 million.

Incentive and profit-sharing schemes

Incentive and profit-sharing schemes exist at Société de Financement Local (agreements of June 27, 2014).

Status of employee shareholding

Pursuant to the provisions of article L.225-102 of the French Commercial Code, the employees of the Company and associated companies in the sense of article L.225-180 of the French Commercial Code had no shares in the capital of the Company at the close of the year.

1.3 – LABOR RELATIONS

Following the election of Sfil's first employee representatives at the end of November 2013, the year 2014 was marked

by the organization of 80 meetings – 52 for employee representative instances (Works Council, Heath, Safety and Working Conditions Committee, Employee Delegates) and 28 for labor organizations.
In collective bargaining, nine areas were opened to negotiation, six of which led to a company agreement and two of which are still being discussed in 2015.
The following agreements were decided:

- Agreement of April 29, 2014, on the employment of disabled workers;
- Agreement of June 27, 2014, on profit-sharing;
- Agreement of June 27, 2014, on incentive compensation;
- Agreement of July 25, 2014, on teleworking;
- Agreement of July 25, 2014, on measures taken to accompany the move of Sfil teams from Dexia offices at La Défense;
- Agreement of October 13, 2014, on equal employment opportunity.

1.4 – WORK ENVIRONMENT

The move to the new headquarters in Issy-les-Moulineaux took place at the end of 2014 and the beginning of 2015.

2. Environmental information

Société de Financement Local has implemented a policy of waste control and the responsible managememnt of consumables by setting up a paper and internal waste sorting, collection and recycling system (toner, electronic waste, obsolete equipment, etc.) as well as a policy to reduce its consumption of paper (printer settings, lower paper weight, use of recycled paper, etc.).
In terms of energy consumption, the head office is powered entirely by green electricity, and to control CO_2 emissions the company has agreed to pay 60% of the cost of public transportation passes for its employees working at headquarters.

***

Note is to be made that since the beginning of the fiscal year, the company pursued its activity in a normal manner.

No agreement such as the one referred to in the last paragraph of article L.225-102-1 of the Commercial Code requires mention.

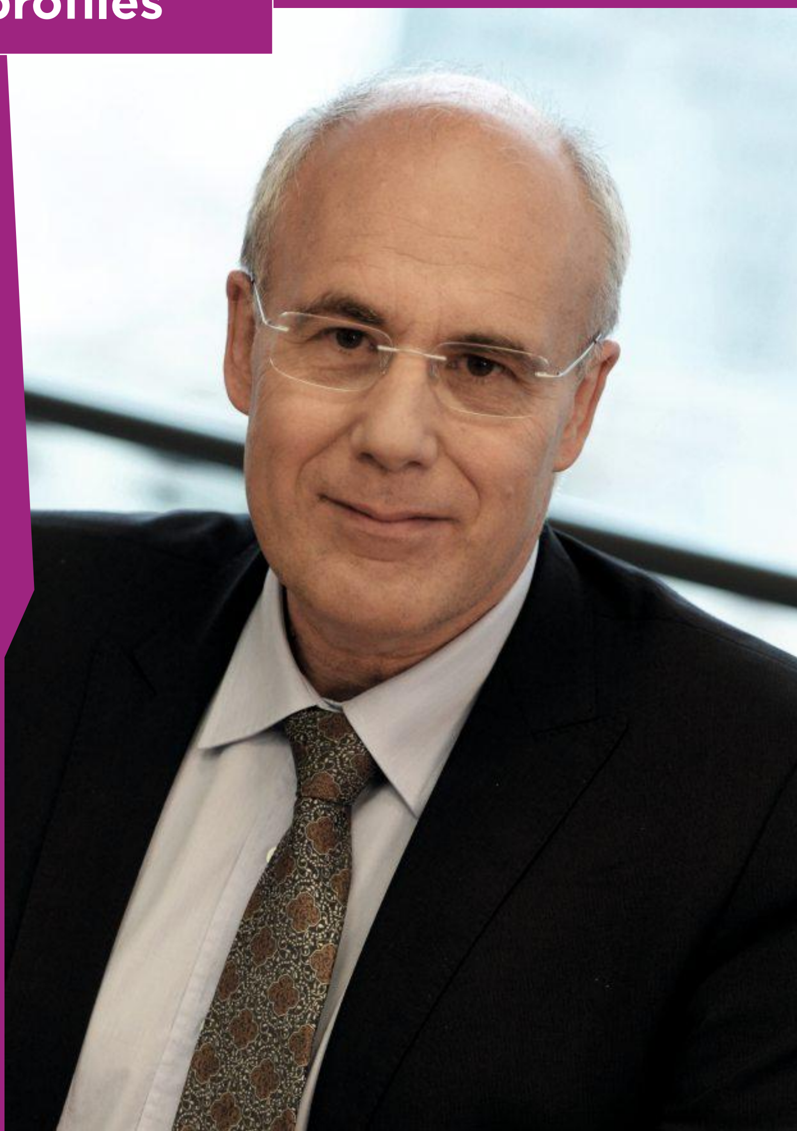
Stéphanie,
Executive Assistant

“I came to work at Sfil on February 1, 2013, as an Executive Assistant on the Management team. My main challenge is to find better ways to make things easier for the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer. In order to improve organization and coherence, you have to know how to anticipate, adapt and react very quickly. The basic qualities this job requires are a clear view of your road map every morning and a solid head on your shoulders every day.”

SFIL profiles

André,
General Secretary, Risks

“I first worked in finance for a large local government, then in the field of local development financing in France and internationally, with or in charge of teams specialized in sales, financial engineering, marketing and research on financing practices in the local public sector. This experience is what I brought when I joined Sfil at its creation in 2013. I oversee the Risks officer in her governance of the management of credit, market and operating risks. I am also responsible for regulatory watch and the steering of structuring projects.”



Corporate governance and internal control

Report of the Chairman of the Board of Directors on internal control

The Chairman of the Board of Directors wished to present a report on the principles and procedures that governed activities at Société de Financement Local in 2014[1].

1. Conditions of preparation and organization of the deliberations of the Board of Directors

1.1 – BOARD OF DIRECTORS

The Board of Directors determines the business strategy of Société de Financement Local (Sfil) and ensures its proper implementation. Subject to the powers expressly conferred to the shareholders' meetings and within the limits of the Company's corporate purpose, it addresses all issues affecting the Company's operations and, through its deliberations, settles all matters concerning it.
It should be noted that, as part of the new organization of local public sector financing in France introduced at the beginning of 2013, the French State, Caisse des Dépôts et Consignations and La Banque Postale became the new shareholders of the Company, which is itself the parent company of Caisse Française de Financement Local. As a result, a new governance structure was adopted as of January 31, 2013, based on the provisions of the *Loi de démocratisation du secteur public* (law on the democratization of the public sector). As of March 2015, its Board of Directors was comprised of 15 members (eight women and seven men). The appointment of the members of the Board of Directors was carried out in keeping with current legislation and the Company's bylaws. Eight members were appointed by decree (three representatives of the French State and five "qualified individuals"), two members were chosen by the shareholders' meeting and five members were elected by the Company's employees. While respecting the specific conditions for appointments linked to the status of Sfil, the members of the Board of Directors are chosen on the basis of their skills and experience with regard to the Company's activities. Four members of the Board of Directors are considered to be independent according to the terms of the AFEP/MEDEF code. They are elected for a term of five years, in line with the *Loi de démocratisation du secteur public* and the Company's bylaws, but different from the recommendation of the AFEP/MEDEF code, which recommends four-year terms. During the year 2014, Chantal Lory was appointed to replace Monique Cohen as a qualified member. Françoise Lombard was appointed to replace Antoine Saintoyant as representative of the State, and Frédéric Guillemin succeeded Antoine de Mieulle as an employee representative. Philippe Mills assumed the position of Chairman of the Board of Directors and Chief Executive Officer. This principle of non-separation of duties was accepted by the French regulatory authority *(Autorité de contrôle prudentiel et de résolution – ACPR)*. As Chairman of the Board of Directors, Philippe Mills organizes and leads the Board's deliberations, ensures the efficiency of the Company's oversight bodies and participates in the Company's relations with regulatory and supervisory authorities. As Chief Executive Officer, he exercises the broadest powers to act under all circumstances on behalf of the Company. He exercises these powers within the limits of the Company's corporate purpose and subject to the powers expressly conferred by law and the Company's bylaws to the shareholders' meetings and Board of Directors.
Rules of procedure define the operation of the Company's Board of Directors. More specifically, the aim of these rules is to present the manner in which the Board of Directors can best assume its role as guardian of the common interests of all the Company's stakeholders, including in particular its shareholders, employees and partners. They specify, especially, the rights and duties of the members of the Board of Directors.
The Board of Directors meets at least once per quarter. Since the beginning of 2014, the Board of Directors met six times. The members' attendance rate was 87%.
The Chairman and Chief Executive Officer provides the Board members with all information, particularly of a strategic nature, they may need to perform their duties properly.
Prior to Board meetings, members of the Board receive an agenda and files containing memoranda and documents related to the agenda.
During Board meetings, the Chairman and Chief Executive Officer presents the activity and accounts of the previous period. The Board is also periodically asked to review the deliberations of the Company's specialized committees.

In 2014, the Company's Board of Directors addressed several issues, demonstating a particular interest in the strategy to reduce the sensitivity of structured loans in anticipation of the effective implementation of the support funds earmarked for local governments, in the strategy governing the issuance of bonds by its subsidiary Caisse Française de Financement Local, in the services rendered to its subsidiary, as well as to La Banque Postale, in the efforts to continue to dismantle Dexia and in the application of the program designed to simplify the IT system, in risks with the Asset Quality Review (AQR) and stress tests organized by the European Central Bank and in the monitoring of legal proceedings and the Company's compensation policy. During the year, the Board of Directors also analyzed the project put forward to expand the activities of the Company and its subsidiary. In terms of governance, the Board of Directors decided that the Company and its subsidiary would refer to the AFEP/MEDEF code by stipulating that certain of its provisions will or will not be progressively introduced depending on

(1) The Company is not currently obliged to prepare a report such as the one required by article L.225-37 of the Commercial Code.

whether their application proves not to be possible or appropriate (specific caracter of the shareholding structure, obligations linked to applicable legislation, etc.). Distinct separate committees were also created in order to take regulatory developments into account (see below).
In addition, the Board of Directors is also informed of any measures taken by the regulators and of the responses conveyed in this regard by the Company's management. The Board will conduct a first evaluation of its deliberations in 2015, in line with the recommendations of the AFEP/MEDEF code.
The Board of Directors convened a general shareholders' meeting on May 23, 2014, which approved the accounts, regulated agreements, the compensation of the Chairman and Chief Executive Officer, and the transfer of corporate headquarters to Issy-les-Moulineaux. The move took place on December 1, 2014.

1.2 – SPECIALIZED COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors had decided to create two internal committees to assist it in the exercise of the Company's mission of management control. They included an Audit and Risks Committee together with an Appointments and Compensation Committee. At the end of 2014, it was decided, on the basis of certain changes in regulations, to cut them in half and to form four distinct committees – the Accounts Committee, the Risks and Internal Control Committee, the Appointments Committee and the Compensation Committee.

The Accounts Committee and the Risks and Internal Control Committee are each made up of five members who are Board members but are not involved in the Company's executive management. Members are chosen on the basis of their skills and their potential contribution to the work of the committee in question. They are chaired by an independent director who is a "qualified individual" with proven skills in finance and accounting. The proportion of independent members is less than the recommendation of the AFEP-MEDEF code given the attention shareholders pay to such matters in the initial stages of corporate activity, explaining their majority presence on such committees. These committees meet at least four times per year. In 2014, the Audit and Risks Committee met five times. The primary purpose of the first meeting in 2014 was to present the procedures employed (mapping, control procedures and the results of controls) in internal control activities at Sfil and Caisse Française de Financement Local, the issues involved in Basel III regulations, the audit approach and the results of the intermediary review by the Company's Statutory Auditors. The other meetings focused mainly on the financial statements as of December 31, 2013, and of June 30, 2014, as well as the first quarter financial statements as of March 31, 2014, of Sfil and Caisse Française de Financement Local, and the related Statutory Auditors' reports, policies of cash management investments and management of the interest rate risk, quarterly reports on risk control, the strategy and activities of Sfil, in particular in the area of reducing loan sensitivity, information of Basel III regulations, the exercise of the Asset Quality Review and stress tests of the European Central Bank and exchanges with ACPR. The Accounts Committee and the Risks and Internal Control Committee, which replaced the Audit and Risks Committee, met once, in December 2014. The Accounts Committee discussed its internal rules, the accounting situation of Sfil and Caisse Française de Financement Local as of September 30, 2014, the 2015 budget and achievements in reducing the sensitivity of structured loans. The Risks and Internal Control Committee dealt with its internal rules, the report on risk control as of September 30, 2014, and the changes in interest rate risk coverage at Caisse Française de Financement Local.

The Appointments Committee and the Compensation Committee also have five members, two of whom are independent, chosen from among the members of the Board of Directors. Members are selected based on the same criteria as those described above for members of the previously described committees. The Appointments Committee and the Compensation Committee are chaired by an independent Committee director who is a "qualified individual" with proven skills in the field of human resources.
The Appointments Committee and the Compensation Committee meet at least twice a year. In 2014, it met three times as a single entity. The primary purpose of the meetings was to discuss the implementation of the compensation policy, including the identification of employees that take risks and the conditions for variable compensation in light of the provisions of CRD IV, the appointment of new members of the Board, the presentation of the result of compensation measures in 2014, and the presentation of equal employment opportunity in 2013.

2. Internal control

2.1 – ORGANIZATION OF INTERNAL CONTROL

a. Responsibilities of internal control and the general architecture of internal control

As a credit institution that does not provide investment services, Sfil is subject to the oversight of the *Autorité de contrôle prudentiel et de résolution* (ACPR).

Since it manages Caisse Française de Financement Local, Sfil has been delegated to exercise the functions of internal control for Caisse Française de Financement Local within the framework of its management agreement. Therefore, internal control at Sfil also meets the regulatory obligations of Caisse Française de Financement Local in this regard. Furthermore, the organization also takes into consideration the servicing activities exercised by Sfil for La Banque Postale (LBP) within the framework of the servicing agreement signed by Sfil and LBP.

The objectives and organization of Sfil's internal control are defined within the framework set by the Monetary and Financial Code, and by the *arrêté* of November 3, 2014, on the internal control of companies in the banking sector, as well as in payment and investment services subject to the control of ACPR (referred to below as the *arrêté* of November 3, 2014), which replaces CRBF standard 97-02 as amended. According to these articles, the internal control system ensures that different control procedures are applied to provide:
- a control system for internal operations and procedures;
- an organization of financial and accounting data;
- systems to measure risks and results;
- systems to monitor and control risks;
- a system for documentation and information;
- a monitoring system of flows of cash and securities.

This internal control system is a process put into practice by the Executive Board and all the employees of Sfil, at the initiative of the Board, to provide reasonable but not absolute assurance with regard to the achievement of the objectives that Sfil set, in particular in terms of the execution of the three missions that its shareholders entrusted to the Company (to refinance loans granted by La Banque Postale, supply support services for La Banque Postale and conduct a responsible and proactive policy to reduce loan sensitivity) targeting performance, profitability and the protection of its holdings.
Specifically, the responsibilities assigned to internal control in effect at Sfil aim:

- to verify the efficiency of the risk control system in order to guarantee Sfil's Executive Committee that the risks taken by the Company are in line with the policy defined by the Board of Directors and the Executive Committee and at an agreed-upon level of risk;
- to ensure that the financial and accounting data produced is reliable and relevant so as to give a true and fair view of the position of Caisse Française de Financement Local in a regular, complete and transparent manner;
- to monitor compliance with internal and external ethical rules and practices and especially respect for legislative and regulatory obligations, in particular with regard to corporate governance and compliance;
- to monitor the effectiveness and operational efficiency of to processes, in order to ensure that operations are carried out correctly while guaranteeing efficient management of available resources.

In order to allow the accomplishment of the objectives set, and in compliance with the *arrêté* of November 3, 2014, the general architecture of the internal control system of Sfil is based on three levels of control.

- The first level of control takes place in the operating teams. It is exercised by every employee and the management chain in function of the operations they handle with regard to internal procedures in effect.
- The second level of control involves permanent control activities by specific control teams with a network of correspondents designated in the operating divisions that report the results of their investigations to the operational risks and permanent control division, which reports to the Risks division. These controls are complemented by those conducted especially for risks of non-compliance (non-respect of legislation, regulations, regulatory instructions, professional and ethical standards and management directives) by the Compliance division, which reports to the General Secretary.
- The third level of control concerns periodic control conducted by an independent team, the internal audit and inspection division, which reports to the Chairman and CEO of Sfil and which exercises periodic oversight of the efficient and effective application of the first two levels of control described above.

The different functions in charge of internal control (operating risks and permanent control division, compliance division and internal audit and inspection division) meet every two months in an internal control committee in order to share information about the risks each division has identified in its field of competence, to coordinate internal control initiatives to remedy risk situations and to analyze the conclusions in their respective control plans.

Within this framework, a common IT tool provides continuous automated management so that the teams can monitor risks, controls, recommendations and action plans for the full range of internal control functions at Sfil.

These different levels of control are deployed within the following framework.

b. Supervisory body and executive management

In accordance with the French Commercial Code *(Code de commerce)* and the *arrêté* of November 3, 2014, which replaces CRBF standard 97-02 as amended, the role of the Audit and Risks Committee (respectively the Risks and Internal Control Committee) is to monitor the effectiveness of the internal control and risk management systems, assess the quality of internal control, in particular the consistency of the risk assessment, surveillance and control systems, and propose additional measures as necessary, This committee also monitors permanent control, compliance and periodic control at Sfil. It also studies with the Statutory Auditors, risks which threaten their independence.

Pursuant to the powers conferred upon them as responsible managers as stipulated by the ACPR, the Chairman and Chief Executive Officer and the deputy Chief Executive Officer are responsible for the efficient operation of Société de Financement Local's internal control system. They allocate the necessary resources to enable the different control divisions to accomplish their missions, and verify that the assigned objectives are achieved and that the system is in line with Société de Financement Local's needs. To do so, they regularly receive activity reports and results of controls performed in terms of permanent control, compliance and periodic control. These reports are also presented and discussed at Société de Financement Local's Management Committee meetings. Pertinent measures are proposed and decisions made with a view to continuously improving the internal control system.

c. Operating divisions

As the first level of the internal control system, employees and managers of Sfil's operating divisions are in charge of analyzing the risks involved in all the transactions they have initiated, organizing and conducting basic controls for such operations, verifying that internal control procedures in their division are adapted to such risks and contributing to their development. To this end, they apply basic principles, which are spelled out in all the activities of Sfil, i.e. policies, procedures, indicators, reporting tools, and a clear separation of functions between the launch of operations and their validation, control or settlement. These basic principles are governed by several specialized committees, composed of operating, support and control staff and chaired by a member of the Executive Committee, such as the Risks Committee, the New Products Committee, the Operational Risks Committee and the Permanent Control Committee…

d. Risks division

At their creation in February 2013, Sfil and Caisse Française de Financement Local set up a full-blown risk management system to identify, monitor and manage risks. It assesses risks of a specific nature or several risks together, proactively alerts the competent committees of potential risks and decides the appropriate amount of provisions.

The level of risk that is acceptable for Sfil and Caisse Française de Financement Local is defined by the Executive Committee and the Risks Committee at Société de Financement Local. It is approved by the Risks and Internal Control Committee (former Audit and Risks Committee). Within this framework, policies are defined for all the activities performed as well as limits and rules that govern the delegation of decisions. The Risks division is in charge of monitoring these limits and if necessary proposes measures to the Executive Committee of Sfil.
A quarterly risks report is presented to the Risks and Internal Control Committee every quarter by the head of risks. It provides a synthetic view of the main risks at Sfil and Caisse Française de Financement Local and their development during the quarter (credit risks, market and ALM risks, operational risks) as well as changes in regulations over the period. The Risks division relies on several committees whose missions and composition have been approved by Sfil's Executive Committee, Risks Committee and Risks and Internal Control Committee. Depending on the situation, these committees are applied across the company (Risks Committee, Method and Model Validation Committee, New Products Committee) or have a specialized focus (credit risk, market risk, and operational risk, as described below).

e. Committees

The Risks Committee defines Sfil's risk profile, validates risk control dispositions and ensures their respect. In particular, it is in charge of defining delegations in the granting of credit and approving the risk policies of Sfil concerning all types of risks and the limits defined by the Risks division.
The committees on method and model validation (Market Validation Committee, Cross-divisional Credit Models Validation Committee) are in charge of validating market risk and pricing models as well as their deployment and the internal rating systems that make it possible to calculate capital needs.
The New Products Committee examines new products and management processes or any transformation of a pre-existing product or process. This committee also studies new products intended for financing, refinancing or hedging customer risks, whether at the request of La Banque Postale or Sfil teams, as well as the development of any existing product or service to the extent that it substantially modifies the risk profile or the internal processes of the bank.

f. Permanent control excluding compliance

1. Organization and governance of permanent control

Permanent control should make it possible to ensure the efficiency and reliability of the system of risk control, the quality of accounting and financial information and the quality of information systems as well as the existence and the quality of key controls in all activities so as to cover major risks whatever their nature. Permanent control measures apply to all divisions and all activities of the bank.
To ensure consolidated oversight, permanent control of the risk division is monitored by the head of operational risks and permanent control and is supported by a network of correspondents in the operating divisions in charge of deploying, coordinating and monitoring controls at the first and second levels.

2. Activities of permanent control excluding compliance

The management principles governing permanent control are described in the management policy for operational risks and permanent control. Permanent control is based on a control plan covering the different business activities in the bank. Choice of controls are made in cooperation with the operating divisions. The relevance of this choice is analyzed every year when the control plan is reviewed. The goal of the review of the control plan is to adapt it as best as possible to the situation of the Company. This is accomplished by taking into consideration the following points:

- the results of the controls conducted in the previous year: each control is examined to determine its interest, its appropriateness measured against the risks to be covered, its efficiency and the pertinence of the related measurement indicators;
- the review of incidents recorded;
- the opened recommendations of internal audit at the time of the review;
- new products and processes for activities under study.

This process makes it possible to develop existing controls and eventually to add new controls.

Every quarter, the correspondents evaluate the controls in their division or activity. The evaluation is documented by a commentary and a file that justify the results of the control. All the results are reviewed by a permanent control steering team, which may accept or refuse the evaluation if the documentation is considered to be unsatisfactory. In this case, action plans validated by the management team in charge of operational risks and permanent control are set up in order to reestablish a result that is satisfactory for subsequent periods.
These action plans are monitored regularly and are reported quarterly to the committee for operational risk and permanent control.

In 2014, the permanent control plan was enriched as it went from 135 points controlled at the end of 2013 to 149 points controlled at the fourth quater of 2014.

3. Reporting activities of permanent control excluding compliance

The Executive Committee and the Board of Directors are regularly informed of permanent control activities.
The Operational Risks and Permanent Control division publishes a quarterly report presented to the Operational Risks and Permanent Control Committee, which is chaired by the head of Risks and made up of all the members of the Executive Committee. The committee meets quarterly. It examines the results of permanent control and follows the recommendations to prevent incidents or improve the system (permanent control, evaluation of operational risks, IT security, etc.). It also looks at the main operational risks identified, decides whether or not they are acceptable and defines any corrective measures to be deployed. For the part that concerns permanent control, the report is based on the results of the evaluations of controls in the period under investigation and information on the efficiency of the control system and on anticipated improvements.
The report includes different types of information:

- qualitative data showing the principal issues linked to permanent control and the areas of general improvement as a result of the internal control process;
- quantitative information to provide a general view of the efficiency of the process: results of the valuations of controls, of the monitoring of action plans, follow-up of

permanent control plans (new controls, modification of controls, etc.).

The Risks and Internal Control Committee periodically receives information on the progress made in permanent control procedures, control plan, evaluations of controls, areas for improvement. It validates the directions taken. A detailed review of the permanent control system and non-consistent results was presented to the Risks and Internal Control Committee on January 21, 2015.

g. Compliance

Compliance is an integral part of the internal control system of banks and investment firms.

Compliance division is an autonomous division, independent of all operating units and is particularly of any commercial activity. The compliance division reports to the General Secretary, who is a member of the Executive Committee of Sfil and has been designated as the compliance contact for the *Autorité de contrôle prudentiel et de résolution* (ACPR). The General Secretary is assisted by two Compliance officers. She also acts as the TRACFIN correspondent within the framework of the obligations of banks in the fight against money laundering and the financing of terrorist activities.

Compliance contributes to the respect for all legal and regulatory requirements in effect. It monitors the consistency and efficiency of non-compliance risk control at Sfil and its subsidiary Caisse Française de Financement Local. It acts in accordance with the compliance rules defined at the level of the Sfil-Caisse Française de Financement Local Group.

The year 2014 was marked by the deployment of the Sfil Group's compliance system. The system is comprised, on the one hand, of codes, guidelines and procedures, and on the other, of risk detection and control tools (mapping the risks of non-compliance and an annual control plan).

Mapping the risks of non-compliance aims to present an aggregate view of the risk of non-compliance and to provide steering. It serves as a basis for the development of the control plan and the validation of risk-taking by Société de Financement Local and Caisse Française de Financement Local.

Compliance covers all the activities of Sfil and Caisse Française de Financement Local. It addresses the main issues – business ethics and the fight against money laundering and the financing of terrorist activities, the prevention of market abuses, the prevention of conflict of interest, conduct vis-à-vis customers and the protection of personal data…

The first year of compliance control made it possible to monitor the risk of non-compliance. Subsequent to these verifications, action plans were set up to improve risk control.

In addition to the deployment of the compliance system, Compliance also monitors regulatory developments that may impact the Sfil-Caisse Française de Financement Local Group in terms of compliance. Within this framework, this team participates actively in the operational application of the European Market Infrastructure Regulation (EMIR), and monitors regulatory changes in the Dodd Frank Act and the Foreign Account Tax Compliance Act (FATCA) in dedicated project structures.

Lastly, training sessions were organized on the above-mentioned compliance issues for all employees, according to a bi-annual plan drawn up by the Human Resources division.

h. Periodic control

1. Organization and governance of periodic control

Periodic control, in the sense of the *arrêté* of November 3, 2014 (which replaces CRBF standard 97-02 as amended), is exercised by internal audit(1) and inspection(2). The scope of this function covers all the activities, operating processes and systems of the Sfil Group with no reserve or exception, including externalized essential activities and anti-fraud techniques.

The independence and efficiency of the internal audit and inspection function are guaranteed by the fact that the head is the General Auditor who reports to Sfil's Chairman and Chief Executive Officer. The other factors that also play a role are the absence of involvement in the operating management of Sfil's activities, unconditional, immediate access to all information, documents, premises, systems or persons its activities require, the resources made available by management to carry out these missions and the respect of the principles of integrity, objectivity, confidentiality and competence (through a permanent training plan to inculcate audit techniques and regulatory developments) on the part of the staff of the internal audit division. These principles are reflected in the internal audit charter and the inspection charter, which were approved by Sfil's Audit and Risks Committee on April 16, 2013, and August 27, 2013, respectively, and announced to all the employees of Sfil.

As of December 31, 2014, the internal audit and inspection division counted nine people (plus one trainee), among whom there were six auditors and audit managers. The General Auditor supervises all the activities and all the reports issued by the division. She is assisted by a supervisor, who is also in charge of the team of auditors and oversees the audit missions carried out by the auditors under the responsibility of the audit managers. In addition, every auditor and audit manager is responsible for a specific field through permanent documentation, risk surveillance and the monitoring of recommendations for Sfil's operational divisions.

2. Activities of internal audit and inspection

Activities in this area are described in an internal audit brochure that is regularly updated and based on the reference framework of the professional internal audit practices of IFACI(3). The last update of this manual dates from April 2014. In order to monitor the efficiency and performance of these activities and to identify opportunities for improvement, quantitative and qualitative indicators were introduced and are regularly measured.

Internal audit and inspection have adopted a Top Down approach for the annual evaluation of risks, in line with the recommendations of the Institute of Internal Auditors. They are based first on the identification of Sfil's objectives,

(1) Internal audit is an independant and objective activity which assures Sfil of the degree of control of its operations, contributes advice on how to improve and create added value. It helps the organization to reach its objectives by applying a systematic and methodological approach in the evaluation of its risk management, control and governance processes and by making proposals to reinforce their efficiency.

(2) In the Sfil Group, inspection activities work in an independent and objective manner to contribute to control of the risk of fraud.

(3) Institut Français de l'Audit et du Contrôle Interne (IFACI)

then on a study of critical risks that may jeopardize the success of such goals. In 2014, the annual assessment of risks was carried out in the second half and it gave rise to a map of the major risks of Sfil. This map was compared to the information culled in 2013. Based on this mapping, Internal audit and inspection prepared its 2015 and multi-year audit and inspection plan which was approved by the Risks and Internal Control Committee on January 21, 2015. Current risk mapping is likewise presented to the Board of Directors once a year.

Sfil's multi-year audit plan, which is reviewed every year, is broken down into audit missions that are conducted throughout the year in function of a schedule and pre-established budget. These different missions include four main stages (phases of preparation, accomplishment, conclusion and finalization). Audit missions are carried out using the methods described in a Company guidebook on internal audits that is regularly updated and based on the reference framework of the professional internal audit practices of IFACI. The latest update of this manual dates from April 2014. The audit missions are summed up in a report that is presented to the Executive Committee, which compares a general appreciation of the mission's theme with an evaluation of residual risks, so that the Executive Committee may validate the match with the risk profile of Sfil and Caisse Française de Financement Local, and make recommendations to improve the efficiency of the processes and internal controls.

In 2014, the internal audit missions addressed issues related to the principal activities of Sfil and Caisse Française de Financement Local (bond issuance processes, outsourced services rendered by Sfil to Caisse Française de Financement Local as a *société de crédit foncier*), financial regulations (EMIR, respect for the Gissler charter), certain key operating processes (accounting principles, management of collateral), human resources (application of working time arrangements, management of skills and career development), internal control procedures (compliance) and IT backup plan. In 2014, the audit plan was 83% completed, exceeding the initial objective of 80%, since fewer ressources were available than initially budgeted. In addition to the recommendations made, the conclusions of each of these missions were presented to Sfil's Executive Committee for discussion and decision, as well as to the Risks and Internal Control Committee on January 21, 2015.

The follow-up on recommendations made after the missions organized by internal audit and inspection, regulatory authorities or the Statutory Auditors, as is the case, is carried out in a continuous and automated process to monitor the deployment of action plans resulting from such recommendations. Responsibility for the appropriate implementation of the recommendations is incumbent on identified managers. The follow-up of this implementation is under the responsibility of the auditors and audit managers in function of their field of competence. The validation of the stage of progress or accomplishment of these action plans is the responsibility of the Supervisor and the General Auditor. All these recommendations, a part of which were inherited from Dexia, prompted continuous monitoring in 2014 and official reports based on the situations as of March 31 and September 30, 2014, as well as presentations to the Executive Committee (in May and November 2014), the Audit and Risks Committee on June 4, 2014, and the Risks and Internal Control Committee on January 21, 2015.

Internal audit and inspection divisions are also in charge of the preparation, organization and follow up of the missions regulatory authorities carry out at Sfil. It also coordinates the preparation of responses to reports and the formulation of action plans subsequent to the recommendations made. In 2014, internal audit and inspection thus coordinated two missions finalized in 2013 by ACPR: an investigation into the risk of litigation linked to the annual percentage rate of charge (TEG) and a mission on credit risk in the French local public sector.

In addition, under the aegis of the Chairman of the Accounts Committee and the Risks and Internal Control Committee (formerly a single Audit and Risks Committee), internal audit and inspection ensure the organization of all the meetings of these committees. It oversees the respect of deadlines in the transmission and communication of information and files required for decision-making. It monitors the annual program of works set out by the Chairman of these committees. It also provides that minutes are drawn up at each of the meetings in close cooperation with the Chairman of the committee. Lastly, it takes responsibility for the safe storage of the minutes. In 2014, internal audit and inspection organized five meetings for the Audit and Risks Committee, one for the Financial Statement Committee and another for the Risks and Internal Control Committee.

Finally, internal audit and inspection is also in charge of inspection at Sfil. The purpose of this function is to play a role in the prevention, detection and investigation of fraud and to propose and to apply corrective measures in the event of dysfunctions. This unit may also respond to particular requests from the Company's legal division to provide information that may serve corporate interests. Sfil's management may also solicit the function of inspection to carry out missions and address certain specific issues.

In 2014, in addition to the investigations undertaken periodically, inspection services focused on the rules governing the use of staff resources by Sfil, on the access to sensitive computer applications and on the management of RIB/IBAN at Sfil. At the same time, Sfil's plan against fraud was rolled out in cooperation with other internal control functions and presented to the Risks and Internal Control Committee on January 21, 2015.

3. Reporting on internal audit and inspection activities

Sfil's Executive Committee is kept regularly informed of internal audit and inspection activities. In particular, the audit plan is presented every year for information after discussion with Sfil's Chief Executive Officer. Every audit mission is discussed (scope, objectives, planning, etc.) for information and commentary before it effectively takes place, and its conclusions are presented for discussion and decision. A report on the follow-up of the recommendations of internal audit, inspection and regulatory authorities as well as the implementation of related action plans is likewise presented every six months.

The internal audit charter and the charter of inspection activities are regulary submitted for validation to the Risks and Internal Control Committee (previously the Audit and Risks Committee). The audit and inspection plan is also submitted annually to this committee for validation. This committee is informed every six months of the results of the follow-up recommendations of internal audit, inspection, regulatory authorities and

Statutory Auditors and of the progress made in related action plans. Regular reports of activity and results of audit missions achieved are also presented for study. In addition, the annual report on internal control at Sfil (articles 258 and following of the *arrêté* of November 3, 2014, which replaces articles 42, 43 and 43-1 of CRBF standard 97-02 as amended) is presented every year for review. A synthesis of these different reports is presented to Sfil's Board of Directors.

2.2 PREPARATION OF ACCOUNTING AND FINANCIAL INFORMATION

a. Financial statements

In addition to presenting all the financial data produced by the accounting department, the Company's annual financial statements should give a true and fair view of its assets, financial position and results. For credit institutions, the *arrêté* of November 3, 2014 (which replaces CRBF standard 97-02 as amended), highlights in its accounting chapter that the organization adopted should guarantee the existence of procedures called "audit tracks". They make it possible to establish a link between accounting data and the original justification, and *vice-versa*. All these items should make it possible to reconstitute, justify and explain any and all financial items produced for accounting or regulatory purposes. This principle grounds the organization of accounting functions in the Sfil Group and applies to both Sfil and Caisse Française de Financement Local.

In 2014, the improvements introduced aimed to strenghten cross-division cooperation in the organization of Sfil. This approach was designed to secure the financial information produced as well as to share what would facilitate the analysis of data in the teams participating in the preparation of the financial statements. In addition, within the framework of the analysis of its processes, Sfil attempted to measure among the tasks accomplished independently of automated processes the improvements that could be taken into account to replace or improve management tools in an effort to reduce this type of work. This approach serves to reduce operational risks associated with manual entries.

1. Role and organization of accounting

Sfil's Accounting department reports to Sfil's Finance division, which also oversees financial steering, including the functions of ALM steering, management control, financial communication, the organization of systems and quality. Thus Accounting plays a central role in the management system of Sfil and of financial management, thereby making it possible to benefit from this central viewpoint.

Accounting produces basic accounting data, synthetic presentations and the annual and half-year financial statements and consolidated financial statements of Sfil and Caisse Française de Financement Local. It also provides additional accounting data for La Banque Postale within the framework of the activity entrusted to it. It is also responsible for the production of the consolidated financial statements of the Sfil Group, and has the resources to ensure respect for regulatory or prudential standards in cooperation with the risk management teams.

Accounting also plays a role in the analysis and control of accounting data. It basically operates by reconciliation of the data within the framework of a contradictory approach with the other teams in the Finance division, in particular concerning the calculation of the results of managed entities. This approach is also applied to the balance sheet of the Company and especially the constitution of risk bases to help calculate prudential norms.

To carry out its mission, Accounting participates in committees that may impact its activity and has access to a broad spectrum of information either directly or through the CFO. It participates in the development of IT systems, and relies on a cross-division team set up by the CFO to improve, secure and ensure long life to its IT system. The quality division manages the organization of information systems and is in charge of regulatory, ALM management, management control and financial communication tools. It has the mission to participate actively in the development and the improvement of its own tools and those used by Sfil's operational divisions. This system makes it possible to ensure continuous improvement in terms of quality, process efficiency and the reliability of financial information.

2. Preparation of the financial statements

In the preparation of the financial statements, Sfil's accounting system is in large measure automatically supplied by upstream management systems that manage transactions with customers and market counterparties as well as overhead costs. When data is entered into one of the management systems, it is automatically recorded in accounting according to a pre-defined plan, and complemented by manual entries for certain types of operations. Operations are recorded in a single accounting system based on a double set of accounting standards (French GAAP and EU IFRS). The synthesis of this data is thus obtained automatically using parameterized publication tools.

The internal control system guarantees the completeness and accuracy of accounting entries. The team in charge of accounting standards ensures compliance with standards, validates automated accounting procedures and examines complex or unusual operations. However if certain operations can not be completely incorporated into the management tools available, they are processed using specific internal control procedures.

A first level of control is conducted by accounting teams that are specialized by business line, in particular by analyzing accounting/management data reconciliation, bank reconciliation and technical suspense accounts. Monthly comparisons are carried out on management outstandings and reconciliations of micro-hedges, a step that in particular makes it possible to ensure the correct transcription of operations and their hedges. In order to verify the coherence of interest expense and income from one period to another, this data is compared with outstandings balances in order to produce average rates that are easier to compare from one period to the next. Finally, these teams also prepare a synthetic memorandum on the work done which points up areas that need attention and improvement for the processes to be used in future accounts closings.

Complementary controls are carried out by other teams from Accounting at the monthly, quarterly and annual closings. Through specific reviews, the teams in charge of preparing the financial statements check the quality of the work done by the teams responsible for first-level control. These teams also reconcile the data concerning net banking income with management data produced by separate teams. This cross-referencing is done at least once a quarter and consistency from one period to the next is verified using analytical controls. The main changes deserve an explanation. The work and means expended during the year made it possible to stabilize the management data collected both for the validation of the results and for the estimates required within the framework of the forecasts requested by the Finance division.

To carry out its control plan, Accounting has a monitoring tool at its disposal with which it can verify the deployment of key controls and their validation. This information and any comments on discrepancies are subject to review by the head of Accounting with the main team members.

The preparation of the financial statements is carried out by the aggregation of the accounts thus produced according to an automated process. This function requires parameters administered by a dedicated and independent team.

Stability in reporting, which represents a key point in terms of communication, is thereby verified. Notes to the consolidated and annual financial statements are generally produced based on accounting data that may be enhanced by management information. Qualitative analyses are then carried out through cross-referenced controls of synthetic data in accounting as well as with the contribution of the teams in charge of monitoring the Group's balance sheet. Cross-referenced controls are also conducted between the financial statements and the notes to the financial statements. Throughout this process, reviews and controls are carried out according to the hierarchical delegations that exist.

3. Financial statements process

The accounting statements, balance sheet, income statement and notes are subject to particular scrutiny during the preparatory phase and in their final form by the head of Accounting and then by the CFO. The financial statements are presented quarterly to the Audit Committee (the Accounts Committee). The Board of Directors approves the financial statements annually.

Since the beginning of 2014, only the annual and half-year financial statements are reviewed by the Statutory Auditors.

4. Role of Statutory Auditors

The Sfil Group is audited by two auditing firms working together to audit the financial statements of Sfil. The same is true for Caisse Française de Financement Local. The Statutory Auditors are regularly consulted throughout the process of preparation of accounting data and the financial statements in order to ensure efficiency and transparency. In due diligence, they analyze accounting procedures and evaluate current internal control systems to determine the scope of their controls of the principal areas of risk. During these analyses, they may make recommendations on internal control procedures and systems that could improve the quality of financial and accounting information produced. They have access to all memoranda and notes produced by staff in charge of accounting principles and standards, and they also review the accounting manuals, as well as instructions issued by the Accounting teams. They consult internal audit and inspection reports. They verify the consistency of the data in the management report with the accounting information, as well as the conformity of the management report and the financial statements with all the items they have reviewed and audited. Their work includes a review of the agreements that can be considered as regulated agreements. In a specific report, they provide a full and complete accounting at the end of their legal mission. They employ due diligence to obtain reasonable assurance that the financial statements are free of any material misstatement.

b. Management reporting

The financial statements (balance sheet, off-balance sheet, income statement, cash flow statement and notes) that Sfil communicates to its shareholders and to the general public are completed by quarterly activity reports prepared by its subsidiary Caisse Française de Financement Local, in particular, when its subsidiary issues *obligations foncières*. This management information also includes items related to loans originated by La Banque Postale and purchased by Caisse Française de Financement Local, as well as updates on the reduction of the sensitivity of structured loans. This data, accompanied by forecasts and evaluations of risks, directly supplied by the operating or the Risks division, is incorporated into the annual financial report. Its accuracy is therefore guaranteed by the internal control system of the divisions concerned.

New financing business takes place solely in France. A geographic breakdown of assets according to the counterparty's country of residence (France and other countries) is presented quarterly in the management report. This information is prepared by the accounting team on the basis of management data reconciled with accounting.

Sfil also acts as servicer for Caisse Française de Financement Local and for La Banque Postale. To this end, a specific analytical cost accounting method is used to ensure proper billing of the services rendered as a servicer or within the framework of grouped resources.

2.3 IDENTIFICATION OF MAIN RISKS AND THEIR SPECIFIC INTERNAL CONTROL PROCEDURES

a. Credit risk

Credit risk represents the potential loss that may affect Sfil by reason of a counterparty's downgraded financial position.
The Risks division defines the policies, guidelines and procedures relating to credit risk. It is responsible for developing the decision-making process (principally the granting of loans) and the framework of delegations and for supervising the analysis and rating process.

Within the framework of its surveillance of credit risk, and more particularly of the different teams in charge of credit risk, the Risks division is in charge of:
- the definition of credit risk policies in conformity with the risk appetite of Sfil and Caisse Française de Financement Local;
- the definition of limits by type of counterparty setting the maximum exposure considered to be acceptable for a given counterparty;

- the proactive monitoring of limits which the Risks division may change at any moment in function of trends in related risks;
- the definition of delegations by type of counterparty;
- the management of the lending process for both new commitments and rescheduled loans through credit analyses and ratings (by using either the internal rating systems or expert advice);
- the monitoring of credit risk in all the portfolios of Sfil and Caisse Française de Financement Local (local public sector in France, international, bank counterparty, etc.) by generating credit analyses and reviewing ratings annually;
- the identification of assets with downgraded risks susceptible to be put on the watchlist;
- the proposal of specific or segment-based impairment for the portfolio.

The Risks division is also in charge of maintaining and developing internal rating systems for the French and Italian local public sector, for banks and sovereign, as well as for the development and maintenance of the Pillar II model (economic capital). It finally deals with statistical models linked to the different stress scenarios.

Credit risk governance relies on several specialized committees, described below.

- The Credit Committee approves both new commitments[1] by Caisse Française de Financement Local and Sfil (loans and swaps) and rescheduled loan agreements on the balance sheet of Caisse Française de Financement Local. It sets credit limits when certain predefined thresholds are exceeded. Each credit report presented to the Credit Committee contains an independent analysis conducted by the Risks division. The Credit Committee is also informed of commitments made within the framework of delegations granted to the Risks division, to the Debt Portfolio Management division or the commercial teams of La Banque Postale. This committee meets on a weekly basis.
- The Watchlist Committee is in charge of monitoring assets kept under particular scrutiny because of the downgrade of risk and it may propose specific impairment. This committee meets quarterly.
- The Default Committee decides whether a file should be given default status or be upgraded, and it qualifies debt due as real default, operating debt due or technical debt due. This committee meets quarterly.
- Every quarter, the Impairment Committee sets the amount of collective impairment and finalizes the calculation of specific impairment on the basis of the provision rate decided by the Watchlist Committee.
- The Rating Committee ensures the proper application of the internal rating systems and the appropriateness of the rating processes. This committee meets quarterly. Although it is an integral part of the credit risk management process, the committee is organized by the head of the Validation and Quality Control team, which reports directly to the head of Risks in order to guarantee the independence of the control process.
- The Non-Performing Exposures and Forbearance Committee quarterly approves the list of counterparties with non-performing exposures and a second list for counterparties that benefited from financial concessions due to their financial difficulties.

(1) Not delegated to the Risks division, the outstandings management division and the marketing teams of La Banque Postale

b. Market risk

By its nature, the Company does not carry market risks in the regulatory sense of the term. Non-regulatory market risks are nonetheless subject to continuous supervision by Sfil's Market and ALM Risks division, which is responsible for:

- the definition of policies, guidelines and procedures related to the monitoring of market risks;
- the definition of limits;
- the definition of calculation and assessment methods for these risks;
- the valuation of derivatives and monitoring calls for cash collateral;
- the management reporting on analytical results;
- the valuation of balance sheet items (assets, liabilities, AFS reserve);
- the monitoring of market risks.

The governance of market risks is built around the Market Risks Committee, which conducts a monthly (quarterly since January 1, 2015) review of risk indicators for the different market activities (sensitivity, changes in mark to market for structured swaps hedging loans to customers in default, AFS reserves, VaR rate 99% 10 days, limits, cash collateral, etc.). This committee is in charge of the approval of policies, guidelines and procedures regarding market risks before they are submitted to the Risks Committee.

c. Interest rate, foreign exchange and liquidity risks

In the Finance division, the ALM team is in charge of the implementation of ALM policies defined for Sfil and its subsidiary Caisse Française de Financement Local.
The ALM and Market Risks team is in charge of defining the general policy concerning ALM risks, calibrating the limits on ALM indicators and performing second level controls on these indicators.

1. Definition of ALM policy

This policy is designed to protect the value of the Group's equity.
At the level of Sfil, ALM policy involves foreign exchange and interest rate micro-hedges for all balance sheet and off-balance sheet operations. In terms of liquidity, this policy aims to ensure that Sfil and Caisse Française de Financement Local will have enough liquidity to meet their needs given the sensitivity of liquidity needs to fluctuations in the financial markets through variations in cash collateral posted /received on its derivatives, business forecasts, regulatory constraints and the lending conditions of partner banks.
At the level of Caisse Française de Financement Local, the policy consists in neutralizing exposure of the value of the Company to the interest rate risk at best. To this end, Caisse Française de Financement Local uses swaps to micro-hedge appropriate balance sheet items – debt securities, structured loans, bond issues, etc. Vanilla commercial loans or non-structured securities are macro-hedged against interest rates, usually by entering into swaps paying a fixed rate. But the same result can also be obtained, when possible, by netting swaps receiving a fixed rate previously set up to hedge issues. This macro-hedge is framed by three indicators subject to a limit restricting the loss to 6% of stockholders' equity with 99% probability, i.e. EUR 80 million. These three indicators aim to limit losses in value in the event of a

directional shock or a deformation in the interest rate curve either for points far from one another or for points close to one another. ALM policy is also designed to limit liquidity risk as much as possible in a static, dynamic and stressed environment, while respecting regulatory restrictions (liquidity ratio one month, need for cash at 180 days) and over-collateralization requirements expressed by regulatory authorities and the rating agencies. Moreover, Caisse Française de Financement Local has a ceiling on its transformation capacity by limiting to three years the maximum duration gap between the assets and the resources benefiting from the privilege. Finally, this policy avoids any foreign exchange risk.

2. Committees

ALM is organized around three committees. With the participation of the Market and ALM Risks division, the ALM Committee decides ALM strategy and oversees its deployment through the review of management indicators. It works with the ALM Interest Rate and ALM Liquidity Committees to define procedures and operations.

3. Operational management

In its interest risk management, ALM manages the overall interest rate risk linked to fixed rate assets and liabilities with no micro-hedges and the basis risk linked to imbalances between assets and liabilities in each tenor index (especially Eonia, Euribor three months, Euribor six months, for Caisse Française de Financement Local), as well as the residual fixing risk, after hedging of the basis risk, linked to the difference in dates between fixings of the same tenor index.
These different types of risks are monitored, analyzed and managed through the production of gaps – respectively fixed rate, basis rate and fixing rate, which make it possible to determine the nature and the amount of hedges to be negotiated. In the case of Caisse Française de Financement Local, these hedges may be done either directly in the market or through Sfil acting as an intermediary, which then trades in the market for itself.
ALM manages the liquidity of Sfil and Caisse Française de Financement Local respecting ratios of regulatory and internal liquidity as well as specific restrictions in legislation on *sociétés de crédit foncier*. To this end, it uses a static analysis of balance sheet and off-balance sheet items likely to influence the trend in liquidity – eligibility of assets, available reserves, sensitivity of collateral, off-balance sheet commitments, etc. It is also based on a dynamic analysis of liquidity needs by completing the static scenario of hypotheses related to a commercial policy (asset acquisition, reduction in sensitivity) and to the strategy of refinancing. Stressed liquidity forecasts are also performed. Lastly, it implies both the production of the regulatory one month liquidity ratio calculated according to the methods defined in the *arrêté* of May 5, 2009, and on the calculation of the gap in duration between the assets and liabilities of Caisse Française de Financement Local.
With regard to the management of foreign exchange risk, the issues and assets denominated in foreign currencies give rise once they enter the balance sheet to the signing of a cross-currency swap against the euro. Outstanding and interest margins denominated in foreign currencies connected with these operations are thus fully transformed into euros, thereby ensuring perfect foreign exchange coverage for the nominal and the rate attached to these balance sheet items. ALM guarantees the absence of foreign exchange risks *via* the net foreign exchange position in each currency, calculated on the basis of total commitments, loans and accrued interest not yet due denominated in foreign currency on the balance sheet.

d. Operational risks

Operational risk represents the risk of loss resulting from the lack of adaptation or failure on the part of internal processes, staff, systems and also external events. It includes the risks linked to the security of IT systems, as well as legal risks. Sfil has chosen to incorporate the risk of reputation in this category. Management procedures for operational risks apply to all of the operating divisions of Sfil.

1. Organization and monitoring

Within the framework of the directives of the Basel Committee in the field of operational risk, Sfil opted for the standard approach and introduced an organization, procedures and a management tool to monitor and control its risks.
Sfil has a risk management team dedicated to monitoring operational risk and piloting permanent control based on a network of correspondents designated in each division. The involvement of business line managers strengthens the system's effectiveness.
Sfil has defined a process of collection and surveillance of operating incidents and losses. Operational risk correspondents analyze the incidents with the help of the risk management team. In function of the results of this analysis, corrective or preventive measures are taken in order to reduce exposure to operational risk.
Sfil also has an operational risk management tool and, in particular, an incident census module.
In addition to the register of losses, the main zones of risk are evaluated by taking existing controls into account in order to define Sfil's risk profile. Exposure (self-assessment) is mapped by the operating divisions with the help of the Risks division. In function of the results, action plans can be launched in order to control the level of risk. Reports provide an analysis of the bank's risk profile by division. They are presented in the Operational Risks and Permanent Control Committee at least once a year.
Mapping was updated in 2014 when the notion of gross risk for all Sfil divisions was introduced. Detailed results were presented at the March 6, 2014, meeting of the Operational Risks and Permanent Control Committee, and a synthesis of the main risks was presented to the Risks and Internal Control Committee on January 21, 2015.
For the main risks or risk factors identified, Sfil progressively introduces a set of key indicators which will be monitored quarterly.

2. IT security

The IT security policy comprises recommendations, standards and practices designed to protect Sfil's information data from any attack on confidentiality, integrity or availability.
All these measures are spelled out in Sfil's IT security policy. It defines the principles applicable by category of security as well as the roles and responsibilities of the different security players. It is based on guidelines, specific policies related to security, rules and operating procedures as well as on the indications provided by ISO standard 27000/17799.
An IT business continuity plan was drawn up in cooperation with all the operating units. Safety procedures are spelled out. The contingency plan and procedures are updated every year and these procedures are tested according to a calendar drawn up by the Steering Committee for the

continuation of business and validated by the Operational Risks and Permanent Control Committee.
The security system was presented at the January 21, 2015, meeting of the Audit and Risks Committee.

3. Insurance of operational risks

Sfil insures against traditional risks for its offices and IT systems, vehicles and liability. Sfil has also subscribed insurance policies to cover the liability of the members of its management bodies, professional liability and fraud. These policies also cover Caisse Française de Financement Local.

e. Legal risk

Sfil's monitoring of legal risks focuses on the prevention of litigation, the anticipation of legal developments and the respect of governance principles. Legal risk control is under the responsibility of the General Secretary through six main activities, i.e. internal legal advice, drafting or control of legal documents, the management of litigation, legal, legislative and regulatory watch in its areas of reference, the legal secretariat of Sfil and Caisse Française de Financement Local and the monitoring of delegations of signatures.
A detailed summary of current legal risks is presented in the management report of the annual financial report.
A review of current litigation is prepared weekly by a specialized committee (Sensitivity Reduction Committee). The Executive Committee and the Board of Directors are informed regularly.

f. Risks of non-compliance

Article 10-p of the *arrêté* of November 3, 2014, on the internal control of companies in the banking sector as well as payment and investment services subject to the control of the *Autorité de contrôle prudentiel et de résolution* defines the risk of non-compliance as the risk of a legal, administrative or disciplinary sanction, of a significant financial loss or of a denigration of reputation caused by the non-respect of procedures specific to banking and financial activities, whether of legislative or regulatory nature, or a question of professional and ethical standards or executive instructions, in particular those taken in application of the orientations of the strategy-defining body.
Pursuant to the articles of this standard, the Sfil - Caisse Française de Financement Local Group monitors and controls the risk of non-compliance by mapping risks of non-compliance and a control plan. This risk is managed by the Compliance team under the responsibility of the General Secretary.

Philippe Mills
Chairman of the Board of Directors

Marion,
Training

❝ When Sfil was created, I was asked to set up the training program. I was autonomous, and in April 2014, I was put in charge of the department, with the determination to be as proactive as I am reactive.
I like the idea that we work as a small business in closely-knit teams. The qualities required are the following. You have to be curious, dynamic, like people and be able to negotiate the best programs to train Sfil's staff. ❞

SFIL profiles

Yassine,
Quantitative Analyst

❝ After six years in the market risks department of a major French bank, I was hired by Sfil in 2013 as a quantitative analyst in the cross-division activities of the market and financial risks division. My job requires an open mind to assimilate counterparty positions, a mastery of risk management techniques current in the banking industry and a certain pedagogical spirit to explain these techniques to the different players in management.❞

Consolidated financial statements
in accordance with IFRS

Assets as of December 31, 2014

(EUR millions)	Note	12/31/2013	12/31/2014
Central banks	2.1	1,924	877
Financial assets at fair value through profit or loss		-	2
Hedging derivatives	4.1	6,170	8,365
Financial assets available for sale	2.2	1,084	2,820
Loans and advances due from banks	2.3	2,948	2,847
Loans and advances to customers	2.4	66,315	66,175
Fair value revaluation of portfolio hedge		1,611	3,178
Financial assets held to maturity		-	-
Current tax assets	2.5	13	1
Deferred tax assets	2.5	113	116
Property and equipment	2.6	-	8
Intangible assets	2.7	-	4
Accruals and other assets	2.8	3,350	3,609
TOTAL ASSETS		**83,528**	**88,002**

Liabilities as of December 31, 2014

(EUR millions)	Note	12/31/2013	12/31/2014
Central banks	3.1	-	-
Financial liabilities at fair value through profit or loss		8	2
Hedging derivatives	4.1	10,378	13,611
Due to banks	3.2	10,472	9,788
Customer borrowings and deposits		-	-
Debt securities	3.3	57,129	58,501
Fair value revaluation of portfolio hedge		1,398	1,786
Current tax liabilities	3.4	4	12
Deferred tax liabilities	3.4	-	-
Accruals and other liabilities	3.5	2,719	2,888
Provisions		3	5
Subordinated debt		-	-
EQUITY		**1,417**	**1,409**
Share capital and reserves		1,445	1,445
Consolidated reserves		215	146
Other comprehensive income		(174)	(148)
Net income		(69)	(34)
TOTAL LIABILITIES		**83,528**	**88,002**

Income statement

(EUR millions)	Note	2013	2014
Interest income	5.1	5,238	4,500
Interest expense	5.1	(5,118)	(4,423)
Fee and commission income	5.2	1	2
Fee and commission expense	5.2	(5)	(6)
Net result of financial instruments at fair value though profit or loss	5.3	26	(12)
Net result of financial assets available for sale	5.4	6	9
Other income		7	5
Other expense		0	(0)
NET BANKING INCOME		**155**	**75**
Operating expense	5.5	(87)	(98)
Depreciation and amortization, property and equipment and intangible assets		0	(1)
GROSS OPERATING INCOME		**68**	**(24)**
Cost of risk	5.6	(178)	(18)
OPERATING INCOME		**(110)**	**(42)**
Net gains (losses) on other assets		–	–
INCOME BEFORE TAX		**(110)**	**(42)**
Income tax	5.7	41	8
NET INCOME		**(69)**	**(34)**
EARNINGS PER SHARE (EUR)			
- Basic		(7.43)	(3.64)
- Diluted		(7.43)	(3.64)

Net income and unrealized or deferred gains and losses through equity

(EUR millions)	2013	2014
NET INCOME	**(69)**	**(34)**
ITEMS THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS	**70**	**26**
Unrealized or deferred gains and losses of financial assets available for sale	71	38
Unrealized or deferred gains and losses of cash flow hedges	21	2
Tax	(22)	(14)
ITEMS THAT MAY NOT BE RECLASSIFIED TO PROFIT OR LOSS	**0**	**0**
Actuarial gains and losses on defined-benefit plans	0	0
Tax	–	0
OTHER COMPREHENSIVE INCOME	**70**	**26**
NET INCOME AND GAINS AND LOSSES THROUGH EQUITY	**1**	**(8)**

Consolidated statement of changes in equity

(EUR millions)	Share capital and reserves		Consolidated retained earnings	Total of gains and losses through equity		Net income	Total consolidated equity
	Share capital	Capital reserves		Net change in fair value of avalaible for sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax		
EQUITY AS OF 12/31/2012	**1,315**	**-**	**125**	**(192)**	**(51)**	**91**	**1,287**
Capital increase	104	-	-	-	-	-	104
Issuance of preferred shares	26	-	-	-	-	-	26
Allocation of 2012 net income	-	-	91	-	-	(91)	0
Dividends paid on 2012 income	-	-	-	-	-	-	-
Subtotal of transactions with shareholders	***1,445***	***-***	***215***	***(192)***	***(51)***	***0***	***1,417***
Net income for the period	-	-	-	-	-	(69)	(69)
Changes of gains and losses through equity	-	-	0	49	21	-	70
EQUITY AS OF 12/31/2013	**1,445**	**-**	**215**	**(143)**	**(30)**	**(69)**	**1,417**
Capital increase	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-
Allocation of 2013 net income	-	-	(69)	-	-	69	0
Dividends paid on 2013 income	-	-	-	-	-	-	-
Subtotal of transactions with shareholders	***1,445***	***-***	***146***	***(143)***	***(30)***	***0***	***1,417***
Net income for the period	-	-	-	-	-	(34)	(34)
Changes of gains and losses through equity	-	-	-	24	1	-	25
EQUITY AS OF 12/31/2014	**1,445**	**-**	**146**	**(119)**	**(29)**	**(34)**	**1,409**

Cash flow statement

(EUR millions)	12/31/2013	12/31/2014
NET INCOME BEFORE TAXES	**(110)**	**(42)**
+/- Depreciation and write-downs	178	45
+/- Expense/income from investing activities	(3,260)	(156)
+/- Expense/income from financing activities	(78)	(93)
+/- Other non-cash items	21	(84)
= Non-monetary items included in net income before tax and other adjustments	***(3,139)***	***(288)***
+/- Cash from interbank operations	7,587	(551)
+/- Cash from customer operations	2,594	989
+/- Cash from financing assets and liabilities	402	(703)
+/- Cash from non-financing assets and liabilities	0	-
- Income tax paid	(14)	(4)
= Decrease/(increase) in cash from operating activities	***10,569***	***(269)***
CASH FLOW FROM OPERATING ACTIVITIES (A)	**7,320**	**(599)**
CASH FLOW FROM INVESTING ACTIVITIES (B)	**-**	**(13)**
+/- Cash from or for shareholders	130	-
+/- Other cash from financing activities	(3,417)	(430)
CASH FLOW FROM FINANCING ACTIVITIES (C)	**(3,287)**	**(430)**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	**-**	**-**
INCREASE/(DECREASE) IN CASH EQUIVALENTS (A + B + C + D)	**4,033**	**(1,042)**
Cash flow from operating activities (A)	7,320	(599)
Cash flow from investing activities (B)	-	(13)
Cash flow from financing activities (C)	(3,287)	(430)
Effect of changes in exchange rates on cash and cash equivalents (D)	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**(2,090)**	**1,943**
Cash and balances with central banks (assets & liabilities)	2,400	1,924
Interbank accounts (assets & liabilities) and loans/deposits at sight	(4,490)	19
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**1,943**	**901**
Cash and balances with central banks (assets & liabilities)	1,924	877
Interbank accounts (assets & liabilities) and loans/deposits at sight	19	24
CHANGE IN NET CASH	**4,033**	**(1,042)**

Notes to the consolidated financial statements

1. Accounting policies and valuation methods

1.1 – HIGHLIGHTS OF THE PERIOD AND POST-CLOSING EVENTS

During the year 2014, Société de Financement Local (Sfil) accomplished its fundamental missions, which involve refinancing, *via* its subsidiary Caisse Française de Financement Local, loans granted by La Banque Postale to eligible local governments and public hospitals; supplying specialized services to La Banque Postale and Caisse Française de Financement Local; and implementing a policy to reduce the sensitivity of the portfolio of structured loans. Sfil also conducts several structuring projects to ensure its future.

a. Issues

Through Caisse Française de Financement Local, the Group issued a total volume of EUR 4.0 billion in 2014 compared with EUR 3.06 billion in 2013.
It benefited from a favorable environment for its issues, in particular with the announcement at the beginning of September by the European Central Bank of a new program to purchase covered bonds, and another at the beginning of October by the European Commission of the classification of covered bonds among some of the most liquid assets.

b. Partnership with La Banque Postale

At EUR 3.3 billion, La Banque Postale (LBP) increased its annual production by almost 10% compared with 2013. This second year of business also enabled Caisse Française de Financement Local to acquire almost EUR 1,662 million in loans from La Banque Postale in four quarterly transfers.

c. Policy to reduce loan sensitivity

The initial objective in the reduction of loan sensitivity, set at EUR 1 billion, was exceeded and finished the year at approximately EUR 1.2 billion. The number of loans transformed was multiplied by two in 2014, compared with 2013. At the end of the year 2014, the initial inventory of sensitive loans was down a quarter, from EUR 8.5 billion to EUR 6.3 billion with a complete elimination of sensitive loans for more than 150 customers. Financial agreements were signed with the Conseil Général de Seine-Saint-Denis and the municipalities of Asnières-sur-Seine and Saint-Étienne.

d. Law to secure structured loan agreements and the creation of support funds for local governments and public hospitals

In order to find a permanent and comprehensive solution for the problem of the most sensitive structured loans contracted by local governments, and in compliance with its press releases dated June 18, and July 16, 2013, the French government took the following measures:

- the creation of a multi-year support fund endowed with EUR 1.5 billion (this amount was raised to EUR 3 billion by the government on February 24, 2015 – cf. 9. Post-closing events) to allow local governments to finance the end of structured loans;
- a similar structure is planned for public hospitals through the endowment of a fund with a total intervention capacity of EUR 100 million (this amount was raised to EUR 400 million by the government on February 24, 2015 – cf. 9. Post-closing events);
- legislative measures targeting a legal basis to secure existing loan agreements.

e. Entities' ratings

Société de Financement Local
At the beginning of February 2013, Sfil had received a first set of ratings from the three rating agencies Moody's, Standard and Poor's and Fitch, which underlined the strong ties existing between Sfil and the State. These ratings were equal to or a notch lower than those of the State: Aa2 for Moody's, AA+ for Standard & Poor's and AA+ for Fitch.
Since the State's rating was lowered in 2013 and 2014, Sfil's ratings were reviewed as well. As of December 31, 2014, Sfil's ratings stood at Aa2 for Moody's, AA for Standard & Poor's and AA- for Fitch.

Caisse Française de Financement Local
By the same token, the rating of the *obligations foncières* issued by Caisse Française de Financement Local was modified in 2014, subsequent to changes in the rating of the French Republic. Fitch and Standard & Poor's applied a ceiling to the rating of Caisse Française de Financement Local linked to the French sovereign rating, in light of the strong link between Caisse Française de Financement Local and the State, and the concentration of the cover pool in the French local public sector.
At the end of December 2014, the ratings were as follows: AA+ for S&P, Aaa for Moody's and AA for Fitch.

f. AQR, stress tests and supervision mechanism of the ECB

Within the framework of the Single Supervision Mechanism, the European Central Bank (ECB) directly oversees the 120 largest banks in the eurozone as of November 4, 2014. The group made up of Caisse Française de Financement Local and its parent company Sfil (Sfil Group) is included among the banks directly supervised by the ECB. Before assuming its oversight obligations, the ECB launched in October 2013 a vast review to make a comprehensive assessment of bank balance sheets. This assessment included a thorough analysis of the quality of the assets (Asset Quality Review – AQR) and a stress test.
The definitive results, published on October 26, 2014, by the EBC, confirm the prudence of the risk management system set up by the bank and the quality of its economic model based on public sector assets with a low risk profile. The prudential adjustments determined by the ECB subsequent to its review of the quality of assets are very limited. More details are provided in the part of this report that deals with risk management.

g. Launch of a program to simplify information systems

While putting an end to all cooperation with Dexia and thereby achieving complete operating autonomy for Sfil, from the point of view of human resources as well as systems resources, Sfil launched a program to simplify its information system over the next three years. The goal is to equip Sfil with an information system adapted to its missions that would make it possible to respond efficiently to the risk control and management requirements of Sfil and Caisse Française de Financement Local as well as to the different requests made by regulators.

h. Change in address – new headquarters

Between December 2014 and January 2015, the whole Sfil staff moved to new headquarters located at 1-3, rue du Passeur de Boulogne in Issy-les-Moulineaux, France.

i. Post-closing events

Appreciation of the Swiss franc
On January 15, 2015, the Swiss National Bank (SNB) announced its decision to let its national currency, the Swiss franc (CHF), appreciate. This brutal and unexpected decision had the immediate consequence of a sharp increase in the Swiss franc *vis-à-vis* the other currencies and especially the euro.
For local governments and public hospitals that had subscribed structured loans with an interest rate highly dependent on the EUR/CHF exchange rate, this decision of the SNB led to a considerable increase in future installments of the loan repayment and indemnities in the event of early reimbursement.
The French government immediately announced that it would review the conditions whereby local governments would benefit from the support fund set up to deal with sensitive structured loans, in close cooperation with all the stakeholders. It will ensure that the support fund continue to attain the goals that had been set, i.e. to enable the entities concerned to finish with these sensitive loans under acceptable and achievable financial conditions.
Thus on February 24, 2015, the French government announced a massive increase in the intervention capacity of the funds earmarked to support public sector entities having contracted sensitive structured loans.

- The amount of the funds set aside for local governments will be increased from EUR 1.5 billion to EUR 3.0 billion, and the ceiling for assistance from the fund (initially set at 45% of the penalties due) will be raised for the most vulnerable entities.
- The amount of funding dedicated to public hospitals will rise from EUR 100 million to EUR 400 million.

The government also insisted on the necessity to finish definitively with sensitive structured contracts, and called on local governments to submit as soon as possible a request for assistance from the support funds. The banks will contribute to the additional financing for half of the local government fund and the entire hospital fund, by raising the rate of the tax on systemic risk.
This bolstering of the support funds aims to cover the additional cost of the appreciation of the Swiss franc so that the penalties for early reimbursement remaining the responsibility of the customers concerned, after assistance from the funds, will not be greater than they would have been without the SNB's decision.

Business expansion
At the beginning of 2015, the French State announced the creation of a national scheme dedicated to the refinancing of export credit, which it decided to entrust to Sfil. Sfil will work closely on this new mission with all the players in the export credit market, primarily Coface, an insurance company specialized in insuring foreign credit-buyer contracts signed with French banks.
This new scheme will enable exporters and lending banks to take advantage of the capacities of Caisse Française de Financement Local to raise funds in the market under conditions that are those of the best French issuers of covered bonds and with volumes adapted to the refinancing of large-sized export credits. Importing companies will thus benefit from markedly improved financial conditions for purchases up to several billion euros with maturities of 10, 20 and more years.

1.2 – ACCOUNTING PRINCIPLES AND METHODS APPLIED

a. Scope of consolidation

Société de Financement Local (Sfil) holds 100% of Caisse Française de Financement Local. The Group consists of these two entities. Financing public sector entities and public hospitals is the Group's only business.

Name	Method	Voting (%)	Interest (%)
Parent company			
Société de Financement Local			
Consolidated entity			
Caisse Française de Financement Local	Full	100%	100%

b. Accounting policies and presentation rules

1. Applicable accounting standards
Société de Financement Local has prepared its consolidated financial statements as of December 31, 2014, in accordance with International Financial Reporting Standards as endorsed by the European Union on December 31, 2014. This includes the conditions for the application of interest-rate portfolio hedging.
Significant accounting policies applied by the Group are detailed in note 1.2.b.3

IASB and IFRIC standards and amendments endorsed by the European Commission and effective as of January 1, 2014

- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting allow, exceptionally, to continue hedge accounting in situations where derivatives designated in hedging relationships are novated to a central counterparty as a consequence of laws or regulations, such as the European Market Infrastructure Regulation (EMIR) in the European Union.
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities clarify the requirements for offsetting financial instruments, especially the circumstances under which simultaneous gross settlement systems may be considered equivalent to net settlement.
- IFRS 10 Consolidated Financial Statements introduces a single accounting model for all entities, which is based on the concept of control, regardless of the nature of the consolidated entity.
- IFRS 12 Disclosure of Interests in Other Entities clarifies disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

• Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance limit the requirement to provide adjusted comparative information to only the preceding comparative period and eliminate the requirement to present comparative information for unconsolidated structured entities for periods preceding the first-time application of IFRS 12.

As of December 31, 2014, these amendments do not have a material impact on the consolidated financial statements of Société de Financement Local.

IASB and IFRIC texts endorsed by the European Commission during the current year but not yet effective as of January 1, 2014

• IFRIC 21 Levies: this interpretation, effective as of January 1, 2015, identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation.
The Group anticipated the application of this interpretation on January 1, 2014. The main levy affected by this interpretation is "C3S" (Solidarity Social Contribution).
• Annual improvements in the IFRS 2011-2013 cycle concern small changes to existing standards. They are effective for annual periods beginning on or after January 1, 2015.

New standards (IFRS), interpretations (IFRIC) and amendments issued during the current year but not yet endorsed by the European Commission

• IFRS 9 Financial instruments aims to replace IAS 39. It introduces new requirements for classifying and measuring financial assets and financial liabilities, a new credit risk impairment methodology for financial assets and micro-hedge accounting. Macro hedging for which the IASB currently has a separate active project.
• IFRS 15 Revenue from contracts with customers: according to the basic principle of the standard, the following five steps would be applied to recognize revenue: identification of the contract with the customer, identification of the performance obligations in the contract, determination of the transaction price, allocation of the transaction price to each performance obligation and revenue recognition when a performance obligation is satisfied.
• Amendments to IAS 1 Disclosure Initiative aim to improve disclosures in financial reporting.
• Annual improvements in the IFRS 2012-2014 cycle concern small changes to existing standards.

The Group is assessing the potential impact of these standards and amendments on its consolidated financial statements.

2. Presentation of information and date of closing

The financial statements are prepared on a going concern basis. They are stated in millions of euros (EUR) unless otherwise noted. They are compliant with ANC (French accounting standards board) recommendation 2013-04 issued on November 7, 2013. The consolidated financial statements were approved by the Board of Directors on March 19, 2015.
The preparation of financial information requires management to use estimates and assumptions that affect the amounts reported. In order to make these assumptions and estimates, management uses the information available at the date of preparation of the financial statements and exercises its judgment. While management believes it has considered all available information when making these assumptions, actual results may differ from such estimates and the differences may have a material impact on the financial statements.
Readers are reminded that in order to prepare its 2013 consolidated financial statements, Sfil worked on the hypothesis that the comprehensive set of arrangements to solve the problem of structured loans proposed by the government and, in particular, the law that created a legal basis for structured loan contracts would be voted and implemented in 2014. The passing of the law specifying a legal basis for these loans on July 30, 2014, made it possible significantly to reduce residual legal risks and their financial impact, which was considered to be very minor at that closing date.

To prepare its 2014 consolidated financial statements, Sfil took into account the effects of the decision of the Swiss National Bank (SNB) and the hypothesis that the solution announced by the government would in fact be rapidly implemented so that the support would remain at least as attractive as before the SNB's decision (cf. 1.1.i Post-Closing Events).
The Group voluntarily contributed EUR 150 million to the local government support fund and EUR 18 million to the hospital support fund. It did not record in its 2014 financial statements any provision for a potential new contribution to the increase of these funds, given the uncertain existence of such a contribution, its features, and its hypothetical amount.

Judgments were principally made in the following areas:
• classification of financial instruments;
• determination of whether or not the market is active for financial instruments measured at fair value;
• hedge accounting;
• existence of a present obligation with probable outflows in the event of litigation;
• identification of impairment triggers.

These judgments are detailed in the corresponding sections of these applicable accounting standards.
Estimates were principally made in the following areas:
• determination of fair value for financial instruments measured at fair value;
• determination of the recoverable amount of impaired financial assets;
• estimates of future taxable profit for the recognition and measurement of deferred tax assets.

3. Accounting principles applied to the financial statements

Consolidation

The consolidated financial statements of Sfil include all entities under its control. Entities under control are fully consolidated.
The Group controls a subsidiary when the following conditions are met.
• The group has the power over the relevant activities of the entity, through voting rights or other rights; and
• the group is exposed to or has rights to variable returns from its involvement with the entity; and
• The group has the ability to use its power over the entity to affect the amount of those returns.

The analysis of the level of control is reviewed when a change occurs in one of these criteria.
Subsidiaries are consolidated on the date that the Group gains control. All intra-group transactions and balances are eliminated on consolidation.

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention for both parties to settle on a net basis or realize the asset and settle the liability simultaneously.

Foreign currency transactions

Foreign currency transactions are accounted for using the exchange rate prevailing on the trade date. Monetary assets and liabilities denominated in foreign currencies are recognized at closing rates. Non-monetary assets and liabilities recognized at fair value and denominated in foreign currencies existing at the closing date are recorded at closing rates, whereas non-monetary assets and liabilities recognized at amortized cost are recorded at their historical rates.

Any resulting exchange differences from monetary assets and liabilities are recognized in the income statement, except for the foreign exchange impact of fair value adjustments on available-for-sale assets which are recognized in equity. Foreign exchange differences from non-monetary assets and liabilities recognized at fair value are recorded as fair value adjustments.

Trade date and settlement date accounting

All purchases and sales of financial assets are recognized on settlement date, which is the date that a financial asset is received or delivered by the Group. Hedging instruments are recognized at fair value on trade date.

Financial assets

The management determines the appropriate classification of investments at their purchase. However, under certain circumstances, financial assets may be subsequently reclassified.

Loans and advances to banks and customers

Loans are defined as non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than:

- those that the entity intends to sell immediately or in the near future, which should be classified as held for trading, and those that the entity, upon initial recognition, designates as being at fair value through profit or loss;
- those that the entity, upon initial recognition, designates as available for sale; or
- those for which the holder may not recover substantially all of the initial investment for reasons other than the deterioration of credit, which should be classified as available for sale.

The Group recognizes loans and advances initially at fair value plus any directly attributable transaction costs. Later estimates are made at amortized cost, less any impairment losses. Interest is calculated by the effective interest rate method and recognized in net interest income.The effective interest rate is the rate that exactly discounts expected future cash flows through the life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. The calculation includes all fees paid or received by the Group that are an integral part of the effective interest rate of a financial asset, transaction costs and premiums or discounts.

Financial assets held to maturity

Quoted securities with fixed maturity are classified as Financial assets held to maturity when management has both the intent and the ability to hold the assets to maturity. Assets held to maturity are initially recognized at fair value (including transaction costs) and subsequently measured at amortized cost, less any impairment losses. Interest is recognized in net interest income using the effective interest rate method.

Financial assets available for sale

Assets intended to be held for an indefinite period of time and which may be sold in response to a need for liquidity or changes in interest rates, exchange rates or equity prices are classified as Available-for-sale financial assets. Available-for-sale assets are, except for certain cases, intended to be held to maturity.

Available-for-sale investments are initially recognized at fair value (including transaction costs). Interest on fixed-income securities is recognized using the effective interest rate method in net interest income. Dividends received on variable income securities are recognized as Net gains (losses) on available-for-sale assets.

Unrealized gains and losses arising from fair value re-measurements are recognized in other comprehensive income. On disposal, the related accumulated fair value adjustments are reversed in the income statement in Net gains (losses) on available-for-sale assets.

When available-for-sale assets are restated as loans and advances at a later date on the basis of the October 2008 amendment to IAS 39, the reserve representative of changes in the fair value of available-for-sale financial assets as presented in the financial statements as of December 31, 2014, corresponds to the part of this reserve still to be amortized with regard to the securities restated as of October 1, 2008.

Financial assets held for trading

The Group does not hold any trading assets.

Financial assets designated at fair value through profit or loss

The Group does not use the option to designate its financial assets at fair value through profit or loss.

Realized gains and losses on sales of financial assets

For financial assets held at amortized cost, realized gains or losses on disposals are the differences between the proceeds received (net of transaction costs) and the costs or amortized costs of the assets. The cost is systematically determined based on the “first in, first out” approach (FIFO method) on a portfolio basis.

When available-for-sale assets are sold, cumulative gains and losses previously recognized in other comprehensive income are reversed in the income statement.

Accounting for prepayment penalties

The Group has determined the accounting principles applicable to the restructuring of loans in accordance with AG 62 of IAS 39 concerning financial liabilities.

Regarding the method of accounting for prepayment penalties, there are several possibilities depending on whether the prepayment is recognized as being a prepayment with refinancing or an extinguishment without refinancing.

Prepayment with refinancing

The method of accounting for prepayment penalties differs depending on whether the restructuring conditions are substantially different from those set initially.

In line with the principles of AG 62 of IAS 39, the Group considers that the conditions are substantially different when the net present value of the cash flows under the new conditions, including any fees paid net of any fees received, is more than 10% different from the discounted net present value of the cash flows remaining from the original loan.

Prepayment penalties are recognized immediately in income or else amortized over the life of the new loan depending on the results of the eligibility test.
If the eligibility test is passed (i.e. the difference in net present value is less than 10%), any prepayment penalties are amortized over the term of the new loan, as there is continuity between the two operations. If not (i.e. the difference exceeds 10%), prepayment penalties are recognized immediately in the income statement.

Prepayment without refinancing
When a loan has been extinguished, the Group recognizes prepayment penalties and any gains or losses of unamortized premium or discount, as income for the period.

Impairment of financial assets
The Group records charges for impairment losses when there is objective evidence that a financial asset or group of financial assets is impaired, as a result of one or more events occurring since initial recognition and when that loss event has an impact on the estimated future cash flows that can be reliably estimated. Impairment represents management's best estimate of losses in the value of assets at each balance-sheet date.

Financial assets measured at amortized cost
The Group first assesses whether objective evidence of impairment exists for a financial asset when taken individually. If no such evidence exists, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

– Determination of the impairment
- Individually assessed financial assets: if there is objective evidence that loans or other receivables, or held-to-maturity assets are impaired, the impairment charge is calculated as the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, net of any guarantees and collateral, discounted at the financial instrument's original effective interest rate (except for reclassified assets, see below). When an asset is individually impaired, it will be excluded from the portfolio on which a collective impairment is calculated.
- Collective impairment: this covers the risk of loss in value not covered by specific impairment where there is objective evidence that probable losses are present in certain segments of the portfolio or other lending commitments at the balance-sheet date. These losses are estimated on the basis of past performance and historical loss experience in each segment and the current economic environment in which borrowers operate. For this purpose, the Group uses a credit risk model based on an approach that combines default probabilities and losses in the event of default. These models are subject to regular back-testing and are based on Basel III data and risk models, consistent with the incurred loss model.

– Accounting treatment of the impairment
Impairment charges are recognized in the income statement in Cost of risk. If the amount of impairment subsequently decreases due to an event occurring after its recognition, the excess is written back by reducing the impairment allowance account accordingly. The write-back is credited to the Cost of risk.
When an asset is determined by management as being irrecoverable, the outstanding specific impairment is reversed via the income statement, in Cost of risk and the net loss is recorded under the same heading. Subsequent recoveries are also accounted for in this heading.

Reclassified financial assets
Regarding impairment, reclassified financial assets follow the same rules as financial assets initially valued at amortized cost for calculation of the impairment. If there is objective evidence that reclassified financial assets are impaired, the amount of the impairment on reclassified assets is calculated as the difference between the net carrying amount of the asset, excluding the amount of revaluations at fair value due to former classification in available-for-sale assets, and the net present value of the expected cash-flows discounted at the effective interest rate at the date of reclassification. Any existing unamortized available-for-sale reserve will be taken to profit or loss account in Cost of risk.
In the event of a positive update to expected cash flows, the impairment amount is reversed through net interest income over the new schedule of expected cash flows, not by a reversal of impairment.

Available-for-sale assets
Impairment of available-for-sale financial assets is recognized on an individual basis if there is objective evidence of impairment as a result of one or more events occurring since their initial recognition. Available-for-sale assets are only subject to specific impairment.

– Determination of the impairment
The Group only holds available-for-sale debt securities. Their impairment is triggered by the same criteria as those applied to financial assets valued at amortized cost (see above).

– Accounting treatment of the impairment
When available-for-sale assets are impaired, the total AFS reserve is recycled into profit or loss and the Group reports these impairment losses in the income statement in Cost of risk (for debt instruments) or Net result of financial assets available for sale (for equity instruments). Any subsequent decline in fair value constitutes an additional impairment loss, recognized in the income statement.
In the event of an increase in the fair value of an interest-bearing financial instrument that relates objectively to an event occurring after the last impairment was recognized, the Group recognizes a reversal of the impairment loss in the income statement in Cost of risk (for debt instruments).

Off-balance sheet commitments
Off-balance sheet commitments such as credit substitutes (e.g. guarantees and standby letters of credit) and loan commitments are converted into on-balance sheet items when called. However, under specified circumstances such as uncertainty about the counterparty's creditworthiness, the off-balance sheet commitment should be classified as impaired if the creditworthiness has deteriorated to an extent that makes repayment of any loan and associated interest payments doubtful.

Sale and repurchase agreements (including securities lending)
Sold securities that are subject to a commitment to repurchase them at a predetermined price (repos) are not de-recognized and remain on the balance sheet in their original category. The corresponding liability is included in Customer borrowings and deposits or Due to banks as appropriate. The asset is reported as pledged in the notes.
Securities purchased under commitment to sell (reverse repos) are recorded as off-balance sheet items and the corresponding loans are recorded in Loans and advances to

customers or Loans and advances to banks as appropriate. The difference between the sale and repurchase price is recognized as interest income or expense and is amortized over the maturity of the agreement using the effective interest rate method.
Securities lent to third parties are retained in the financial statements. Securities borrowed are not recognized in the financial statements. If these borrowed securities are sold on to third parties, an obligation to return them is recorded at fair value in Financial liabilities at fair value through profit or loss, and any gains or losses are included in Net gains (losses) on financial instruments at fair value through profit or loss.

Financial liabilities

Liabilities designated at fair value through profit or loss
The Group does not use this option.

Borrowings
Borrowings are recognized initially at fair value, being their issue proceeds net of directly attributable transaction costs incurred. They are subsequently measured at amortized cost and any difference between their initial carrying amount and the redemption value is recognized in the income statement over the expected life of the instruments using the effective interest rate method.
Borrowings include *obligations foncières* and other resources that benefit from the privilege on assets defined in article L.513-11 of the Monetary and Financial Code.
Obligations foncières are recorded at nominal value. Reimbursement and issue premiums are amortized according to the straight line method over the expected life of the securities concerned, as of the first year, *prorata temporis*. They are recorded on the balance sheet in items corresponding to the type of debt concerned. The amortization of these premiums is recorded in the income statement as interest income and expense on debt securities.
In the case of bonds issued above par, the amortization of issue premiums is deducted from related interest income on debt securities.
Interest paid on *obligations foncières* is accounted for as interest expense on debt securities for accrued amounts, due and not yet due, calculated *prorata temporis* on the basis of contractual rates.
Fees paid on bond issues are amortized on a straight line basis over the life of the related financial liabilities.
Bonds denominated in other currencies are treated in the same way as foreign exchange transactions (see above - Foreign currency transactions).
Registered covered bonds are private placements recorded at nominal value. Issue premiums and interest expense are treated the same way as for *obligations foncières* (see above).
Pursuant to article L.513-12 of the Monetary and Financial Code and article 6 of CRBF standard 99-10 of July 27, 1999, total assets must at all times be greater than total liabilities benefiting from the privilege mentioned in article L.513-11 of the above-mentioned Monetary and Financial Code.

Derivatives

All derivatives are initially recognized on the balance sheet at fair value and then are revalued at their fair value. The fair value of derivatives is calculated either on the basis of prices observed in listed markets or by using internal valuation models. The amount registered on the balance sheet includes the premium paid or received after amortization, the amount of changes in fair value and accrued interest, which altogether make up the fair value of the derivative. Derivative instruments are recorded in the assets if their fair value is positive and in the liabilities if it is negative.

Derivatives not used in a hedging relationship
Derivatives that do not qualify for hedge accounting are considered to be trading instruments. Gains and losses from changes in their fair value are reported in Net result of financial instruments at fair value though profit or loss.
Embedded derivatives in hybrid financial instruments are treated as trading instruments when:
- their risks and characteristics are not closely related to those of the host contract;
- the entire instrument is not designed at fair value through profit or loss.

As of December 31, 2014, trading derivatives resulted from operations in which hedge ineffectiveness arose after the hedged items were impaired. Gains and losses (realized and unrealized) were recognized as Net result of financial instruments at fair value through profit and loss.

Hedging derivatives
Hedging derivatives can be categorized as either:
- a hedge of the fair value of a recognized asset or liability or a firm commitment (fair value hedge);
- a hedge of a future cash flow attributable to a recognized asset or liability or forecast transaction (cash flow hedge).

Hedge accounting may be used for derivatives designated in this way, provided certain criteria are met:
- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship between the hedging instrument and the hedged item must be prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be effective both prospectively and retrospectively in offsetting changes in fair value or cash flows attributable to the hedged risk on the hedged item throughout the reporting period;
- the hedge shall be effective at inception and on a going concern basis.

Changes in the fair value of derivatives that are designated and documented in a fair value hedging relationship, and that respect the criteria set out above, are recorded in the income statement, along with the corresponding change in fair value of the hedged assets or liabilities that are attributable to that specific hedged risk.
If at any time the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortized to profit or loss over the residual maturity of the hedged item by adjusting the yield on the hedged item.
The efficient portion of the changes in the fair value of derivatives that are designated in a cash flow hedging relationship, that respect the criteria set out above, and that prove to be efficient in relation to the hedged risk, is recognized in equity as Unrealized or deferred gains and losses of cash flow hedges. The non-efficient portion of the changes in the fair value of the derivatives is recognized in the income statement.
Amounts deferred in equity are transferred to the income statement and classified as income or expense in the periods during which the hedged firm commitment or forecast transaction affect the income statement.

Hedging of the interest rate risk of a portfolio
The Group uses the provisions of IAS 39 as adopted by the European Union (IAS 39 carve-out) because it better reflects the way the Group manages its financial instruments.
The objective of hedging relationships is to reduce the interest rate risk exposure stemming from certain categories of assets or liabilities designated as the qualifying hedged items.

The Group performs a comprehensive analysis of its interest rate risk exposure. It consists in assessing fixed-rate exposure generated by all fixed-rate balance sheet items. It selects financial assets and liabilities to be included in the hedge of the portfolio's interest rate risk exposure. The same methodology is constantly applied to select financial assets and liabilities that are included in the portfolio. Financial assets and liabilities are classified by time-buckets. Hence, when they are removed from the portfolio, they must be removed from all time-buckets on which they have an impact. The Group chose to put together homogeneous portfolios of loans and portfolios of bonds. Based on this gap analysis, which is realized on a net basis, the Group defines at inception the risk exposure to be hedged, the length of time-buckets and the testing method and frequency.

Hedging instruments are made up of a portfolio of derivatives, in which positions may be offset. Hedging items are recognized at fair value (including accrued interest expense or income) with adjustments recorded in the income statement.

Revaluation related to the hedged risk is recognized on the balance sheet (in asset or liability depending on positive or negative revaluation) as Fair value revaluation of portfolio hedge.

Fair value of financial instruments

Fair value is 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 in the principal, or in its absence, the most advantageous market to the Group has access to that date. The fair value of a liability reflects its non-performance risk, which includes the Group's own credit risk.

Market prices are used to determine fair value where an active market exists. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on a going concern basis. Active market prices are not, however, available for a significant number of the financial assets and liabilities held or issued by the Group.

If the financial instrument is not traded on an active market, valuation techniques are used. Valuation techniques include the use of data from recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, and valuation models.

A valuation model reflects what the transaction price would have been on the measurement date in current market conditions. The valuation model incorporates all the factors that market participants would consider when pricing a transaction. Within this framework, the Group uses its own valuation models and market assumptions, i.e. present value of cash flows or any other techniques based on market conditions existing at the balance-sheet date.

Fair value of financial instruments measured at amortized cost

The following remarks are applicable to the fair value of loans and advances presented in the notes.

- The fair value of fixed-rate loans is estimated by comparing market interest rates when the loans were granted with current market interest rates offered on similar loans.
- Caps, floors and early repayment options are included in determining the fair value of loans and advances.

Financial instruments measured at fair value

Available-for-sale financial assets and derivatives are measured at fair value by reference to quoted market prices when available. When quoted market prices are not available, fair values are estimated on the basis of pricing models or discounted cash flows, using observable or non-observable market data.

For available-for-sale investments, when quoted prices are not available, the pricing models attempt to reflect as accurately as possible the market conditions on the valuation date as well as any changes in the credit quality of these financial instruments and the market liquidity.

To determine the fair value of its derivatives, the Group uses different discount curves depending on whether collateral was actually exchanged. Collateralized derivatives are discounted using an OIS-based curve. Uncollateralized transactions are discounted with a Euribor-based curve. As a reminder, the entity Caisse Française de Financement Local does not pay any collateral to its derivative counterparties, which benefit from the legal privilege on assets, as well as the legal holders of covered bonds.

The Group, like other participants in the banking industry, is currently considering whether or not to include funding costs in the valuation of uncollateralized derivatives or those with asymmetric collateral. No consensus has yet emerged on the methodology for determining this funding valuation adjustment (FVA).

On December 31, 2014, no funding valuation adjustment has been included in the valuation of uncollateralized derivatives or those with asymmetric collateral. The group continues to investigate this issue and in the future may adopt a funding valuation adjustment in the valuation of uncollateralized derivatives.

In addition, a value adjustment is included in the fair value of derivatives to reflect the impact of counterparty credit risk (CVA - Credit Value Adjustment) or the Group's own credit quality (DVA - Debit Value Adjustment). Value adjustment allows switching from a fair value based on cash flows discounted at risk-free rate, i.e. into a fair value including credit risk. Its calculation is based on the risk exposures combined with loss rates including market parameters.

Interest income and expense

For all interest-bearing instruments at amortized cost, interest income and expense are recognized in the income statement using the effective interest rate method (including transaction costs).

The effective interest rate is the rate that exactly discounts expected future cash flows through the life of the financial instrument, or when appropriate, a shorter period to determine the net carrying amount of the financial asset. The calculation of this rate includes commissions received or paid that are an integral part of the effective interest rate due to their nature, transaction costs and any premiums and discounts.

Transaction costs are incremental costs that are directly attributable to the acquisition of a financial asset or liability and are used for the calculation of the effective interest rate.

Accrued interest is recognized on the balance sheet in the same item as the related financial asset or liability.

Once an interest-bearing financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognized based on the interest rate used to discount the future cash flows in order to measure the impairment loss.

Fee income and expense

Most of fees arising from the Group's activities are recognized on an accrual basis over the life of the underlying transaction. Loan commitment fees are recognized as an adjustment to the effective interest rate and recorded in Interest income if the loan is granted. They are recorded as fee income on the expiry date of the commitment if no loan has been granted.

Deferred taxes

Deferred taxes are recognized using the liability method to account for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 liabilities are recognized to account for temporary differences arising from investments in subsidiaries, jointly controlled companies and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.
Deferred taxes relating to fair value re-measurements of available for sale investments and cash flow hedging instruments, and other operations which are charged or credited directly to other comprehensive income, are also credited or charged to other comprehensive income.

Provisions

Provisions mainly include provisions for litigations, restructuring, and off-balance sheet loan commitments.
A provision is measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money.
Provisions are recognized when:
- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Provisions on loan commitments are accounted for according to the same method used for financial assets valued at amortized cost.

Tangible and intangible assets

Fixed assets consist exclusively of operating tangible and intangible assets. These assets are held for production or administrative purposes. Fixed assets are recognized as assets if:
- it is probable that the associated future economic benefits will flow to the entity, and
- their cost can be measured reliably.

Fixed assets are recorded at acquisition cost plus any directly attributable expenses.
Software developed internally, when it meets the criteria for recognition, is recorded at its development cost, which includes external expenditures on hardware and services and staff expenses that can be directly attributed to its production and preparation for use.
After initial recognition, assets are carried at cost less accumulated depreciation and impairment. When they are ready to be used, assets are depreciated linearly over their expected useful life. Depreciation is recognized in Depreciation, amortization and impairment of tangible and intangible assets.
The Group applies the component approach to all of its assets. The depreciation periods are as follows:

Components	Depreciation period
Technical Installations	10 - 20 years
Fixtures and fittings	10 - 20 years
IT equipment	3 years
Software developed or acquired*	3 or 5 years
Office equipment	2 - 12 years

** Purchased licenses and equipment are depreciated over 3 years. The depreciation period of internally developed software depends on whether it is strategic for the company. If considered strategic, it is depreciated over five years; if not, it is amortized over three years.*

Fixed assets are tested for impairment when impairment indicators are identified. When the carrying amount of an asset is greater than its estimated recoverable amount, an impairment charge is recognized and the carrying amount of the asset is written down to the estimated recoverable amount. Impairment charges are recognized in Depreciation, amortization and impairment of tangible and intangible assets.
Gains or losses on disposal of assets are charged to Gains or losses on assets.

Leases

Sfil contracts leases as lessee. Agreements that transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. All other leases are classified as operating leases.
Under finance leases, leased assets are reported in Property, plant and equipment at their fair value or, if lower, the present value of the minimum lease payments. Subsequently, they are recognized in accordance with accounting rules applicable to Property, plant and equipment. Corresponding liabilities are recorded as Accruals and other liabilities and finance charges payable are recognized in the income statement using the effective interest method.
Under operating leases, leased assets are not recognized on the balance sheet. Rentals payable under operating leases are accounted for on a straight-line basis over the periods of the leases. When leases are terminated early, all penalties payable to the lessor are reported as expenses in the period in which the termination has occurred.

Employee benefits

Employee benefits are classified in four categories, as follows.

Short-term benefits

Short-term benefits are those expected to be settled wholly in twelve months after the end of the annual reporting period during which employee services are rendered.
The undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in an accounting period is recognized in that period.

Post-employment benefits

Post-employment benefits are classified as either defined benefit plans or defined contribution plans.
The assets of these plans are generally held by insurance companies or pension funds. The pension plans are generally funded by payments from both Sfil and its employees.

Defined benefit plans

Under defined benefit plans, Sfil has the obligation to provide the agreed benefits to current and former employees. Actuarial and investment risks fall on Sfil; as a result, this obligation is measured and recognized as a liability.
Post-employment benefit obligations under defined benefit plans are measured using an actuarial valuation technique that includes demographic and financial assumptions and the

Projected Unit Credit Method, under which each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation.
The defined benefit net liability recognized in the balance sheet represents the present value of defined benefit obligations reduced by the fair value of plan assets (if any). When the fair value of assets exceeds the amount of the obligation, an asset is recognized if it represents a future economic benefit for Sfil in form of a reduction in future contributions to the plan or a future partial refund.
The net charge to the income statement comprises the current service cost, the past service arising from plan amendments or curtailments and the net interest costs.
The measurement of defined benefit net liability (or asset) and the fair value of assets is subject to adjustments as a result in changes in actuarial assumptions. Actuarial gains and losses resulting from these adjustments are recognized in other comprehensive income.

Defined contribution plans

Defined contribution plans do not create an obligation on Sfil and do not require a provision. The amount of the employer's contributions payable during the period is recognized as an expense.

Other long-term benefits

These benefits are generally related to length of service, such as long-service awards. Their payment is deferred for more than twelve months after the end of the annual period during which the employees rendered the related service.
Actuarial gains and losses relating to these benefits are immediately recognized in the profit and loss account.
Employee entitlement to annual leave or long-service leave is recognized when it is granted to the employee. A provision is recorded to estimate the liability for annual leave and long-service leave arising from services rendered by employees up to the balance-sheet date.

Termination benefits

Termination benefits are employee benefits payable as a result of either Sfil's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits.
Termination benefits are recorded as expenses only when Sfil no longer has the option to withdraw its compensation offer. Termination benefits due more than twelve months after the balance sheet date are discounted.

Dividends on shares

Dividends on shares are recognized in liabilities in the period in which they are declared (they must be authorized). Dividends for the year that are declared after the balance sheet date are disclosed in the note on post-closing events.

Earnings per share

Basic earnings per share before dilution are calculated by dividing net income available for shareholders by the weighted average number of shares outstanding.

Related-party transactions

Two parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party when making financial or operational decisions. Sfil is owned by the French State and by two companies registered in France, Caisse des Dépôts et Consignations and La Banque Postale. Within this framework, related parties include shareholders and members of the Board of Directors.

Segment reporting

The Group's sole activity involves the financing or refinancing of loans to public sector entities.
The Group conducts its business solely from Paris. It has no direct activity in other countries and is unable to present a relevant geographic breakdown of its results.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include balances at central banks and interbank deposits at sight.

2. Notes to the assets

2.1 - CENTRAL BANKS

(EUR millions)	12/31/2013	12/31/2014
Mandatory reserve deposits with central banks	-	-
Other deposits	1,924	877
TOTAL	**1,924**	**877**

2.2 - FINANCIAL ASSETS AVAILABLE FOR SALE

a. Analysis by nature

(EUR millions)	12/31/2013	12/31/2014
Loans	-	-
Bonds	1,084	2,820
TOTAL	**1,084**	**2,820**

b. Analysis by counterparty

(EUR millions)	12/31/2013	12/31/2014
Public sector	742	2,477
Credit institutions guaranteed by the public sector	342	343
Total public sector	**1,084**	**2,820**
Replacement assets	-	-
TOTAL	**1,084**	**2,820**
of which eligible for central bank refinancing	*835*	*2,531*

c. Impairment

(EUR millions)	12/31/2013	12/31/2014
Public sector	1,084	2,820
Replacement assets	-	-
Total performing assets	**1,084**	**2,820**
Public sector	-	-
Replacement assets	-	-
Total impaired assets	**-**	**-**
Specific impairment	-	-
TOTAL ASSETS AFTER IMPAIRMENT	**1,084**	**2,820**

d. Analysis by residual maturity

see note 7.4

e. Unrealized or deferred gains and losses, breakdown by country

see note 4.4

2.3 - LOANS AND ADVANCES DUE FROM BANKS

a. Analysis by nature

(EUR millions)	12/31/2013	12/31/2014
Sight accounts	20	24
Other loans and advances due from banks	2,928	2,823
Performing assets	**2,948**	**2,847**
Impaired loans and advances	-	-
Impaired assets	**-**	**-**
Total assets before impairment	**2,948**	**2,847**
Specific impairment	-	-
Collective impairment	-	-
TOTAL	**2,948**	**2,847**

b. Breakdown by counterparty

(EUR millions)	12/31/2013	12/31/2014
Credit institutions	8	4
Swiss cantonal banks benefiting from their cantons' legal guarantee	686	629
Banks guaranteed by a local government, *crédits municipaux*	129	91
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	2,105	2,099
Replacement assets	20	24
TOTAL	**2,948**	**2,847**
of which eligible for central bank refinancing	-	-

c. Replacement assets

(EUR millions)	12/31/2013	12/31/2014
Credit institutions - sight accounts	20	24
TOTAL	**20**	**24**

d. Analysis by residual maturity

see note 7.4

e. Unrealized or deferred gains and losses, breakdown by country

see note 4.4

2.4 - LOANS AND ADVANCES TO CUSTOMERS

a. Analysis by counterparty

(EUR millions)	12/31/2013	12/31/2014
Public sector	58,234	57,914
Other - guaranteed by public sector	3,525	3,974
Other - ABS made up solely of public commitments	4,370	3,916
Other - loans to Sfil employees	16	18
Performing assets	**66,145**	**65,822**
Impaired loans and advances	254	463
Impaired assets	**254**	**463**
Total assets before impairment	**66,399**	**66,285**
Specific impairment	(14)	(47)
Collective impairment	(70)	(63)
TOTAL	**66,315**	**66,175**
of which eligible for central bank refinancing	*42,118*	*41,139*
of which assets assigned in guarantee to the central bank	-	-

The loans depreciated concern customers that represent an identified credit risk (non-performing loans: EUR 396 million) and customers with unpaid loans corresponding to disagreement on the amount due (compromised non-performing loans: EUR 67 million).
In 2014, Caisse Française de Financement Local maintained a high level of collective impairment which amounted to EUR 63 million.
Assets considered as "forborne" by Société de Financement Local concern exposures to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (recognized or to come) that would not have been granted in other circumstances. These concessions may either be a waiver of a part of the debt, a rescheduling of the loan repayment, restructuring measures through an amendment to the loan contract, or a partial or full refinancing of the loan with a new contract, including for transactions aiming to reduce the sensitivity of the loan.
There were 49 forborne contracts as of December 31, 2014, with 35 borrowers, for a total of EUR 358 million.

b. Public sector ABS

(EUR millions)	Rating	12/31/2013	12/31/2014
DSFB - Dexia Secured Funding Belgium 2	S&P A- / Fitch A-/ Moody's Baa1	1,229	1,152
DSFB - Dexia Secured Funding Belgium 4	Fitch AA-	3,141	2,764
TOTAL		**4,370**	**3,916**

Caisse Française de Financement Local sold all the securitization units it held, partly in the market on April and May 2013, and the rest to its parent company, Société de Financement Local, on July 1, 2013.

c. Analysis by residual maturity

see note 7.4

d. Unrealized or deferred gains and losses, breakdown by country

see note 4.4

2.5 - TAX ASSETS

(EUR millions)	12/31/2013	12/31/2014
Current income tax	13	1
Other taxes	0	0
Current tax assets	**13**	**1**
Deferred tax assets (see note 4.2)	**113**	**116**
TOTAL TAX ASSETS	**126**	**117**

Deferred tax assets were submitted to a recoverability test taking into account the business plans presented to the Board of Directors according to realistic hypotheses. Deferred taxes as of December 31, 2014, are recoverable on the basis of this analysis within seven years by taking tax rules governing the treatment of past deficits into account[1].

(1) In application of the 2013 law of finances (article 24), the assignation of deficits has a ceiling of EUR 1 million plus 50% of the fraction of taxable income in the year in which the ceiling was exceeded. The non-attributable fraction of the deficits can be carried forward to the following years with no time limit and under the same conditions.

2.6 - PROPERTY AND EQUIPMENT

(EUR millions)	Computer equipment	Other equipment	Fixtures and fittings	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2013	**0**	**0**	**0**	**0**	**0**
Changes during the year:					
*increases	0	-	7	0	8
*decreases	-	-	-	-	-
*other	0	-	-	(0)	-
ACQUISITION COST AS OF 12/31/2014	**0**	**0**	**7**	**0**	**8**
Depreciation and impairment as of 12/31/2013	(0)	(0)	(0)	-	(0)
Changes during the year:					
*amortization	(0)	(0)	(0)	-	(0)
*write-back	-	-	-	-	-
*other	-	-	-	-	-
Depreciation and impairment as of 12/31/2014	(0)	(0)	(0)	-	(0)
NET CARRYING AMOUNT AS OF 12/31/2014	**0**	**0**	**7**	**0**	**8**

2.7 - INTANGIBLE ASSETS

(EUR millions)	Software	Internally developed assets	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2013	**-**	**-**	**-**	**-**
Changes during the year:				
*increases	1	2	2	5
*decreases	-	-	-	-
*other	-	-	-	-
ACQUISITION COST AS OF 12/31/2014	**1**	**2**	**2**	**5**
Depreciation and impairment as of 12/31/2013	-	-	-	-
Changes during the year:				
*amortization	(0)	(0)	-	(0)
*write-back	-	-	-	-
*other	-	-	-	-
Depreciation and impairment as of 12/31/2014	(0)	(0)	-	(0)
NET CARRYING AMOUNT AS OF 12/31/2014	**1**	**2**	**2**	**4**

2.8 - ACCRUALS AND OTHER ASSETS

(EUR millions)	12/31/2013	12/31/2014
Cash collateral paid	3,336	3,592
Other accounts receivable	5	6
Prepaid charges	4	4
Other assets	5	7
TOTAL ACCRUALS AND OTHER ASSETS	**3,350**	**3,609**

2.9 - RESTATEMENT OF FINANCIAL ASSETS (IAS 39 AMENDED)

(EUR millions)	From Financial assets held for trading to Loans and advances (1)	From Financial assets held for trading to Financial assets available for sale (2)	From Financial assets available for sale to Loans and advances (3)
Carrying amount of assets reclassified, as of October 1, 2008	-	-	17,855
Carrying amount of reclassified assets, as of December 31, 2014	-	-	5,650
Fair value of reclassified assets as of December 31, 2014	-	-	4,955
AMOUNT NOT RECOGNIZED THROUGH PROFIT AND LOSS (1) AND (2) OWING TO RECLASSIFICATION	**-**	**-**	**-**
AMOUNT NOT RECOGNIZED THROUGH ASSETS AVAILABLE FOR SALE (3) OWING TO RECLASSIFICATION	**-**	**-**	**(695)**
Premium/discount amortization through profit and loss	-	-	-
Premium/discount amortization through AFS reserve	-	-	5

3. Notes to the liabilities

3.1 - CENTRAL BANKS

This item includes refinancing obtained through Banque de France tenders. The use of such financing organized by tenders involves the pledging of eligible assets within the framework of a general guarantee management agreement (3G). This source of financing does not benefit from the privilege defined in article L.513-11 of the Monetary and Financial Code.

(EUR millions)	12/31/2013	12/31/2014
Overnight borrowing	-	-
Term borrowing	-	-
Accrued interest	-	-
TOTAL FUNDING FROM BANQUE DE FRANCE	**-**	**-**

3.2 - DUE TO BANKS

a. Analysis by nature

(EUR millions)	12/31/2013	12/31/2014
Current account	-	-
Interest accrued not yet due	-	-
Sight accounts	1	0
Long-term borrowing	10,444	9,764
Interest accrued not yet due	27	24
TOTAL	**10,472**	**9,788**

b. Analysis by residual maturity

see note 7.4

3.3 - DEBT SECURITIES

a. Analysis by nature

(EUR millions)	12/31/2013	12/31/2014
Obligations foncières	51,522	51,444
Registered covered bonds	5,607	7,057
TOTAL	**57,129**	**58,501**

b. Analysis by residual maturity

see note 7.4

3.4 - TAX LIABILITIES

(EUR millions)	12/31/2013	12/31/2014
Current income tax	-	9
Other taxes	4	3
Current tax liabilities	**4**	**12**
Deferred tax liabilities (see note 4.2)	**-**	**-**
TOTAL TAX LIABILITIES	**4**	**12**

3.5 - ACCRUALS AND OTHER LIABILITIES

(EUR millions)	12/31/2013	12/31/2014
Cash collateral received	2,547	2,694
Other accrued charges	19	32
Deferred income	-	-
Contribution to the support funds (1)	150	158
Other accounts payable and other liabilities	3	4
TOTAL	**2,719**	**2,888**

(1) This item corresponds to the commitment made in 2013 by Caisse Française de Financement Local to contribute to the multi-year support fund for local governments in the amount of EUR 10 million for 15 years. A first payment of EUR 10 million was made at the end of 2014. In addition, in 2014, Caisse Française de Financement Local also committed to contribute to the support fund for public hospitals in the amount of EUR 18 million.

4. Other notes to the balance sheet

4.1 - DERIVATIVES

a. Analysis by nature

(EUR millions)	12/31/2013		12/31/2014	
	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss	**-**	**8**	**2**	**2**
Derivatives designated as fair value hedges	3,517	7,420	5,311	9,035
Derivatives designated as cash flow hedges	(5)	118	6	147
Derivatives designated as portfolio hedges	2,595	2,826	3,056	4,484
Hedging derivatives	**6,107**	**10,364**	**8,373**	**13,666**
CVA /DVA impact	**63**	**14**	**(8)**	**(55)**
TOTAL DERIVATIVES	**6,170**	**10,386**	**8,367**	**13,613**

b. Detail of derivatives designated as fair value hedges

(EUR millions)	12/31/2013			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	10,829	11,254	(2)	315
Interest rate derivatives	63,643	63,629	3,519	7,105
TOTAL	**74,472**	**74,883**	**3,517**	**7,420**

(EUR millions)	12/31/2014			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	9,168	9,272	459	549
Interest rate derivatives	53,960	53,944	4,852	8,486
TOTAL	**63,128**	**63,216**	**5,311**	**9,035**

c. Detail of derivatives designated as cash flow hedges

(EUR millions)	12/31/2013			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	446	483	(5)	118
Interest rate derivatives	-	-	-	-
TOTAL	**446**	**483**	**(5)**	**118**

(EUR millions)	12/31/2014			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,130	1,228	6	147
Interest rate derivatives	-	-	-	-
TOTAL	**1,130**	**1,228**	**6**	**147**

(EUR millions)	12/31/2013	12/31/2014
Amount removed from equity and included in the carrying amount of a non-financial instrument (hedging of cash flows of a highly favorable transaction)	-	-

d. Detail of derivatives designated as portfolio hedges

(EUR millions)	12/31/2013			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	88,276	88,271	2,595	2,826
TOTAL	**88,276**	**88,271**	**2,595**	**2,826**

(EUR millions)	12/31/2014			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	85,393	85,388	3,056	4,484
TOTAL	**85,393**	**85,388**	**3,056**	**4,484**

4.2 - DEFERRED TAXES

Deferred tax assets and liabilities are netted out when they concern the same tax entity.

a. Analysis by nature

(EUR millions)	12/31/2013	12/31/2014
Deferred tax assets before impairment	113	116
Impairment on deferred tax assets	-	-
Deferred tax assets	**113**	**116**
Deferred tax liabilities	-	-
TOTAL	**113**	**116**

b. Movements

(EUR millions)	12/31/2013	12/31/2014
As of January 1	**89**	**113**
Charge/credit recognized in the income statement	46	16
Effect of change in tax rates - impact on the income statement	-	-
Movements directly recognized in equity	(22)	(13)
Effect of change in tax rates - impact on equity	-	-
Translation adjustment	-	-
Other movements	-	-
As of December 31	**113**	**116**

c. Deferred taxes from assets on the balance sheet

(EUR millions)	12/31/2013	12/31/2014
Loans	475	(123)
Securities	91	54
Derivatives	(14)	97
Accruals and other assets	14	14
TOTAL	**566**	**42**

d. Deferred taxes from liabilities on the balance sheet

(EUR millions)	12/31/2013	12/31/2014
Borrowings, deposits and issues of debt securities	(453)	74
Derivatives	-	-
Provisions	-	-
Accruals and other liabilities	-	-
TOTAL	**(453)**	**74**

4.3 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature

(EUR millions)	Parent company and consolidated entities[1]		Other related parties[2]	
	12/31/2013	12/31/2014	12/31/2013	12/31/2014
ASSETS				
Loans and advances	-	-	-	-
Securities	-	-	-	-
LIABILITIES				
Due to banks - sight accounts	-	-	-	-
Due to banks - term loans	-	-	10,482	9,793
INCOME STATEMENT				
Interest income on loans and advances	-	-	-	(5)
Interest income on bonds	-	-	-	-
Interest expense on borrowings	-	-	(89)	(89)
Fees and commissions	-	-	(0)	2
OFF-BALANCE SHEET				
Foreign exchange derivatives	-	-	-	-
Interest rate derivatives	-	-	3,713	1,540
Commitments and guarantees received	-	-	5,365	3,962
Commitments and guarantees issued	-	-	6,995	6,212

(1) This item includes exclusively Caisse Française de Financement Local which is fully consolidated.
(2) It includes transactions with Caisse des Dépôts et Consignations and La Banque Postale, shareholders of Sfil.

4.4 - UNREALIZED OR DEFERRED GAINS AND LOSSES, BREAKDOWN BY COUNTRY

(EUR millions)	12/31/2013	12/31/2014
Unrealized gains and losses on available for sale securities	**(116)**	**(82)**
Germany	1	1
France	2	1
Italy	(110)	(82)
United States	(9)	(2)
Unrealized gains and losses on loans and receivable securities	**(105)**	**(100)**
Spain	(2)	(2)
France	5	4
Italy	(108)	(102)
Unrealized gains and losses on derivatives designated as cash-flow hedges	**(45)**	**(43)**
Unrealized gains and losses on employee benefits plan	**0**	**(1)**
TOTAL	**(266)**	**(226)**
Deferred taxes on gains and losses, available for sale securities	40	28
Deferred taxes on gains and losses, loans and receivable securities	36	34
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	16	16
Deferred taxes on employee benefits plan	(0)	(0)
TOTAL	**(174)**	**(148)**

4.5 - BREAKDOWN OF GOVERNMENT BONDS IN A SELECTION OF EUROPEAN COUNTRIES

The credit risk exposure reported represents the accounting net carrying amount of exposures, being the notional amounts after deduction of specific impairment, and taking into account accrued interest.

(EUR millions)	12/31/2013					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	592	-	-	592
TOTAL	**-**	**-**	**592**	**-**	**-**	**592**

	12/31/2014					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	599	-	-	**599**
TOTAL	**-**	**-**	**599**	**-**	**-**	**599**

(EUR millions)	12/31/2013					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	-	-	480	-	-	**480**
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	112	-	-	**112**
TOTAL	**-**	**-**	**592**	**-**	**-**	**592**
Unrealized gains and losses on available for sale securities	**-**	**-**	**(110)**	**-**	**-**	**(110)**
Unrealized gains and losses on loans and receivable securities	**-**	**-**	**(0)**	**-**	**-**	**(0)**

(EUR millions)	12/31/2014					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	-	-	487	-	-	**487**
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	112	-	-	**112**
TOTAL	**-**	**-**	**599**	**-**	**-**	**599**
Unrealized gains and losses on available for sale securities	**-**	**-**	**(82)**	**-**	**-**	**(82)**
Unrealized gains and losses on loans and receivable securities	**-**	**-**	**-**	**-**	**-**	**-**

5. Notes to the income statement

5.1 - INTEREST INCOME - INTEREST EXPENSE

(EUR millions)	2013	2014
INTEREST INCOME	**5,238**	**4,500**
Central banks	0	-
Loans and advances due from banks	65	60
Loans and advances to customers	1,761	1,721
Financial assets available for sale	41	41
Financial assets held to maturity	-	-
Derivatives used for hedging	3,371	2,678
Impaired assets	-	-
Other	-	-
INTEREST EXPENSE	**(5,118)**	**(4,423)**
Accounts with central banks	(0)	(0)
Due to banks	(97)	(93)
Customer borrowings and deposits	-	(2)
Debt securities	(2,067)	(2,045)
Subordinated debt	-	-
Derivatives used for hedging	(2,953)	(2,283)
Other	(1)	-
INTEREST MARGIN	**120**	**77**

5.2 - FEES AND COMMISSIONS

(EUR millions)	2013			2014		
	Income	**Expense**	**Net**	**Income**	**Expense**	**Net**
Lending activity	1	(0)	1	2	-	2
Purchase and sale of securities	-	(0)	(0)	0	(1)	(1)
Financial engineering	-	-	-	-	-	-
Services on securities other than custodian services	0	(4)	(4)	0	(5)	(5)
Custodian services	-	-	-	-	-	-
Issuance and underwriters of securities	-	(1)	(1)	-	(0)	(0)
TOTAL	**1**	**(5)**	**(4)**	**2**	**(6)**	**(4)**

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

(EUR millions)	2013	2014
Net trading income	2	(1)
Net result of hedge accounting	24	(11)
Net result of foreign exchange transactions	(0)	0
TOTAL	**26**	**(12)**

All interest received and paid on assets, liabilities and derivatives is recorded in net interest income, as required by IFRS. Thus, net gains (losses) on hedging transactions include only the change in the clean value of derivatives, the revaluation of assets and liabilities qualified as hedges and the revaluation of the portfolio held for trading.

Analysis of net result of hedge accounting

(EUR millions)	2013	2014
Fair value hedges[1]	**(28)**	**(6)**
Fair value changes in the hedged item attributable to the hedged risk	(391)	563
Fair value changes in the hedging derivatives	363	(569)
Cash flow hedges	**-**	**-**
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
Portfolio hedge[1]	**3**	**(3)**
Fair value changes in the hedged item	7	1,179
Fair value changes in the hedging derivatives	(4)	(1,182)
CVA / DVA impact[2]	**49**	**(2)**
TOTAL	**24**	**(11)**

(1) Société de Financement Local has adopted a valorization against Eonia for its derivatives subject to a payment of collateral for its benefit. Derivatives for which no payment is made for the benefit of counterparties are assessed against Euribor. This application shows an accounting ineffectiveness of EUR - 13 million.
(2) As of December 31, 2014, the application of IFRS 13 shows an impact of EUR 6.1 million for CVA and EUR -8.2 million for DVA.

5.4 - NET RESULT OF FINANCIAL ASSETS AVAILABLE FOR SALE

(EUR millions)	2013	2014
Net result of disposals of loans and securities available for sale	(1)	(0)
Net result of disposals of debt securities	6	10
Net result of the sale or cancellation of loans and advances	1	(1)
TOTAL	**6**	**9**

5.5 - OPERATING EXPENSE

(EUR millions)	2013	2014
Payroll costs	(34)	(44)
Other general and administrative expense	(47)	(50)
Taxes	(6)	(4)
TOTAL	**(87)**	**(98)**

5.6 - COST OF RISK

(EUR millions)	2013				2014			
	Collective impairment	**Specific impairment and losses**	**Contribution to support fund**	**Total**	**Collective impairment**	**Specific impairment and losses**	**Contribution to support fund**	**Total**
Credit (loans, commitments and securities held to maturity)	(26)	(2)	(150)	(178)	7	(7)	(18)	(18)
Fixed income securities available for sale	-	-	-	-	-	-	-	-
TOTAL	**(26)**	**(2)**	**(150)**	**(178)**	**7**	**(7)**	**(18)**	**(18)**

Detail of collective and specific impairments

Collective impairment (EUR millions)	2013			2014		
	Charges	**Recoveries and uses**	**Total**	**Charges**	**Recoveries and uses**	**Total**
Loans and borrowings	(68)	42	(26)	(47)	54	7
Off-balance sheet commitments	-	-	-	-	-	-
TOTAL	**(68)**	**42**	**(26)**	**(47)**	**54**	**7**

Specific impairment	2013				
(EUR millions)	**Allocations**	**Reversals**	**Losses**	**Recoveries**	**Total**
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(5)	4	-	-	**(1)**
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Fixed income securities	-	-	-	-	-
TOTAL	**(5)**	**4**	**-**	**-**	**(1)**

Specific impairment	2014				
(EUR millions)	**Allocations**	**Reversals**	**Losses**	**Recoveries**	**Total**
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(10)	3	(0)	-	**(7)**
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Fixed income securities	-	-	-	-	-
TOTAL	**(10)**	**3**	**(0)**	**-**	**(7)**

5.7 - CORPORATE INCOME TAX

a. Detail of tax expense

(EUR millions)	**2013**	**2014**
Current taxes	(8)	(8)
Deferred taxes	47	16
Tax on prior years' income	2	-
Deferred taxes on prior years	0	-
Provisions for tax litigation	-	-
TOTAL	**41**	**8**

b. Effective tax expense as of December 31, 2014

The standard corporate tax rate applicable in France is 38.00%.
The difference from the French tax rate can be analysed as follows:

(EUR millions)	**2013**	**2014**
INCOME BEFORE INCOME TAXES	**(110)**	**(42)**
Net income from associates	-	-
TAX BASE	**(110)**	**(42)**
Applicable tax rate at end of the period	36.10%	38.00%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	**(40)**	**(16)**
Impact of differences between foreign tax rates and the French standard tax rate	(15)	-
Tax effect of non-deductible expenses	-	-
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Other additional taxes or tax savings	14	8
Liability method	-	-
Provisions for tax litigation	-	-
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	**(41)**	**(8)**
EFFECTIVE TAX RATE	**N/A**	**N/A**

c. Tax consolidation

As of January 1, 2014, Caisse Française de Financement Local became a member of the Société de Financement Local tax group.

6. Note to off-balance sheet items

6.1 - REGULAR WAY TRADE

(EUR millions)	12/31/2013	12/31/2014
Assets to be delivered	-	-
Liabilities to be received(1)	120	1,587

(1) In 2013, it was here a question of registered covered bonds. In 2014, it was rather about financing granted by Caisse des Dépôts et Consignations for EUR 1.487 million and registered covered bonds for EUR 100 million in regular way trade.

6.2 - GUARANTEES

(EUR millions)	12/31/2013	12/31/2014
Guarantees received from credit institutions(1)	1,428	1,339
Guarantees received from customers(2)	6,801	6,869

(1) At the end of December 2014, the amount was primarily made up of securities pledged to the benefit of Caisse Française de Financement Local to guarantee the reimbursement of the loans granted to Sfil.
(2) The guarantees received from customers are generally provided by the local governments.

6.3 - FINANCING COMMITMENTS

(EUR millions)	12/31/2013	12/31/2014
Loan commitments granted to credit institutions	-	0
Loan commitments granted to customers(1)	228	150
Loan commitments received from credit institutions(2)	5,231	3,829
Loan commitments received from customers	-	-

(1) The financing commitments on loans and lines of credit corresponded to contracts issued but not paid out as of December 31, 2014.
(2) This item concerned a firm and irrevocable commitment by Caisse de Dépôts et Consignations and La Banque Postale to make the funds required available to Société de Financement Local.

6.4 - OTHER COMMITMENTS

(EUR millions)	12/31/2013	12/31/2014
Commitments granted(1)	6,995	6,212
Commitments received	278	272

(1) This concerns the value of a group of loans pledged to Caisse des Dépôts et Consignations.

7. Notes on risk exposure

7.1 - FAIR VALUE

a. Composition of the fair value of the assets

(EUR millions)	12/31/2013		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1,924	1,924	-
Loans and advances due from banks	2,948	2,948	-
Loans and advances to customers	66,315	63,690	(2,625)
Financial assets available for sale	1,084	1,084	-
Hedging derivatives	6,170	6,170	-
TOTAL	**78,441**	**75,816**	**(2,625)**

(EUR millions)	12/31/2014		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	877	877	-
Loans and advances due from banks	2,847	2,884	37
Loans and advances to customers	66,175	63,734	(2,441)
Financial assets available for sale	2,820	2,820	-
Hedging derivatives	8,367	8,367	-
TOTAL	**81,086**	**78,682**	**(2,404)**

b. Composition of the fair value of the liabilities, excluding equity

(EUR millions)	12/31/2013		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	10,472	10,562	90
Hedging derivatives	10,386	10,386	-
Debt securities	57,129	55,529	(1,600)
TOTAL	**77,987**	**76,477**	**(1,510)**

(EUR millions)	12/31/2014		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	9,788	9,898	110
Hedging derivatives	13,613	13,613	-
Debt securities	58,501	57,191	(1,310)
TOTAL	**81,902**	**80,702**	**(1,200)**

This note presents the fair value adjustments that are not accounted for in income or in equity, because they correspond to assets or liabilities valued at amortized cost in the IFRS financial statements.

These fair value adjustments take into account the characteristics of the assets and liabilities concerned (maturity, interest rate risk hedging, amortization profile, and for assets, the rating); they are also influenced by current market conditions, in particular in terms of liquidity and margin, for these very operations or operations to which they can be assimilated. The breakdown of assets and liabilities in function of the method used to determine their fair value is presented in note c. below; in fact, the great majority of the assets are valued according to a technique that accounts for the fact that significant parameters are not observable for the assets, since exposure mainly concerns loans, a commitment format that is not listed in liquid markets. To value liabilities, certain observable parameters are taken into account.

For assets and liabilities with good congruence in interest rates and maturities that are meant to be held on the balance sheet to maturity (because of the specialized business the Company does), these fair values provide interesting information, but it would not be relevant to draw conclusions about the value of the Company or the results it will achieve in the future.

c. Methods used to determine the fair value of financial instruments

Fair value of financial assets	12/31/2013			
(EUR millions)	Level 1(1)	Level 2(2)	Level 3(3)	Total
Central banks	1,924	-	-	1,924
Loans and advances due from banks	18	1,794	1,136	2,948
Loans and advances to customers	942	760	61,988	63,690
Subtotal of assets at amortized costs	**2,884**	**2,554**	**63,124**	**68,562**
Financial assets available for sale	589	153	342	1,084
Hedging derivatives	-	4,887	1,283	6,170
Subtotal of assets at fair value	**589**	**5,040**	**1,625**	**7,254**
TOTAL	**3,473**	**7,594**	**64,749**	**75,816**

Fair value of financial assets	12/31/2014			
(EUR millions)	Level 1(1)	Level 2(2)	Level 3(3)	Total
Central banks	877	-	-	877
Loans and advances due from banks	24	1,893	967	2,884
Loans and advances to customers	1,724	668	61,342	63,734
Subtotal of assets at amortized costs	**2,625**	**2,561**	**62,309**	**67,495**
Financial assets available for sale	2,296	181	343	2,820
Hedging derivatives	-	6,331	2,036	8,367
Subtotal of assets at fair value	**2,296**	**6,512**	**2,379**	**11,187**
TOTAL	**4,921**	**9,073**	**64,688**	**78,682**

(1) Price quoted on an active market for the same type of instrument
(2) Price quoted on an active market for an instrument that is similar (but not exactly the same) or use of a valuation technique in which all significant inputs are observable
(3) Use of a valuation technique in which all the significant parameters are not observable

Fair value of financial liabilities	12/31/2013			
(EUR millions)	Level 1(1)	Level 2(2)	Level 3(3)	Total
Due to banks	1	10,561	-	10,562
Debt securities	-	55,529	-	55,529
Subtotal of liabilities at amortized costs	**1**	**66,090**	**-**	**66,091**
Hedging derivatives	-	4,709	5,677	10,386
Subtotal of liabilities at fair value	**-**	**4,709**	**5,677**	**10,386**
TOTAL	**1**	**70,799**	**5,677**	**76,477**

Fair value of financial liabilities	12/31/2014			
(EUR millions)	Level 1(1)	Level 2(2)	Level 3(3)	Total
Due to banks	-	9,898	-	9,898
Debt securities	-	57,191	-	57,191
Subtotal of liabilities at amortized costs	**-**	**67,089**	**-**	**67,089**
Hedging derivatives	-	8,287	5,326	13,613
Subtotal of liabilities at fair value	**-**	**8,287**	**5,326**	**13,613**
TOTAL	**-**	**75,376**	**5,326**	**80,702**

(1) Price quoted on an active market for the same type of instrument
(2) Price quoted on an active market for an instrument that is similar (but not exactly the same) or use of a valuation technique in which all significant inputs are observable
(3) Use of a valuation technique in which all the significant parameters are not observable

d. Transfer between Levels 1 and 2

(EUR millions)	12/31/2013	12/31/2014
Level 1 to level 2	-	-
TOTAL	**-**	**-**

e. Level 3: Flow analyses

(EUR millions)	12/31/2013	Gains and losses through profit and loss	Unrealized or deferred gains and losses through profit & loss	Unrealized or deferred gains and losses through OCI	Purchase	Sale	Direct origination	Settlement	Transfer to assets held for sale	Transfer to level 3	Transfer out of level 3	Other variations	12/31/2014
Financial assets available for sale	342	-	-	-	-	-	-	-	-	-	-	1	343
Hedging derivatives	1,283	(10)	576	0	261	0	0	0	-	8	(82)	-	2,036
TOTAL FINANCIAL ASSETS	**1,625**	**(10)**	**576**	**0**	**261**	**0**	**0**	**0**	**-**	**8**	**(82)**	**1**	**2,379**
Hedging derivatives	5,677	(566)	119	0	169	0	0	0	-	245	(318)	0	5,326
TOTAL FINANCIAL LIABILITIES	**5,677**	**(566)**	**119**	**0**	**169**	**0**	**0**	**0**	**-**	**245**	**(318)**	**0**	**5,326**

Sensitivity to alternative hypotheses for valuation in level 3

To be classified in level 1, securities must be liquid, i.e. the valuation must be based on prices taken from a liquid market for which assurance has been obtained of the existence of a significant number of contributors. Level 1 securities in particular include certain government bonds.

To be eligible for the fair value of level 2, only observable market data can be used. The data that Caisse Française de Financement Local incorporates into its valuation models is market data that is observable directly (e.g. a price) or indirectly (price derivatives), and used in valuation models or valuation techniques that make it possible to determine a price. The instruments classified in level 2 are generally securities for which no market price is observed, but similar assets of the same listed issuer or guarantor that make it possible to observe prices. In this case, the market data is used and an adjustment is made to account for the securities' lack of liquidity.

When there is no active market or observable market data, the securities are classified in level 3 and valued by using the mark-to-model approach.
The spreads required for the internal valuation model take credit and liquidity risk into account. Credit risk is estimated on the basis of the specific characteristics of the securities under consideration (rating, probability of default (PD), loss in the event of default (LGD), investors' profitability requirement, etc.) and on the basis of a sector-related cash bond index. Liquidity risk is estimated on the basis of a market refinancing cost.

Mark-to-model prices are generated by valuation techniques based on model spreads that range from standard models (models using discounted cash flows) to models developed inside the Company.

Level 3 hedging derivatives are valued by using different valuation models developed in the Company.

7.2 - OFFSETTING FINANCIAL ASSETS AND LIABILITIES

a. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

(EUR millions)	12/31/2013					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented on the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	6,170	-	6,170	(3,656)	(2,422)	92
Loans and advances due from banks	2,948	-	2,948	-	(1,856)	1,092
Loans and advances to customers	66,315	-	66,315	-	-	66,315
TOTAL	**75,433**	**-**	**75,433**	**(3,656)**	**(4,278)**	**67,499**

(EUR millions)	12/31/2013					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	8,367	-	8,367	(5,651)	(2,597)	119
Loans and advances due from banks	2,847	-	2,847	-	(1,856)	991
Loans and advances to customers	66,175	-	66,175	-	-	66,175
TOTAL	**77,389**	**-**	**77,389**	**(5,651)**	**(4,453)**	**67,285**

b. Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

(EUR millions)	12/31/2013					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments pledged	
Derivatives (including hedging instruments)	10,386	-	10,386	(3,656)	(3,010)	3,720
Due to banks	10,472	-	10,472	-	-	10,472
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	**20,858**	**-**	**20,858**	**(3,656)**	**(3,010)**	**14,192**

(EUR millions)	12/31/2014					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments pledged	
Derivatives (including hedging instruments)	13,613	-	13,613	(5,651)	(3,564)	4,398
Due to banks	9,788	-	9,788	-	-	9,788
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	**23,401**	**-**	**23,401**	**(5,651)**	**(3,564)**	**14,186**

7.3 - EXPOSURE TO CREDIT RISK

Exposure to credit risks, as presented to management, includes the following:
- for assets other than derivatives: the amount on the balance sheet (i.e. after deduction of specific provisions);
- for derivatives: the market value on the balance sheet plus an add-on representing a margin for future potential credit risks;
- for off-balance sheet commitments: the amount intact of financing commitment drawdowns, is stated in the notes to the financial statements.

Exposure to credit risk is broken down by region and by counterparty, taking into account the guarantees received. This signifies that when the credit risk is guaranteed by a third party whose weighted risk (in the sense of Basel regulations) is less than that of the direct borrower, exposure is included in the guarantor's region and business sector.

Breakdown of exposure to credit risks

Analysis of exposure by geographic region

(EUR millions)	12/31/2014
France	48,248
Belgium	214
Italy	6,912
Spain	471
Germany	897
United Kingdom	2,318
Switzerland	2,930
Other European Union countries	259
United States and Canada	641
Japan	25
Other	4,033
TOTAL EXPOSURE	**66,948**

Analysis of exposure by category of counterparty

(EUR millions)	12/31/2014
States	4,595
Local public sector	56,804
ABS	3,916
Other - guaranteed by local public sector	152
Financial institutions	1,481
TOTAL EXPOSURE	**66,948**

Analysis of exposure by category of instrument

(EUR millions)	12/31/2014
Debt securities	2,820
Loans and advances	63,905
Financing commitments on loans	150
Hedging derivatives	73
TOTAL EXPOSURE	**66,948**

Evaluation of asset credit quality

This enabled Société de Financement Local to present, as of December 31, 2014, an analysis of its exposures, broken down by risk weighting, as used to calculate equity requirements for credit risk. Credit weighting is calculated primarily in function of the probability of default of the counterparty and of the loss incurred in the event of default.

This analysis confirms the excellent quality of the assets in Société de Financement Local's portfolio. More than 72% percent of the portfolio has a weighting of less than 5% and 90% of the portfolio has a weighting that is less than or equal to 20%.

(EUR millions)	Risk weighting (Basel III)				
	from 0 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	Total
Debt securities	2,124	23	673	-	**2,820**
Loans and advances	46,060	16,289	1,413	143	**63,905**
Financing commitments on loans	144	6	-	-	**150**
Hedging derivatives	-	-	69	4	**73**
TOTAL EXPOSURE	**48,328**	**16,318**	**2,155**	**147**	**66,948**
Share	**72.2%**	**24.5%**	**3.2%**	**0.2%**	**100.0%**

Certain exposures do not yet benefit from an internal evaluation system validated by banking supervisors; in this case, their weighting is that of the standard method, which is, for example, 20% for local governments.

7.4 - LIQUIDITY RISK: ANALYSIS BY TERM TO MATURITY

a. Analysis of assets

(EUR millions)	12/31/2014						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central bank	877	-	-	-	-	-	**877**
Hedging derivatives	-	-	-	-	-	-	**-**
Financial assets available for sale	-	1,220	744	54	566	-	**2,584**
Loans and advances due from banks	24	119	200	2,254	210	-	**2,807**
Loans and advances to customers	-	2,206	3,747	17,007	36,458	-	**59,418**
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	**-**
Financial assets held to maturity	-	-	-	-	-	-	**-**
Tax assets	-	-	1	-	-	116	**117**
Accruals and other assets	-	3,609	-	-	-	-	**3,609**
Tangible assets	-	-	-	-	-	8	**8**
Intangible assets	-	-	-	-	-	5	**5**
TOTAL	**901**	**7,154**	**4,692**	**19,315**	**37,234**	**129**	**69,425**

(EUR millions)	12/31/2014				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central bank	877	-	-	-	**877**
Hedging derivatives	-	948	7,419	-	**8,367**
Financial assets available for sale	2,584	8	228	-	**2,820**
Loans and advances due from banks	2,807	14	26	-	**2,847**
Loans and advances to customers	59,418	771	6,096	(110)	**66,175**
Fair value revaluation of portfolio hedge	-	-	3,178	-	**3,178**
Financial assets held to maturity	-	-	-	-	**-**
Tax assets	117	-	-	-	**117**
Accruals and other assets	3,609	(0)	-	-	**3,609**
Tangible assets	8	-	-	(0)	**8**
Intangible assets	5	-	-	(1)	**4**
TOTAL	**69,425**	**1,741**	**16,947**	**(111)**	**88,002**

b. Analysis of liabilities, excluding equity

(EUR millions)	12/31/2014						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central bank	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-
Due to banks	0	1,896	2,061	4,598	1,215	-	**9,770**
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	1,197	5,792	21,113	24,667	-	**52,769**
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	12	-	-	(0)	**12**
Accruals and other liabilities	-	2,888	-	-	-	-	**2,888**
Provisions	-	-	-	-	-	5	**5**
Subordinated debt	-	-	-	-	-	-	-
TOTAL	**0**	**5,981**	**7,865**	**25,711**	**25,882**	**5**	**65,444**

(EUR millions)	12/31/2014			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central bank, due to banks	-	-	-	-
Hedging derivatives	-	1,149	12,464	**13,613**
Due to banks	9,770	24	(6)	**9,788**
Customer borrowings and deposits	-	-	-	-
Debt securities	52,769	1,017	4,715	**58,501**
Fair value revaluation of portfolio hedge	-	-	1,786	**1,786**
Tax liabilities	12	-	-	**12**
Accruals and other liabilities	2,888	-	-	**2,888**
Provisions	5	-	-	**5**
Subordinated debt	-	-	-	-
TOTAL	**65,444**	**2,190**	**18,959**	**86,593**

c. Net liquidity gap

(EUR millions)	12/31/2014							
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total not broken down	Total
AMOUNT	**901**	**1,173**	**(3,173)**	**(6,396)**	**11,352**	**124**	**(2,572)**	**1,409**

This table presents the balance sheet at the closing date; it does not take into account the management decisions that will make it possible to manage differences in maturity or the future production of assets and liabilities. Caisse Française de Financement Local's liquidity is provided by its refinancing agreement with Société de Financement Local. In addition, the Group may obtain funding from the Banque de France, by assigning certain of these assets in guarantee. Caisse Française de Financement Local can thus obtain funding from the Banque de France enabling it to reimburse *obligations foncières* when they arrive at maturity; the assets given in guarantee are therefore excluded (as well as the matured bonds) from the calculation of the solvency ratio, which remains practically unchanged.

7.5 - RISK ON RESETTING OF INTEREST RATES: ANALYSIS BY TIME UNTIL NEXT INTEREST RATE RESET DATE

a. Analysis of assets

(EUR millions)	12/31/2014						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central bank	877	-	-	-	-	-	877
Hedging derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	1,322	642	54	566	-	2,584
Loans and advances due from banks	24	2,049	252	389	93	-	2,807
Loans and advances to customers	-	11,730	9,250	11,500	26,938	-	59,418
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	1	-	-	116	117
Accruals and other assets	-	3,609	-	-	-	-	3,609
Tangible assets	-	-	-	-	-	8	8
Intangible assets	-	-	-	-	-	5	5
TOTAL	**901**	**18,710**	**10,145**	**11,943**	**27,597**	**129**	**69,425**

(EUR millions)	12/31/2014				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central bank	877	-	-	-	877
Hedging derivatives	-	948	7,419	-	8,367
Financial assets available for sale	2,584	8	228	-	2,820
Loans and advances due from banks	2,807	14	26	-	2,847
Loans and advances to customers	59,418	771	6,096	(110)	66,175
Fair value revaluation of portfolio hedge	-	-	3,178	-	3,178
Financial assets held to maturity	-	-	-	-	-
Tax assets	117	-	-	-	117
Accruals and other assets	3,609	(0)	-	-	3,609
Tangible assets	8	-	-	(0)	8
Intangible assets	5	-	-	(1)	4
TOTAL	**69,425**	**1,741**	**16,947**	**(111)**	**88,002**

b. Analysis of liabilities, excluding equity

(EUR millions)	12/31/2014						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central bank	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-
Due to banks	0	409	9,361	-	-	-	9,770
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	3,077	6,905	19,645	23,142	-	52,769
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	12	-	-	(0)	12
Accruals and other liabilities	-	2,888	-	-	-	-	2,888
Provisions	-	-	-	-	-	5	5
Subordinated debt	-	-	-	-	-	-	-
TOTAL	**0**	**6,374**	**16,278**	**19,645**	**23,142**	**5**	**65,444**

(EUR millions)	12/31/2014			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central bank, due to banks	-	-	-	-
Hedging derivatives	-	1,149	12,464	13,613
Due to banks	9,770	24	(6)	9,788
Customer borrowings and deposits	-	-	-	-
Debt securities	52,769	1,017	4,715	58,501
Fair value revaluation of portfolio hedge	-	-	1,786	1,786
Tax liabilities	12	-	-	12
Accruals and other liabilities	2,888	-	-	2,888
Provisions	5	-	-	5
Subordinated debt	-	-	-	-
TOTAL	**65,444**	**2,190**	**18,959**	**86,593**

c. Balance sheet sensitivity gap

(EUR millions)	12/31/2014							
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total not broken down	Total
AMOUNT	**901**	**12,336**	**(6,133)**	**(7,702)**	**4,455**	**124**	**(2,572)**	**1,409**

7.6 - CURRENCY RISK

Classification by original currency (EUR millions)	12/31/2013				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	75,187	3,730	2,303	2,308	**83,528**
Total liabilities	75,187	3,730	2,303	2,308	**83,528**
NET BALANCE SHEET POSITION	-	-	-	-	-

Classification by original currency (EUR millions)	12/31/2014				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	80,219	3,828	1,996	1,959	**88,002**
Total liabilities	80,219	3,828	1,996	1,959	**88,002**
NET BALANCE SHEET POSITION	-	-	-	-	-

7.7 - SENSITIVITY TO INTEREST RATE RISK

The policy applied by the Sfil Group makes it possible to be protected from interest rate risk.

For Caisse Française de Financement Local:

- In the first stage, all the assets and the liabilities that do not naturally have a floating rate are hedged as soon as they are recorded on the balance sheet so as to limit the impact of trends in euro long rates on the value of the balance sheet. For Caisse Française de Financement Local, these operations mainly concern the issue of *obligations foncières* and the acquisition of assets from LBP.
  In 2014, the hedging of new assets coming onto the balance sheet was conducted by carrying out new asset swaps or by unwinding liabiity hedge swaps.
  In practice, acquisitions of loan portfolios (in which the unit amount is generally small) are usually macro-hedged, producing fixed rate residual posititions that are limited in sensitivity. This system guarantees with a probabiity of 99% a maximum loss in value after one year of EUR 80 million in the event of a directional shock in the yield curve, in the sloping of the yield curve between two points far from one another or between two points close to one anoher.
- The management of the fixing risk resulting from positions in floating rates (originally or from the hedging explained above) is to swap them against Eonia for a sliding period of two years, in order to protect the result from the risk of fixing owing to the existence of different dates to refix the reference index in the assets and the liaibities.

For Sfil:
The debt contracted by the Sfil Group with its shareholder is borrowed either directly on a monetary index and does not need to be swapped or on a Euribor index and is backed by assets also indexed on Euriobor.
The measures of sensitivity at the end of the four quarters of 2014 for a change of 100 bp in interest rates are presented below.

Directional risk
General sensitivity

(EUR millions), end of quarter	Limit	1Q	2Q	3Q	4Q
Sensitivity	25.0	(2.0)	(2.0)	0.3	0.6

Risk of sloping between two distant points on the rate curve
Sum of sensitivities

(EUR millions), end of quarter	Limit	1Q	2Q	3Q	4Q
Short term	10.0	0.6	(2.6)	(0.5)	(1.6)
Medium term	10.0	0.5	2.6	2.4	3.8
Long term	10.0	6.0	4.7	5.3	6.4
Very long term	10.0	(9.1)	(6.7)	(6.8)	(8.0)

Risk of sloping between two close points on the rate curve
Sum of sensitivities in absolute value

(EUR millions), end of quarter	Limit	Q1	Q2	Q3	Q4
Short term	20.0	3.9	5.2	2.3	4.2
Medium term	20.0	5.7	9.5	5.1	6.3
Long term	20.0	5.3	4.8	5.1	4.7
Very long term	20.0	9.1	6.7	6.8	8.0

This is a free translation into English of the Statutory Auditors' report on the consolidated financial statements issued in French and is provided solely for the convenience of English-speaking users.
This report should be read in conjunction with, and is construed in accordance with, French law and professional standards applicable in France.

Statutory Auditors' report on the consolidated financial statements

For the year ended December 31, 2014

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended December 31, 2014, on:
- the audit of the accompanying consolidated financial statements of Société de Financement Local;
- the justification of our assessments;
- the specific verification required by law.

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

OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with 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 of December 31, 2014, and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.
Without qualifying our opinion, in respect with this matter, we draw your attention to the matters set out in the note "1.2.b.2 – Presentation rules and closing date" of the consolidated financial statements which mentions the assumptions used by Société de Financement Local for the preparation of the financial statements, within the context of the Swiss National Bank's decision issued at January 15, 2015, and note "1.2.b.1 - Applicable accounting standards" , that outlines the first-time application of new standards, amendments and interpretations as of January 1, 2014.

JUSTIFICATION OF OUR 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 that we bring the following matters to your attention:

Accounting estimates

Provisions for credit and counterparty risks

As mentioned in note "1.2.b.3 - Accounting principles applied to the financial statements" to the consolidated financial statements, your company recognises impairment losses to cover the credit risks inherent in any banking activity.
As part of our assessment of the significant estimates adopted for the accounts closing, we analysed the control system relating to credit risk monitoring, impairment methodologies, non-recovery risk assessment and the level of impairment loss cover provided by individual or collective provisions.

Valuation of financial instruments

As mentioned in note "1.2.b.3 – Accounting policies applied to the financial statements", to the consolidated financial statements, your company uses internal models and methodologies to value financial instruments that are not listed on active markets and to set aside provisions.
Our procedures consisted in reviewing the control system relating to the identification of financial instruments that can no longer be traded in an active market or whose valuation parameters are no longer observable, as well as the determination of the models used to value them, and in assessing the data and assumptions used, as well as the consideration of the risks and results relating to these instruments.

Tax Assets

As mentioned in note "2.5 – Tax Assets", to the consolidated financial statements, your company displays the recoverability assumptions of deferred tax assets taking into account the business plan as presented to the Board of Directors and based on realistic assumptions. Our procedures consisted in reviewing those assumptions.
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.

SPECIFIC VERIFICATION

As required by 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 as to its fair presentation and its consistency with the consolidated financial statements.

Courbevoie and Neuilly-sur-Seine, April 3, 2015
The Statutory Auditors
French original signed by

MAZARS		DELOITTE & ASSOCIÉS	
Virginie Chauvin	Anne Veaute	Charlotte Vandeputte	José-Luis Garcia

SFIL profiles

Lionel,
Financial Engineering

“With 18 years’ experience in the field of local public debt, I joined Sfil at its creation with two priorities:
- first to recruit, train and manage a team of some twenty specialists in financial management who had a background in banking and financial consulting;
- secondly, to implement the loan sensitivity reduction policy Sfil has decided.

Certain qualities are needed to assist local governments and public hospitals to reduce the risks they run in terms of interest rates and foreign exchange and return to a more balanced approach to financial management. It takes hard work, a pedagogical spirit, a sense of dialogue, the mastery of operating risks and the ability to lead long and conplex negotiations.”

Samia,
Operations, Middle Office

“After working for 11 years in a French notary’s office, I was hired by Sfil in 2013. I am in charge of loan transfers. Concretely speaking, I am responsible for the qualification of transfers as well as the drafting of loan transfer agreements. I set up credit files and payment rescheduling agreements. My legal expertise also comes into play when I have to draft legal memoranda. The great diversity of situations as well as the many players involved requires being serious and adaptable at the same time.”

Annual financial statements
in accordance with French GAAP

Assets as of December 31, 2014

(EUR thousands)	Note	12/31/2013	12/31/2014
Central banks	2.1	453,147	357,888
Government and public securities	2.2	-	50,001
Loans and advances to banks	2.3	6,774,703	6,238,500
Loans and advances to customers	2.4	16,286	17,737
Bonds and other fixed income securities	2.5	4,369,734	3,915,703
Equities and other variable income securities		-	-
Investments in non-consolidated companies and other long-term investments	2.6	3	3
Investments in consolidated companies	2.7	0	0
Intangible assets	2.8	-	4,475
Property and equipment	2.9	56	7,871
Other assets	2.10	3,337,291	3,598,297
Accruals and other assets	2.11	825,150	924,871
TOTAL ASSETS	**2.12**	**15,776,370**	**15,115,346**

Liabilities as of December 31, 2014

(EUR thousands)	Note	12/31/2013	12/31/2014
Central banks		-	-
Due to banks	3.1	14,850,327	13,710,517
Customer borrowings and deposits		-	-
Debt securities		-	-
Other liabilities	3.2	4,560	347,437
Accruals and other liabilities	3.3	790,528	927,339
Provisions	3.4	2,957	5,687
EQUITY		**127,998**	**124,366**
Subscribed capital	3.5	130,000	130,000
Additional paid-in capital		-	-
Reserves (and retained earnings)		(20)	(2,002)
Net income	3.5	(1,982)	(3,632)
TOTAL LIABILITIES	**3.6**	**15,776,370**	**15,115,346**

Off-balance sheet items as of December 31, 2014

(EUR thousands)	Note	12/31/2013	12/31/2014
COMMITMENTS GRANTED	**4.1**	**11,414,742**	**10,578,048**
Financing commitments		50,000	450,000
Guarantees granted		-	-
Other commitments granted		11,364,742	10,128,048
COMMITMENTS RECEIVED	**4.2**	**6,460,261**	**6,466,655**
Financing commitments		5,230,874	5,315,249
Guarantees received		1,229,387	1,151,406
Forward commitments		-	-
Other commitments received		-	-
OTHER COMMITMENTS	**4.3**	**53,325,143**	**56,760,995**
Foreign currency transactions		22,025,166	19,289,504
Interest rate derivatives		31,299,977	37,471,491
Commitments related to securities transactions		-	-

Income statement

(EUR thousands)	Note	2013	2014
Interest income	5.1	85,841	88,502
Interest expense	5.1	(106,297)	(114,972)
Income from variable income securities		-	-
Commission (income)	5.2	19,271	24,340
Commission (expense)	5.2	(71)	(342)
Net gains (losses) on trading portfolio	5.3	120	(1,567)
Net gains (losses) on placement portfolio		-	1
Other banking income	5.4	6,838	5,750
Other banking expense	5.4	(4)	(40)
NET BANKING INCOME		**5,698**	**1,672**
General operating expense	5.5	(7,677)	(5,741)
Depreciation and amortization		(3)	(603)
OPERATING INCOME BEFORE COST OF RISK		**(1,982)**	**(4,672)**
Cost of risk		-	-
INCOME FROM OPERATIONS		**(1,982)**	**(4,672)**
Income (loss) on fixed assets		-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		**(1,982)**	**(4,672)**
Non-recurring items		-	-
Income tax	5.6	-	1,040
Net allocation to general banking risks reserve and regulated provisions		-	-
NET INCOME		**(1,982)**	**(3,632)**
Basic earnings per share		(0.21)	(0.39)
Diluted earnings per share		(0.21)	(0.39)

Equity

(EUR thousands)	Amount
AS OF 12/31/2013	
Share capital	130,000
Additional paid-in capital (APIC)	-
Commitments to increase share capital and APIC	-
Reserves and retained earnings	(20)
Net income for the year	(1,982)
Interim dividends	-
EQUITY AS OF 12/31/2013	**127,998**
MOVEMENTS FOR THE PERIOD	
Changes in share capital	-
Changes in APIC	-
Changes in commitments to increase share capital and APIC	-
Changes in reserves and retained earnings	-
Dividends paid (-)	-
Net income for the period	(3,632)
Other movements	-
AS OF 12/31/2014	
Share capital	130,000
Additional paid-in capital (APIC)	-
Commitments to increase share capital and APIC	-
Reserves and retained earnings	(2,002)
Net income for the period	(3,632)
EQUITY AS OF 12/31/2014	**124,366**

Notes to the French GAAP financial statements

1. Significant accounting policies

1.1 – PUBLICATION CONTEXT

The preparation of financial information requires the management to use estimates and assumptions that affect amounts reported. In order to make these assumptions and estimates, management uses the information available at the date of preparation of the financial statements and exercises its judgment.

Readers are reminded that in order to prepare its 2013 consolidated financial statements, Sfil had worked on the hypothesis that the comprehensive arrangements to solve the problem of structured loans proposed by the government and in particular the law that created a legal basis for structured loan contracts would be voted and implemented in 2014. The passing of the law specifying a legal basis for these loans on July 30, 2014, made it possible to achieve a significant reduction in residual legal risks and their financial impact, which was considered to be very minor at that closing date.

To prepare its 2014 consolidated financial statements, Sfil took into account the effects of the decision of the Swiss National Bank (SNB) as of January 15, 2015 and the hypothesis that the solution announced by the government would in fact rapidly be implemented so that the support would remain at least as attractive as before the SNB's decision (cf. 1.2.g Post-closing events).
Caisse Française de Financement Local, subsidiary of Sfil, voluntarily contributed EUR 150 million to the local government support fund and EUR 18 million to the hospital support fund. It did not record its 2014 financial statements any provision for a potential new contribution to the increase of these funds, given the uncertain existence of such a contribution, its features, and its hypothetical amount.

1.2 – HIGHLIGHTS OF THE PERIOD AND POST-CLOSING EVENTS

During the year 2014, Société de Financement Local (Sfil) accomplished its fundamental missions, which involve refinancing, via its subsidiary Caisse Française de Financement Local, loans granted by La Banque Postale to eligible local governments and public hospitals; supplying specialized services to La Banque Postale and Caisse Française de Financement Local; and implementing a policy to reduce the sensitivity of the portfolio of structured loans. Sfil also conducts several structuring projects to ensure its future.

a. Partnership with La Banque Postale

At EUR 3.3 billion, La Banque Postale (LBP) increased its annual production by almost 10% compared with 2013. This second year of business also enabled Caisse Française de Financement Local to acquire almost EUR 1,662 million in loans from La Banque Postale in four quarterly transfers.

b. Société de Financement Local's ratings

At the beginning of February 2013, Sfil had received a first set of ratings from the three rating agencies Moody's, Standard and Poor's and Fitch, which underlined the strong ties existing between Sfil and the State. These ratings were equal to or a notch lower than those of the State: Aa2 for Moody's, AA+ for Standard & Poor's and AA+ for Fitch.
Since the State's rating was lowered in 2013 and 2014, Sfil's ratings were reviewed as well. As of December 31, 2014, Sfil's ratings stood at Aa2 for Moody's, AA for Standard & Poor's and AA- for Fitch.

c. Law to secure structured loan agreements and the creation of support funds for local governments and public hospitals

In order to find a permanent and comprehensive solution for the problem of the most sensitive structured loans contracted by local governments, and in compliance with its press releases dated June 18, and July 16, 2013, the French government took the following measures:
- the creation of a multi-year support fund endowed with EUR 1.5 billion (this amount was raised to EUR 3 billion by the government on February 24, 2015 – cf. 1. Post-closing events) to allow local governments to finance the end of structured loans;
- a similar structure is planned for public hospitals through the endowment of a fund with a total intervention capacity of EUR 100 million (this amount was raised to EUR 400 million by the government on February 24, 2015 – cf. 1.2.g Post-closing events);
- legislative measures targeting a legal basis to secure existing loan agreements.

d. AQR, stress tests and supervision mechanism of the ECB

Within the framework of the Single Supervision Mechanism, the European Central Bank (ECB) directly oversees the 120 largest banks in the eurozone as of November 4, 2014. The group made up of Caisse Française de Financement Local and its parent company Sfil (Sfil Group) is included among the banks directly supervised by the ECB. Before assuming its oversight obligations, the ECB launched in October 2013 a vast review to make a comprehensive assessment of bank balance sheets. This assessment included a thorough analysis of the quality of the assets (Asset Quality Review – AQR) and a stress test.
The definitive results, published on October 26, 2014, by the EBC, confirm the prudence of the risk management system set up by the bank and the quality of its economic model based on public sector assets with a low risk profile. The prudential adjustments determined by the ECB subsequent to its review of the quality of assets are very limited. More details are provided in the part of this report that deals with risk management.

e. Launch of a program to simplify information systems

While putting an end to all cooperation with Dexia and thereby achieving complete operating autonomy for Sfil, from the point of view of human resources as well as systems resources, Sfil launched a program to simplify its information system over the next three years. The goal is to equip Sfil with an information system adapted to its missions that would make it possible to respond efficiently to the risk control and management requirements of Sfil and Caisse Française de Financement Local as well as to the different requests made by regulators.

f. Change in address – new headquarters

Between December 2014 and January 2015, the whole Sfil staff moved to new headquarters located at 1-3, rue du Passeur de Boulogne in Issy-les-Moulineaux, France.

g. Post-closing events

Appreciation of the Swiss franc
On January 15, 2015, the Swiss National Bank (SNB) announced its decision to let its national currency, the Swiss franc (CHF), appreciate. This brutal and unexpected decision had the immediate consequence of a sharp increase in the Swiss franc vis-à-vis the other currencies and especially the euro. For local governments and public hospitals that had subscribed structured loans with an interest rate highly dependent on the EUR/CHF exchange rate, this decision of the SNB led to a considerable increase in future installments of the loan repayment and indemnities in the event of early reimbursement.

The French government immediately announced that it would review the conditions whereby local governments would benefit from the support fund set up to deal with sensitive structured loans, in close cooperation with all the stakeholders. It will ensure that the support fund continue to attain the goals that had been set, i.e. to enable the entities concerned to finish with these sensitive loans under acceptable and achievable financial conditions.
Thus on February 24, 2015, the French government announced a massive increase in the intervention capacity of the funds earmarked to support public sector entities having contracted sensitive structured loans.

- The amount of the funds set aside for local governments will be increased from EUR 1.5 billion to EUR 3.0 billion, and the ceiling for assistance from the fund (initially set at 45% of the penalties due) will be raised for the most vulnerable entities.
- The amount of funding dedicated to public hospitals will rise from EUR 100 million to EUR 400 million.

The government also insisted on the necessity to finish definitively with sensitive structured contracts, and called on local governments to submit as soon as possible a request for assistance from the support funds. The banks will contribute to the additional financing for half of the local government fund and the entire hospital fund, by raising the rate of the tax on systemic risk.
This bolstering of the support funds aims to cover the additional cost of the appreciation of the Swiss franc so that the penalties for early reimbursement remaining the responsibility of the customers concerned, after assistance from the funds, will not be greater than they would have been without the SNB's decision.

Business expansion
At the beginning of 2015, the French State announced the creation of a national scheme dedicated to the refinancing of export credit, which it decided to entrust to Sfil. Sfil will work closely on this new mission with all the players in the export credit market, primarily Coface, an insurance company specialized in insuring foreign credit-buyer contracts signed with French banks.
This new scheme will enable exporters and lending banks to take advantage of the capacities of Caisse Française de Financement Local to raise funds in the market under conditions that are those of the best French issuers of covered bonds and with volumes adapted to the refinancing of large-sized export credits. Importing companies will thus benefit from markedly improved financial conditions for purchases up to several billion euros with maturities of 10, 20 and more years.

1.3 – APPLICABLE ACCOUTNING STANDARDS: RULES ADOPTED BY THE FRENCH ACCOUNTING STANDARDS BOARD (AUTORITÉ DES NORMES COMPTABLES – ANC)

Société de Financement Local prepares its financial statements in compliance with amended CRB 91-01 and amended CRC 2000-03 related to the annual financial statements for the banking sector.
The financial statements as of December 31, 2014, were prepared using the same accounting principles as those used in the financial statements as of December 31, 2013.
The financial statements have been prepared in accordance with French generally accepted accounting principles, respecting the principle of prudence, on the basis of the following assumptions:

- going concern principle,
- segregation of accounting periods,
- consistency of methods.

The accounts are in accordance with the indications of directive 86/635/EEC of the Council of European Communities.

1.4 – ACCOUNTING PRINCIPLES

a. Loans and advances to banks and customers

Loans and advances to banks include all loans connected to banking transactions with credit institutions, except securities. They are broken down between demand loans and term loans.

Loans to customers represent loans granted to staff.

Loans to customers are stated in the balance sheet net of depreciation for possible losses. 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 due, as is interest on past-dues.

Fees received and transaction costs related to the granting or the acquisition of a loan, if they are significant, are amortized over the maturity of the loan. Other commission income is immediately recorded in the income statement.

In accordance with CRC standard 2002-03 amended by CRC standards 2005-03 and 2007-06, a loan is considered as non-performing when it presents one of the following characteristics:

- a probable or certain risk that it will not be repaid (unpaid for more than nine months for local government borrowers, and for more than three months for the other counterparties);
- the existence of a factual counterparty risk (worsening of the financial situation, alert procedures);
- the existence of litigation.

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 non-performing loans.

Impairment charges are recorded for non-performing and compromised non-performing loans. The amount of interest is fully depreciated. The impairment rate applied to doubtful loans is determined by the Risks department depending on expected losses. 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.

b. Securities transactions

Securities held by Société de Financement Local are recorded in the assets as "Government and public entity securities eligible for central bank refinancing" or "Bonds and other fixed income securities".

The item "Government and public entity securities eligible for central bank refinancing" includes debt securities issued by public sector entities that may be refinanced through the European system of central banks.

The item "Bonds and other fixed income securities" includes the following categories of securities:
- debt securities issued by public sector entities that are not eligible for refinancing by central banks;
- debt securities guaranteed by public sector entities;
- debt securities issued by securitization structures.

In accordance with CRC standard 2005-01, securities held by Société de Financement Local are recognized as either investment securities or placement securities.

Investment securities
Fixed-income securities with a specified maturity are recognized as "Investment securities" when Société de Financement Local intends to and has the financial capacity to hold them to maturity. Securities in this category are subject to back-financing or interest-rate hedging over their residual maturity.

Investment securities are recorded on the date of purchase at acquisition clean price excluding fees. Accrued interest at the date of acquisition is recorded as other assets. Interest on these securities is recorded in income as Interest income on bonds and fixed income securities.

The difference between the redemption value and the market clean price (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

At the end of the reporting period, unrealized gains are not recognized, and unrealized losses are not recorded except in the case of:
- a doubt about the issuer's ability to meet his obligations;
- the probability that the company will not hold these securities until maturity owing to new circumstances.

Placement investments
Placement investments are securities that are not classified in one of the other categories.

Securities are recorded on the date of purchase at acquisition clean cost excluding fees. Accrued interest at the date of acquisition is recorded as other assets. Interest on these securities is recorded as "Interest income on bonds and fixed income securities".

The difference between the redemption value and the acquisition clean cost (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

At the balance sheet date, in application of the principle of prudence, placement securities are recorded at their acquisition cost or selling price at closing, whichever is lower, after accounting, when relevant, for the value of the micro-hedge swap.

If the market for a financial instrument is not active, valuation techniques are used to calculate the selling price (or market value as defined in the notes to the financial statements). The valuation model should take into account all the factors that market players would consider to valuate the asset. Within this framework, Société de Financement Local relies on its own valuation models, making every effort to take into account the market conditions at the date of the valuation as well as any changes in the credit risk quality of these financial instruments and market liquidity.

When the decrease in the value of the security exceeds the unrealized gain on the micro-hedge, the decrease in net value is recorded as asset impairment in "Net gains (losses) on placement portfolio transactions", as well as impairment reversals and gains and losses on sale.

Placement securities transferred to investment securities are recorded at their acquisition cost and previously recognized impairment is reversed over the residual maturity of those securities, in accordance with article 8 of CRC standard 2005-01).

c. Due to banks

Amounts due to banks are classified according to their type (demand deposits, current accounts or long-term debt) and their maturity (demand debt or term debt).
Accrued interest is recorded as "Interest accrued not yet due" on the balance sheet and as expense in the income statement.

d. Provisions for risks and charges

Provisions are recognized based on their discounted value when the three following conditions are met:
- Société de Financement Local 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.

e. Derivative transactions

Société de Financement Local concludes derivative transactions to hedge specific items against interest rate risks or to manage its trading portfolio.

The notional amount of these transactions is recognized off-balance sheet over the maturity of the instruments. The amount recorded is adjusted to reflect any changes in notional amounts in order to represent the current or future maximum commitment.

The accounting treatment of these financial instruments depends on the chosen investment strategy.

Micro-hedge transactions
Swaps are booked as micro-hedging transactions when they are designed to hedge interest rate risks of an item or a set of homogenous items identified from the outset.

Expense and income on these transactions are recorded in the income statement the same way as income and expense on hedged items or set of homogenous items.

If a sale or an early repayment (including while renegotiating the terms) of hedged items occur, termination fees paid or received due to the early repayment of hedging instruments are directly recorded as income or expense. However, termination fees paid by Société de Financement Local are charged against income only for the portion that exceeds gains not yet recorded in income in the symmetric position. The part of be amortized is recognized as accruals in the assets or the liabilities.

Isolated open positions
Société de Financement Local acts as an intermediary between Caisse Française de Financement Local, its subsidiary and certain banking counterparties. These transactions with its subsidiary constitute isolated open positions.

Expense and income on these transactions are recorded in the income statement *prorata temporis*. The contra entry is recorded in accruals until the date of payment or settlement of the funds.

A provision is recorded in respect of any unrealized losses. Unrealized gains are not recognized.

f. Foreign currency transactions

In application of CRB standard 90-01, Société de Financement Local recognizes foreign currency transactions in accounts opened and denominated in each of the currencies used.

Specific foreign exchange position accounts and foreign exchange position equivalent accounts are opened in each currency.

At the end of each reporting period, differences between the amounts resulting from a market price valuation of the foreign exchange position accounts and the amounts recorded in the foreign exchange position equivalent accounts are recorded in the income statement.

g. Foreign exchange transactions

In order to systematically hedge its foreign exchange risk, Société de Financement Local enters into currency swaps. These currency swaps are initiated to eliminate the risk of foreign exchange rate fluctuations that might affect an asset or liability as soon as such a risk is identified. They are mainly used to hedge certain liabilities, debt securities and loans to customers.

Results of foreign exchange hedging transactions are accounted for by recording the difference between the hedging rate and the spot rate *prorata temporis* in the income statement.

h. Employee benefits

Staff expenses include all costs related to employees, particularly profit-sharing and incentive plans.
Employee benefits are classified in four categories:

• Short-term benefits
Short-term benefits, payable within a maximum of twelve months after rendering the service, are not discounted and are recognized as an expense of the reporting period.

• Long-term benefits
These benefits, generally related to seniority, are paid to current employees. Their payment is deferred for more than twelve months after the end of the annual period during which the employees render the related service. They especially represent long service awards.

Annual leave is recognized when the benefits are granted to the employee. To this purpose, a provision is recorded based on rights vested by employees at the end of the reporting period.

The actuarial gains and losses related to these benefits and all service costs are recognized immediately in the income statement.

• Termination benefits
Employee termination benefits result from the decision by Société de Financement Local to terminate an employment contract before the legal retirement age or by a decision of voluntary redundancy in exchange for termination benefits.

A charge for termination benefits at the end of the employment contract is recorded only when Société de Financement Local is no longer able to withdraw its offer. Termination benefits payable at more than twelve months after the end of the reporting period are discounted to their present value.

• Post-employment benefits
Post-employment benefits are classified as either defined benefit plans or defined contribution plans.
The assets of these plans are generally held by insurance companies or pension funds. The pension plans are generally funded by payments from both Société de Financement Local and its employees.

Defined contribution plans
Defined contribution plans do not create an obligation on Société de Financement Local and do not require a provision. The amount of the employer's contributions payable during the period is recognized as an expense.

Defined benefit plans
Under defined benefit plans, Sfil has the obligation to provide the agreed benefits to current and former employees. Actuarial and investment risks fall on Sfil; as a result, this obligation is measured and recognized as a liability.

Post-employment benefit obligations under defined benefit plans are measured using an actuarial valuation technique that includes demographic and financial assumptions and the Projected Unit Credit Method, under which each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation.
The defined benefit net liability recognized in the balance sheet represents the present value of defined benefit obligations reduced by the fair value of plan assets (if any). Re-measurements of defined benefit net liability (or asset) and the fair value of assets are subject to adjustments owing to changes in actuarial assumptions. These re-measurements are recorded according the corridor method. Under this method, Société de Financement Local is allowed to recognize, over

the average remaining service lives of employees, only the portion of actuarial gains and losses that exceeds the corridor. The corridor is the greater of 10% of the present value of the gross defined benefit plans or 10% of the fair value of plan assets.

The annual expense recognized as staff expenses comprises the current service cost, interest cost (the effect of discounting the obligation), the expected return on any plan assets, amortization of actuarial gains and losses and past service cost arising from plan amendments, and the effect of any plan curtailments or settlements.

i. Tangible and intangible assets

Fixed assets consist exclusively of operating tangible and intangible assets. These assets are held for production or administrative purposes. Fixed assets are recognized as assets if:
- it is probable that the associated future economic benefits will flow to the entity, and
- their cost can be measured reliably.

Fixed assets are recorded at acquisition cost plus any directly attributable expenses.
Software developed internally, when it meets the criteria for recognition, is recorded at its development cost, which includes external expenditures on hardware and services and staff expenses that can be directly attributed to its production and preparation for use.

After initial recognition, assets are carried at cost less accumulated depreciation and impairment. When they are ready to be used, assets are depreciated linearly over their expected useful life. Depreciation is recognized in "Depreciation, amortization and impairment of tangible and intangible assets".

Société de Financement Local applies the component approach to all of its assets. The depreciation periods are:

Components	Depreciation period
Technical Installations	10 - 20 years
Fixtures and fittings	10 - 20 years
IT equipment	3 years
Software developed or acquired*	3 or 5 years
Office equipment	2 - 12 years

**Purchased licenses and equipment are depreciated over 3 years. The depreciation period of internally developed software depends on whether it is strategic for the company. If considered strategic, it is depreciated over five years; if not, it is amortized over three years..*

Fixed assets are tested for impairment when impairment indicators are identified. When the carrying amount of an asset is greater than its estimated recoverable amount, an impairment charge is recognized and the carrying amount of the asset is written down to the estimated recoverable amount. Impairment charges are recognized in "Depreciation, amortization and impairment of tangible and intangible assets".

Gains or losses on disposal of assets are charged to "Gains or losses on assets".

j. Non-recurring income and expense

Non-recurring income and expense result from events or transactions that do not relate to ordinary business operations or routine management of the Company's assets and liabilities.

Furthermore, the income or expense involved does not depend on decisions taken within the framework of usual management of the Company's activities or assets, but results from external events of a completely exceptional nature. Only items of this nature that have a significant impact on the period's net income are recorded as non-recurring income and expense.

k. Tax consolidation

Since January 1, 2014, Société de Financement Local is the head of the tax group which consolidates Caisse Française de Financement Local.

l. Offices and activities in uncooperative states and territories

In application of article L.511-45 of the Monetary and Financial Code, it should be noted that Société de Financement Local has no offices in countries that have not signed with France an administrative assistance agreement (subsidiaries, branches, including *ad hoc* entities, and equity interest in other entities over which the Company has exclusive or joint (or *de facto*) control).

2. Notes to the assets (EUR thousands)

2.1 - CENTRAL BANKS

	12/31/2013	12/31/2014
Mandatory reserve deposits with central banks	-	-
Other deposits	453,147	357,888
TOTAL	**453,147**	**357,888**

2.2 - GOVERNMENT AND PUBLIC SECURITIES

Sfil acquired one French Treasury bond for a nominal amount of EUR 50 billion.
This bond is classified as a placement security with a short maturity (less than one month).

2.3 - LOANS AND ADVANCES DUE FROM BANKS

a. Sight loans and advances due from banks

	12/31/2013	12/31/2014
Sight accounts	1,557	10,471
Unallocated sums	-	-
TOTAL	**1,557**	**10,471**

b. Term loans and advances due from banks

This item consists of loans to Caisse Française de Financement Local in the amount of EUR 6,212 million (excluding accrued interest).

1. Accrued interest included in this item: 15,683

2. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
1,094,617	-	3,902,541	1,215,188	**6,212,346**

3. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2013	Gross amount as of 12/31/2014	Decrease in value as of 12/31/2014	Net amount as of 12/31/2014
Loans of less than 1 year	284,308	-	-	-
Loans of more than 1 year	6,473,700	6,212,346	-	6,212,346
TOTAL	**6,758,008**	**6,212,346**	**-**	**6,212,346**

4. Breakdown by counterparty

	12/31/2013	12/31/2014
Loans to Caisse Française de Financement Local	6,758,008	6,212,346
TOTAL	**6,758,008**	**6,212,346**

2.4 - LOANS AND ADVANCES TO CUSTOMERS

a. Accrued interest included in this item: 0

b. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
140	106	293	17,198	**17,737**

c. Analysis of commitments by the counterparty's economic sector excluding accrued interest

Economic sector	12/31/2013	12/31/2014
Other sectors (1)	16,286	17,737
TOTAL	**16,286**	**17,737**

(1) This concerns loans granted to employees of Société de Financement Local.

d. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2013	Gross amount as of 12/31/2014	Impairment as of 12/31/2014	Net amount as of 12/31/2014
Loans of less than 1 year	-	-	-	-
Loans of more than 1 year	16,286	17,737	-	17,737
TOTAL	**16,286**	**17,737**	**-**	**17,737**

e. Analysis of loans by category of outstanding commitments excluding accrued interest

	Net amount as of 12/31/2013	Gross amount as of 12/31/2014	Impairment as of 12/31/2014	Net amount as of 12/31/2014
Performing commitments	16,286	17,737	-	17,737
Restructured commitments	-	-	-	-
Compromised non-performing loans	-	-	-	-
TOTAL	**16,286**	**17,737**	**-**	**17,737**

2.5 - BONDS AND OTHER FIXED INCOME SECURITIES

a. Accrued interest included in this item: 3,263

b. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
186,362	249,469	1,409,937	2,066,672	**3,912,440**

c. Analysis by the issuer's economic sector excluding accrued interest

	12/31/2013	12/31/2014	Unrealized capital loss (1)
DSFB - Dexia Secured Funding Belgium	4,364,716	3,912,440	(31,221)
TOTAL	**4,364,716**	**3,912,440**	**(31,221)**
- of which eligible for central bank refinancing	-	-	-

(1) The unrealized capital gain or loss is the difference between accounting value and market value.

d. Analysis by listed securities and other securities excluding accrued interest

	12/31/2013	12/31/2014	Unrealized capital loss (1)
Listed securities	-	-	-
Other securities	4,364,716	3,912,440	(31,221)
TOTAL	**4,364,716**	**3,912,440**	**(31,221)**

(1) The unrealized capital gain or loss is the difference between accounting value and market value.

e. Analysis by type of portfolio excluding accrued interest and changes during the year

Portfolio	Net amount as of 12/31/2013	Gross amount as of 12/31/2014	Increases	Decreases	Conversion differences	Impairment as of 12/31/2014	Net amount as of 12/31/2014
Trading	-	-	-	-	-	-	-
Placement	-	-	-	-	-	-	-
Investment	4,364,716	4,364,716	-	(452,276)	-	-	3,912,440
TOTAL	**4,364,716**	**4,364,716**	**-**	**(452,276)**	**-**	**-**	**3,912,440**

2.6 - INVESTMENTS IN NON-CONSOLIDATED COMPANIES AND OTHER LONG-TERM INVESTMENTS

This item includes a share acquired in the company SWIFT to benefit from its services.

2.7 - INVESTMENTS IN CONSOLIDATED COMPANIES

Sfil acquired 100% of the shares of Caisse Française de Financement Local for EUR 1 on January 31, 2013.

2.8 - INTANGIBLE ASSETS

	Software	Internally developed assets	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2013	**-**	**-**	**-**	**-**
Changes during the year:				
*increases	1,036	1,954	1,959	4,949
*decreases	-	-	-	-
ACQUISITION COST AS OF 12/31/2014	**1,036**	**1,954**	**1,959**	**4,949**
Depreciation and impairment as of 12/31/2013	**-**	**-**	**-**	**-**
Changes during the year:				
*amortization	(326)	(148)	-	(474)
*write-back	-	-	-	-
Depreciation and impairment as of 12/31/2014	**(326)**	**(148)**	**-**	**(474)**
NET CARRYING AMOUNT AS OF 12/31/2014	**710**	**1,806**	**1,959**	**4,475**

2.9 - PROPERTY AND EQUIPMENT

	Computer equipment	Other equipment	Fixtures	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2013	**13**	**28**	**12**	**6**	**59**
Changes during the year:					
*increases	478	-	7,213	253	7,944
*decreases	-	-	-	-	-
*other	6	-	-	(6)	-
ACQUISITION COST AS OF 12/31/2014	**497**	**28**	**7,225**	**253**	**8,003**
Depreciation and impairment as of 12/31/2013	(0)	(2)	(1)	-	(3)
Changes during the year:		-			
*amortization	(52)	(6)	(71)	-	(129)
*write-back	-	-	-	-	-
Depreciation and impairment as of 12/31/2014	**(52)**	**(8)**	**(72)**	-	**(132)**
NET CARRYING AMOUNT AS OF 12/31/2014	**445**	**20**	**7,153**	**253**	**7,871**

2.10 - OTHER ASSETS

	12/31/2013	12/31/2014
Cash collateral granted	3,335,925	3,592,292
Other receivables	1,366	6,005
TOTAL	**3,337,291**	**3,598,297**

2.11 - ACCRUALS AND OTHER ASSETS

	12/31/2013	12/31/2014
Deferred charges on hedging transactions	418,202	479,050
Other prepaid charges	3,101	3,416
Accrued interest not yet due on hedging transactions	352,134	419,810
Other accounts receivable on hedging transactions	4,496	-
Other deferred income	47,217	22,595
TOTAL	**825,150**	**924,871**

2.12 - TOTAL ASSETS

Analysis by original currency	Amount in original currency as of 12/31/2013	Amount in euros as of 12/31/2013	Amount in original currency as of 12/31/2014	Amount in euros as of 12/31/2014
EUR	15,731,836	15,731,836	15,069,401	15,069,401
CAD	-	-	4,385	3,121
CHF	43,900	35,770	39,005	32,429
GBP	-	-	1,153	1,482
JPY	893,119	6,172	844,268	5,821
SEK	1,166	131	510	54
USD	3,393	2,461	3,684	3,038
TOTAL		**15,776,370**		**15,115,346**

3. Notes to the liabilities (EUR thousands)

3.1 - DUE TO BANKS

	12/31/2013	12/31/2014
Sight accounts	-	-
Current account	-	-
Term borrowing	14,818,639	13,683,785
Interest accrued not yet due	31,688	26,732
Unallocated sums	-	-
TOTAL	**14,850,327**	**13,710,517**

Analysis by residual maturity excluding accrued interest

	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Amount as of 12/31/2014
Sight	-	-	-	-	-
Term	2,082,956	2,310,063	6,008,906	3,281,860	13,683,785
TOTAL	**2,082,956**	**2,310,063**	**6,008,906**	**3,281,860**	**13,683,785**

Analysis of term borrowing by counterparty excluding accrued interest

	12/31/2013	12/31/2014
Caisse des Dépôts et Consignations	10,355,720	9,545,345
Caisse Française de Financement Local	4,362,919	3,912,440
La Banque Postale	100,000	226,000
TOTAL	**14,818,639**	**13,683,785**

3.2 - OTHER LIABILITIES

	12/31/2013	12/31/2014
Cash collateral received	290	343,602
Taxes	725	1,655
Other payables	3,545	2,180
TOTAL	**4,560**	**347,437**

3.3 - ACCRUALS AND OTHER LIABILITIES

	12/31/2013	12/31/2014
Deferred income on hedging transactions	418,173	479,012
Accrued interest not yet due on hedging transactions	351,556	419,499
Other accounts payable on hedging transactions	4,528	-
Other accrued charges	16,271	28,828
TOTAL	**790,528**	**927,339**

3.4 - PROVISIONS FOR RISKS AND CHARGES

	12/31/2013	Increases	Decreases	Translation adjustments	Amount as of 12/31/2014
Provisions on pensions	2,957	1,122	-	-	4,079
Provisions on financial instruments	-	1,608	-	-	1,608
TOTAL	**2,957**	**2,730**	**-**	**-**	**5,687**

3.5 - EQUITY

	12/31/2013	12/31/2014
Share capital	130,000	130,000
Legal reserve	-	-
Retained earnings (+/-)	(20)	(2,002)
Net income (+/-)	(1,982)	(3,632)
TOTAL	**127,998**	**124,366**

Société de Financement Local's share capital totaled EUR 130 million, comprising 9,285,725 shares with a face value of EUR 14.

3.6 - TOTAL LIABILITIES

Analysis by original currency	Amount in original currency as of 12/31/2013	Amount in euros as of 12/31/2013	Amount in original currency as of 12/31/2014	Amount in euros as of 12/31/2014
EUR	15,731,836	15,731,836	15,069,401	15,069,401
CAD	-	-	4,385	3,121
CHF	43,900	35,770	39,005	32,429
GBP	-	-	1,153	1,482
JPY	893,119	6,172	844,268	5,821
SEK	1,166	131	510	54
USD	3,393	2,461	3,684	3,038
TOTAL		**15,776,370**		**15,115,346**

3.7 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Consolidated entity (1)	Consolidated entity (1)	Other related parties (2)	Other related parties (2)
	12/31/2013	12/31/2014	12/31/2013	12/31/2014
ASSETS				
Loans and advances to banks - sight	-	-	-	-
Loans and advances to banks - term	6,773,146	6,228,029	-	-
Bonds and other fixed income securities	-	-	-	-
LIABILITIES				
Due to banks - sight	-	-	-	-
Due to banks - term	4,367,882	3,915,657	10,482,444	9,794,861
INCOME STATEMENT				
Interest income on loans and advances	64,671	60,524	-	6
Interest income on debt securities	-	-	-	-
Interest expense on borrowings	(16,041)	(23,537)	(89,054)	(90,339)
Net commissions	19,271	22,132	-	2,208
OFF-BALANCE SHEET				
Interest rate derivatives	13,900,364	16,490,164	3,712,712	1,539,999
Foreign exchange derivatives	5,180,235	4,605,883	-	-
Commitments and guarantees received	-	-	5,230,874	5,315,249
Commitments and guarantees granted	4,419,734	3,915,703	6,995,008	6,212,346

(1) Caisse Française de Financement Local

(2) Other related parties concern La Banque Postale and Caisse des Dépôts et Consignations.

4. Notes to the off-balance sheet items (EUR thousands)

4.1 - COMMITMENTS GRANTED

	12/31/2013	12/31/2014
Financing commitments granted to credit institutions	50,000	450,000
Other commitments given, assets assigned in guarantee	11,364,762	10,128,048
TOTAL	**11,414,762**	**10,578,048**

4.2 - COMMITMENTS RECEIVED

	12/31/2013	12/31/2014
Financing commitments received from credit institutions	5,230,874	5,315,249
Guarantees received from credit institutions(1)	1,229,387	1,151,406
Other commitments received	-	-
TOTAL	**6,460,261**	**6,466,655**

(1) The guarantees of commitment received from credit institutions correspond to the guarantee from Belfius Banque et Assurances on the DSFB 2 securities (Dexia Secured Funding Belgium 2).

4.3 - FOREIGN CURRENCY TRANSACTIONS AND COMMITMENTS ON INTEREST RATE DERIVATIVES

a. Foreign currency transactions

Cash and forward foreign exchange transactions are recorded at their value in foreign currencies translated at the exchange rate at the end of the period.
The items "Currencies to receive" and "Currencies to deliver" are composed of long currency swaps with intermediate payment flows corresponding to hedging transactions.

	12/31/2013	12/31/2014	Fair value as of 12/31/2014
Currencies to receive	11,012,583	9,644,752	402,478
Currencies to deliver	11,012,583	9,644,752	(402,486)
TOTAL	**22,025,166**	**19,289,504**	**(8)**

b. Commitments on interest rate derivatives

Commitments on interest rate derivatives are recorded in accordance with CRB standards 88-02 and 90-15: amounts related to unconditional operations are recorded at the contractual notional value.

1. Analysis of over-the-counter interest rate transactions by residual maturity

Type of transaction	Less than 1 year	1 year to 5 years	More than 5 years	12/31/2014
Unconditional transactions	5,843,438	4,985,997	26,642,056	37,471,491
of which deferred start	*547,308*	-	*81,742*	*629,050*

2. Analysis of interest rate transactions by product type

	12/31/2013	12/31/2014
Interest rate swaps	31,299,977	37,471,491
Term contracts	-	-
Interest rate options	-	-
TOTAL	**31,299,977**	**37,471,491**

3. Analysis of interest rate transactions by counterparty

	12/31/2013	12/31/2014
Caisse Française de Financement Local	13,900,364	16,490,164
Other related parties	3,712,712	1,539,999
Other counterparties	13,686,901	19,441,328
TOTAL	**31,299,977**	**37,471,491**

c. Foreign exchange transactions and commitments to derivative financial instruments by type of transaction

Type of transaction	Amount as of 12/31/2013	Micro-hedge	Isolated open position	Amount as of 12/31/2014	Fair value as of 12/31/2014
Foreign currency transactions - to receive	11,012,583	5,117,503	4,527,249	9,644,752	**402,478**
Foreign currency transactions - to deliver	11,012,583	4,687,789	4,956,963	9,644,752	**(402,486)**
Interest rate swaps	31,299,977	17,685,922	13,614,055	31,299,977	**(101,948)**
TOTAL	**53,325,143**	**27,491,214**	**23,098,267**	**50,589,481**	**(101,956)**

5. Notes to the income statement (EUR thousands)

5.1 - INTEREST AND RELATED INCOME

	2013	2014
INTEREST AND RELATED INCOME	**85,841**	**88,502**
Due from banks	68,750	64,409
Due from customers	771	403
Bonds and other fixed income securities	16,310	23,690
Macro-hedge transactions	10	-
Other commitments	-	-
INTEREST AND RELATED EXPENSE	**(106,297)**	**(114,972)**
Due to banks	(106,277)	(114,925)
Due to customers	(7)	(45)
Bonds and other fixed income securities	0	(2)
Macro-hedge transactions	(13)	-
Other commitments	0	-
INTEREST MARGIN	**(20,456)**	**(26,470)**

5.2 - ANALYSIS OF COMMISSIONS RECEIVED AND PAID

	2013	2014
Billing commissions received from Caisse Française de Financement Local	19,271	22,132
Other commissions[(1)]	(71)	1,866
TOTAL	**19,200**	**23,998**

(1) This concerns mainly servicing commissions received from LBP for EUR 2.208 million.

5.3 - NET GAINS OR LOSSES ON TRADING PORTFOLIO

	2013	2014
Provision, on financial instruments	144	(1,610)
Foreign exchange income	(24)	43
TOTAL	**120**	**(1,567)**

5.4 - OTHER INCOME AND EXPENSE

	2013	2014
Other income[(1)]	6,838	5,750
Other expense	(4)	(40)
TOTAL	**6,834**	**5,710**

(1) This income corresponds to compensation from Dexia Credit Local for general expenses.

5.5 - GENERAL EXPENSES

	2013	2014
Payroll expense	(22,345)	(27,699)
Social security taxes	(13,545)	(16,071)
Taxes	(617)	(1,315)
Other general operating expense(1)	28,830	39,344
TOTAL	**(7,677)**	**(5,741)**

(1) This item mainly includes expenses billed to Caisse Française de Financement Local.

5.6 - INCOME TAX

The implementation for the first year of tax consolidation between Caisse Française de Financement Local and its parent company Sfil, results in a tax consolidation gain of EUR 1.04 million.

6. Financial relations with members of the Executive Committee and the Board of Directors (EUR thousands)

Gross compensation allocated to members of the Executive Committee and the Board of Directors of the company by reason of their functions within them, in the subsidiaries and affiliated companies	2013	2014
Executive Committee	2,204	2,122
Board of Directors	-	-
TOTAL	**2,204**	**2,122**
Amount, at year end, of the debt liabilities in their favor and of other obligations undertaken on their behalf		
Executive Committee	429	281
Board of Directors	-	-
TOTAL	**429**	**281**

7. Information on subsidiaries and shareholdings (EUR thousands)

Companies	Capital	Share premiums, reserves and retained earnings	Net banking income of last year (2014)	Profit or loss of last year (2014)	Percentage of capital held	Carrying amount of shares held (1)	Dividends received by Sfil during the year	Loans and advances granted by Sfil	Total guarantees granted by Sfil	Business
Caisse Française de Financement Local *1-3 rue du Passeur de Boulogne - 92130 Issy-les-Moulineaux*	1,315,000	63,645	128,075	7,714	100,00%	0	-	6,228,029	3,915,703	*Société de crédit foncier*

(1) Sfil acquired 100% of the shares of Caisse Française de Financement Local for EUR 1 on January 31, 2013.

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 captions or on information taken outside of the financial statements.
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.

Statutory Auditors' report on the financial statements

for the year ended December 31, 2014

To the Shareholders

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended December 31, 2014, on:
- the audit of the accompanying financial statements of Société de Financement Local;
- the justification of our assessments;
- the specific verification and information required by law.

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

OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with 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.
Without qualifying our opinion, we draw your attention to the matter set out in Note "1.1 – Publication context" to the financial statements which mentions the assumptions used by Société de Financement Local for the preparation of the financial statements, within the context of the Swiss National Bank's decision issued at January 15, 2015.

JUSTIFICATION OF OUR 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:

Valuation of financial instruments

As described in Note "1.4.b Securities transactions" to the annual financial statements, your company uses internal models and methods to value financial instruments that are not listed on liquid markets, as well as for the recording of certain provisions. Our procedures consisted in reviewing the control procedures related to the illiquidity assessment of the market, the verification of the models and the determination of the data and assumptions used.
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.

SPECIFIC PROCEDURES AND DISCLOSURES

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 Board of Directors and in the documents addressed to shareholders with respect to the financial position and the financial statements.

Courbevoie and Neuilly-sur-Seine, April 3, 2015
The Statutory Auditors
French original signed by

MAZARS		DELOITTE & ASSOCIÉS	
Virginie Chauvin	Anne Veaute	Charlotte Vandeputte	José-Luis Garcia

Société de Financement Local
Société anonyme

Share capital EUR 130,000,150
R.C.S. NANTERRE 428,782,585

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