



Caisse Française de Financement Local

Public sector assets - *Obligations foncières*

Annual financial report

2014

ANNUAL FINANCIAL REPORT 2014

Caisse Française de Financement Local

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Profile

Caisse Française de Financement Local, also known by its acronym CAFFIL, is a credit institution whose sole activity is the refinancing of loans to the public sector through the issue of covered bonds, called *obligations foncières*. It is a specialized credit institution, approved as a *société de crédit foncier*, whose transactions, operation and control procedures are spelled out in articles L.513-2 and following of the Monetary and Financial Code.

Caisse Française de Financement Local is a 100%-owned subsidiary of Société de Financement Local (Sfil), which also manages the Company in accordance with article L.513-15 of the Monetary and Financial Code. Sfil is a credit institution approved by the Autorité de contrôle prudentiel et de résolution (ACPR), 75% of which is held by the French State, 20% by Caisse des Dépôts et Consignations and 5% by La Banque Postale. The shareholding structure of Caisse Française de Financement Local is thus firmly anchored in the public sphere, reflecting the mission entrusted to it by the French State. Caisse Française de Financement Local and its parent company Sfil are key elements in the financing of local governments and public hospitals in France, a system organized in 2013 by the French State, their reference shareholder with the Autorité de contrôle prudentiel et de résolution (ACPR). This organization is based on commercial activities developed by La Banque Postale, which are refinanced by Caisse Française de Financement Local.

Caisse Française de Financement Local is the leading European issuer of covered bonds that are secured by a portfolio of public sector loans. The Company regularly issues *obligations foncières* (covered bonds) which

- are regulated by specific legislation,
- are rated AA+/Aaa/AA by S&P, Moody's and Fitch,
- comply with the European directives UCITS and CRD and article 129 of the CRR standard,
- benefit from the Covered Bond Label created by the European Covered Bond Council (ECBC).

The *obligations foncières* of Caisse Française de Financement Local are thus eligible for refinancing by the European Central Bank (ECB) and enable investors to benefit from the best prudential treatment.

Key figures

Portfolio of assets (cover pool)	Ratio of non-performing loans (% cover pool)
EUR 62.3 billion	0.7%
<i>Obligations foncières</i> (covered bonds)	<i>Obligations foncières</i> issued in 2014
EUR 52.2 billion	EUR 4.0 billion
Regulatory over-collateralization	Solvency ratio (Basel III)
13.4%	23.3%

Management Report

Caisse Française de Financement Local

2014

1. General presentation of Caisse Française de Financement Local

1.1 - NATURE AND ACTIVITIES OF THE COMPANY

Caisse Française de Financement Local (also known by its acronym CAFFIL) is a credit institution active in the refinancing of loans to local public sector entities through the issue of covered bonds, which are called *obligations foncières*.

It is a specialized credit institution authorized to operate as a *société de crédit foncier*. As a credit institution, the Company is subject to all legal and regulatory provisions that apply to credit institutions. It conducts banking transactions in its ordinary course of business. As a *société de crédit foncier*, these transactions are specialized and have an exclusive purpose, as defined in articles L.513-2 and following of the Monetary and Financial Code.

In the case of Caisse Française de Financement Local, this specialization is exclusively limited to transactions with public sector entities or entities they guarantee as specified in its October 1, 1999, authorization by the Autorité de contrôle prudentiel et de résolution (ACPR) and its own by-laws.

- The authorization mentions that the Company "is approved as a *société de crédit foncier* the activities of which exclusively concern the granting or acquisition of loans to public sector entities or those they guarantee, as well as the holding of securitization units or shares of similar entities when the assets in these securitizations are for at least 90% composed of assets of the same nature as the above-mentioned loans, in accordance with article 94-II and III of law 99-532".
- The purpose of the Company (article 2 of the by-laws) specifies that the exclusive purpose of the Company is:
 - to grant or to acquire loans to public sector entities as defined in article L.513-4 of the Monetary and Financial Code as well as the assets considered as loans as defined in article L.513-5 of the Monetary and Financial Code;
 - to hold securities and other assets under the conditions set by decree to be considered as replacement asset.

Sociétés de crédit foncier, which were created by the law of June 1999, are now well-known in the world of bond issuers and investors. They issue covered bonds called *obligations foncières* and contract other covered debt negotiable or not in regulated markets. All these instruments are characterized by the legal privilege that primarily affects cash flows from the Company's assets to pay the interest and reimbursement of the *obligations foncières*. *Sociétés de crédit foncier* may also issue or contract non-covered debt.

Obligations foncières constitute a significant element in the international covered bond market.

1.2 - LEGAL AND SHAREHOLDING STRUCTURE OF THE COMPANY

a. Legal structure and name of the Company

The Company was created on December 29, 1998, for a period of 99 years. It was authorized to operate as a *société de crédit foncier* by the Comité des établissements de crédit et des entreprises d'investissement (now a part of ACPR) at its meeting on July 23, 1999. The authorization became definitive as of October 1, 1999.

On January 31, 2013, the Company took the name Caisse Française de Financement Local to replace Dexia Municipal Agency, upon the sale by its sole shareholder, Société de Financement Local (Sfil), to the French State, Caisse des Dépôts et Consignations and La Banque Postale.

As of December 1, 2014, the Company changed the address of its registered office, which is now located at 1-3, rue du Passeur de Boulogne in Issy-les-Moulineaux (92130), France.

Caisse Française de Financement Local is a *Société anonyme à Directoire et Conseil de Surveillance*, a joint-stock corporation with an Executive Board and a Supervisory Board, under the provisions of articles L.210-1 and following of the Code of Commerce. Its operation is regulated by articles L.511-1 and following (credit institutions) and L.513-2 and following (*sociétés de crédit foncier*) of the Monetary and Financial Code.

b. Shareholding structure of the Company

Caisse Française de Financement Local and its parent company Sfil are key elements in the financing organization of local governments and public hospitals in France introduced by the French State in 2013. This organization is based on a commercial activity developed by La Banque Postale with refinancing provided by Caisse Française de Financement Local.

The capital of Caisse Française de Financement Local is 100% held by Sfil, which also manages the Company in accordance with article L.513-15 of the Monetary and Financial Code. Sfil is a credit institution approved by the Autorité de contrôle prudentiel et de résolution (ACPR). Its shareholders are the French State (75%), Caisse des Dépôts et Consignations (20%) and La Banque Postale (5%). The French State is also the direct shareholder of the Caisse des Dépôts et Consignations and an indirect shareholder of La Banque Postale. Sfil's shareholders are thus firmly anchored in the public sphere, reflecting the mission the French State assigned it.

The French State is the "reference shareholder" of Sfil and Caisse Française de Financement Local for the Autorité de contrôle prudentiel et de résolution underlining its commitment to ensure oversight and to influence strategic decisions, as well as its determination to ensure Caisse Française de Financement Local and Sfil's ongoing financial transactions if so required.

The common objective is to enable French local governments and public hospitals to benefit from the optimal financing conditions through a first step rating and irreproachable risk management.

1.3 - ECONOMIC MODEL OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

a. Servicing and financing provided by Sfil (Société de Financement Local)

Sfil acts as a servicer to support and manage the activities of Caisse Française de Financement Local as defined by the regulations applicable to *sociétés de crédit foncier*, in particular article L.513-15 of the Monetary and Financial Code. This role primarily involves the following:

- the complete operational management of the Company (day-to-day management as well as the operational management of the reduction in the sensitivity of the structured loans on the balance sheet of Caisse Française de Financement Local);
- the provision to Caisse Française de Financement Local of the derivative and non-privileged funding its activity requires.

The funds required to finance the activity of Caisse Française de Financement Local (financing of over-collateralization and intermediated derivatives) are lent to Sfil by Caisse des Dépôts et Consignations (CDC) for all the needs linked to operations booked prior to the date of acquisition (January 31, 2013), and for 35% of the needs generated by new business originated by La Banque Postale. The latter supplies the remaining 65%.

In addition, on January 31, 2013, Sfil signed a declaration of support of Caisse Française de Financement Local, which is reproduced in this annual financial report – General information.

It should be noted that Sfil also supplies services for the business of lending to French public sector entities engaged by La Banque Postale and its joint venture La Banque Postale Collectivités Locales. These services concern activities involving commercial support, financial oversight, the supply of data for risk analysis and back office operations.

b. Partnership between La Banque Postale and Caisse Française de Financement Local

Since the end of 2012, La Banque Postale markets loans to the French local public sector and public hospitals. The loans originated are exclusively in euros with a vanilla interest rate.

Within the framework of the new organization of the financing of the French local public sector and public hospitals, Caisse Française de Financement Local and La Banque Postale signed a partnership agreement. La Banque Postale committed to propose to Caisse Française de Financement Local all the loans that would be eligible for its cover pool.

This partnership is based on an analysis of the credit risk of the loans in two stages.

- When the loan is originated, the initial analysis of the counterparty is carried out simultaneously at the two entities. The loans that do not meet the credit criteria of Caisse Française de Financement Local cannot be transferred to its balance sheet.

Caisse Française de Financement Local's eligibility criteria are strictly monitored by internal management policies and limit eligible counterparties to French local public sector entities and public hospitals.

- Before loans originated by La Banque Postale are transferred to Caisse Française de Financement Local, a new analysis of the assets is conducted, and Caisse Française de Financement Local may refuse a loan prior to the transfer if the asset no longer meets the criteria. The sale of loans to Caisse Française de Financement Local is carried out by using a transfer form (*bordereau*) that is specific to *sociétés de crédit foncier*.

c. Other management agreements

Specific individual agreements have been established with entities that have transferred assets to the *société de crédit foncier*, and continue to ensure management for their national clientele. At the end of 2014, there were agreements with the following entities: Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium), and Dexia Crediop (Italy). Dexia Kommunalbank Deutschland is responsible for the management of all registered covered bonds (RCB). These agreements already existed in the past.

Starting in 2015, management of new RCB will be entrusted to LBBW (Landesbank Baden-Württemberg).

1.4 - LEGAL FRAMEWORK

a. European framework

The *obligations foncières* issued by Caisse Française de Financement Local are covered bonds. Many countries have passed specific legislations for covered bonds in recent years, and the number of issuers has risen significantly.

Two European directives govern and define covered bonds. The first is the UCITS directive (Undertakings for Collective Investment in Transferable Securities, which concerns the legislative, regulatory and administrative aspects of certain vehicles for collective investment in securities), article 52-4, and the second is the CRD (Capital Requirements Directive), and the related CRR regulation (Capital Requirements Regulation), article 129.

These two directives specify the assets that may be incorporated into the portfolio (cover pool) financed by the covered bonds, the privilege that protects investors, as well as the required level of public oversight and transparency in terms of communication. Investors in bonds that satisfy the requirements of these two directives benefit from financial and regulatory advantages.

The *obligations foncières* issued by Caisse Française de Financement Local satisfy the requirements of these two European directives. In this regard, they benefit from a 10% preferential risk weighting in the calculation of the solvency ratio with the standard method (given their current rating).

Current and future *obligations foncières* issued by Caisse Française de Financement Local respect the conditions of eligibility for refinancing by the European Central Bank.

In addition, all the *obligations foncières* backed by the cover pool of Caisse Française de Financement Local benefit from the Covered Bond Label, which was created in 2012 by the European Covered Bond Council (ECBC) to improve the quality of financial information and the transparency of the European covered bond market.

To meet Label requirements, Caisse Française de Financement Local committed to respect the above-mentioned directives and to ensure a high level of transparency in its communication to investors.

All detailed information on the issues and cover pool of Caisse Française de Financement Local is now posted on the Covered Bond Label site (<https://www.coveredbondlabel.com/issuer/47/>).

b. French legislative framework and regulations

Sociétés de crédit foncier are governed by the contents of articles L.513-2 to L.513-27 and R.513-1 to R.513-18 of the Monetary and Financial Code⁽¹⁾.

These articles of the law are complemented by the following regulatory texts:

- regulation 99-10 of the Comité de la réglementation bancaire et financière of July 9, 1999, as amended, relating to *sociétés de crédit foncier* and *sociétés de financement de l'habitat*;
- ACPR instructions 2011-I-06 and 2011-I-07, and new instructions 2014-I-16 and 2014-I-17 of December 8, 2014.

In order to improve and bolster the prudential framework of the covered bond regimes (*sociétés de crédit foncier*, *sociétés de financement de l'habitat*), the regulatory framework mentioned above was amended in 2014 by the *arrêté* of May 26, 2014, and the decree 2014-526 of May 23, 2014, detailed by ACPR instructions 2014-I-16 and 2014-I-17 of December 8, 2014 (cf. 2.3 of this report).

In addition to these regulations and the law on *sociétés de crédit foncier*, which will be described below, Caisse Française de Financement Local is subject to the same obligations as credit institutions in terms of reporting vis-à-vis the regulator and respect for liquidity ratios (liquidity ratio at 1 month, LCR, NSFR). The solvency ratio, large exposures and the leverage ratio are reported to the regulator on a consolidated basis, at the level of the parent company Sfil.

1. General framework

Article L.513-2 describes the general framework of the activities of *sociétés de crédit foncier*, in particular:

- their exclusive purpose: to finance guaranteed home loans or loans to the public sector, or replacement assets, and the issue of *obligations foncières* and other resources benefiting or not from the legal privilege;
- the possibility to obtain financing by assigning in guarantee certain assets (which no longer contribute to the calculation of over-collateralization);
- the impossibility of owning subsidiaries or affiliates.

Application to Caisse Française de Financement Local

The assets are comprised of commitments on public sector entities. These assets are financed through the issue of debt that is covered by a legal privilege that guarantees them a priority right on the cash flows generated by the assets. The portion of assets that is not financed by covered debt – over-collateralization – is funded by the Company's equity and debt that does not benefit from the privilege, which is subordinated to the covered debt. Non-privileged debt was contracted from Dexia Credit Local

until January 31, 2013, and is now provided by Société de Financement Local, the sole shareholder of Caisse Française de Financement Local.

Since Caisse Française de Financement Local is not allowed to have any subsidiaries or affiliates. It does not publish consolidated financial statements and has no obligation to produce IFRS financial statements. Nonetheless, for reasons of comparability and transparency, Caisse Française de Financement Local publishes annual and half year financial statements according to IFRS.

2. Assets

Articles L.513-3 (home loans), L.513-4 (commitments on public sector entities), L.513-5 (securitization units) and L.513-6 (replacement assets) define the exposures that may be included in the assets of *sociétés de crédit foncier*.

Application to Caisse Française de Financement Local

The assets held by Caisse Française de Financement Local are solely comprised of commitments on public sector entities that are eligible by the terms of article L.513-4 of the Monetary and Financial Code, i.e. States, local governments or groups of such, public sector entities in the European Economic Area, Switzerland, the United States of America, Canada and Japan. These commitments are comprised of loans and bond issues representing a commitment on, or totally guaranteed by, these public bodies.

Other assets, which current legislation calls replacement assets, may be acquired if they correspond to exposures on credit institutions benefiting from at least a Step 1 rating (level triple A or double A) or, when their maturity does not exceed 100 days, from a Step 2 rating (level simple A), their total amount is limited to 15% of the total of outstanding *obligations foncières* and other debt benefiting from the legal privilege (registered covered bonds in the case of Caisse Française de Financement Local).

Most of the assets on Caisse Française de Financement Local's balance sheet were generated by the Dexia Group's commercial activities. Since the beginning of 2013, the new assets of Caisse Française de Financement Local are exclusively loans to French local governments and French public hospitals granted by La Banque Postale, or new loans granted directly by Caisse Française de Financement Local in conjunction with the reduction of its outstanding sensitive structured loans.

3. Liabilities and the privilege

Article L.513-2 specifies that to finance their assets, *sociétés de crédit foncier* may issue debt that benefits (*obligations foncières* or other covered resources) or does not benefit from the privilege. Article L.513-10 makes it possible to cover the assets and the privileged liabilities by derivative instruments that thus benefit from the privilege.

Article L.513-15 requires that a *société de crédit foncier* entrust the management of its operations to another credit institution with which it has signed an agreement. To maintain the privilege that benefits investors in *obligations foncières* and other covered resources, a *société de crédit foncier* should not have any direct employee (who would benefit in French law from a first-rank privilege). This management agreement itself benefits from the privilege of article L.513-11, *pari passu* with holders of privileged debt.

Article L.513-11 describes this privilege, in particular:

- that when a *société de crédit foncier* is subject to bankruptcy or liquidation procedures, cash flows generated by the assets, after any financial instrument hedges if such be the case, are allocated in priority to serve the *obligations foncières* and other resources benefiting from

(1) Readers are reminded that the numbers of the articles of the Monetary and Financial Code, specifying the legal framework of *sociétés de crédit foncier* have recently been modified. Articles L.513-2 to L.513-27 replace the articles previously numbered L.515-13 to L.515-33, since the ordinance 2013-544 of June 27, 2013. Articles R.513-1 to R.513-18 replace the articles previously numbered R.515-2 to R.515-14, since the decree 2014-1315 of November 3, 2014.

the privilege, also after any financial instrument hedges if such be the case;

- that the liquidation of a *société de crédit foncier* does not accelerate the reimbursement of *obligations foncières* and other debt benefiting from the privilege, which continue to be paid at their contractual due dates with priority over all other commitments. These other commitments can only be settled after all debt benefiting from the privilege has been discharged.

Article L.513-20 stipulates that the bankruptcy or liquidation of the shareholder of a *société de crédit foncier* cannot be extended to the *société de crédit foncier*.

Application to Caisse Française de Financement Local

The contracts of Caisse Française de Financement Local that benefit from the legal privilege are *obligations foncières* and registered covered bonds that it issues, the hedging derivative contracts and the servicing agreement signed with Sfil.

In addition to its equity, Caisse Française de Financement Local uses two categories of debt to finance its assets:

- debt that benefits from the legal privilege, defined by law as *obligations foncières* or other resources benefiting from the legal privilege by reason of their contract. Caisse Française de Financement Local thus issues registered covered bonds benefiting from the legal privilege by reason of their contract in the same way as *obligations foncières*; intended for German institutional investors, these private placements governed by German law also benefit from the French legal privilege attached to issues of *sociétés de crédit foncier*.
- debt that does not benefit from the legal privilege includes debt that is not covered by the assets and which, for this reason, is subordinated vis-à-vis debt benefiting from the privilege (cf. chapter 5 below). With equity, it finances over-collateralization. It may be of three types:
 - debt negotiated according to the terms of a financing agreement signed with the parent company. Since January 31, 2013, such debt is contracted with Société de Financement Local, through a financing agreement between Caisse Française de Financement Local and its parent company. This debt was previously contracted with Dexia Credit Local;
 - financing obtained from the Banque de France. As a credit institution, Caisse Française de Financement Local may benefit, in its own name, from access to Banque de France refinancing operations. Caisse Française de Financement Local implemented the organizational and IT procedures required to participate in the refinancing operations of the Banque de France, and tests them regularly. The financing obtained does not benefit from the privilege specified by the legislation on *sociétés de crédit foncier*, but is guaranteed by assets assigned to the central bank. These pledged assets are temporarily excluded from the cover pool and the calculation of the over-collateralization ratio;
 - financing obtained from credit institutions within the framework of repurchase agreements (repo).

In addition, on January 31, 2013, Société de Financement Local, the parent company of Caisse Française de Financement Local, signed a declaration of support ensuring that "Société de Financement Local and the French State, its reference shareholder, will ensure that Caisse Française de Financement Local will always be able to pursue its activity in an ongoing manner and to honor its financial commitments in compliance with the obligations imposed by banking regulations in effect". This declaration of support is reproduced in issuance documents and the annual financial report of Caisse Française de Financement Local.

4. Other provisions

The other articles of the Monetary and Financial Code define management and control procedures for *sociétés de crédit foncier*. They can be consulted on the Company's Website (<http://www.caissefrancaisedefinancementlocal.fr/FR/portrait/la-loi/statut/Pages/default.aspx>) or on the official Legifrance Website (<http://www.legifrance.gouv.fr/>).

It can be noted that article L.513-12 and article R.513-8 of the Monetary and Financial Code require that the over-collateralization ratio, i.e. the ratio between the assets covering the privileged debt and the debt benefiting from the privilege at all times be greater than 105%.

The items concerning this ratio, as well as the management of the interest rate, foreign exchange and liquidity risks are discussed below in the chapters dedicated to these subjects.

1.5 - RATING OF THE *OBLIGATIONS FONCIÈRES* ISSUED BY CAISSE FRANÇAISE DE FINANCEMENT LOCAL

The issuance program of Caisse Française de Financement Local is rated by the three main rating agencies - Standard & Poor's, Moody's and Fitch.

The rating of the bonds issued by Caisse Française de Financement Local is at the highest level of credit quality (step 1). This requires that the quality of the cover pool and strict management rules be consistent with the criteria and approaches of the three agencies.

The principle by which each agency rates *obligations foncières* (and covered bonds in general) involves taking as a starting point the issuer's rating or that of the parent company if the issuer is not rated, and enhancing this rating by one or two notches in function of the safeguards introduced (legal framework, quality of assets, asset/liability management, over-collateralization, etc.).

The close relationship between Caisse Française de Financement Local and the French State, due to its shareholding structure and support, but also to its mostly French cover pool, creates a link between the rating of *obligations foncières* and the rating of France for Fitch and S&P. Fitch's rating may thus not be higher than the sovereign rating; otherwise Fitch would apply an ultra-stressed rating scenario (an 80% default rate, with recoveries limited to 20%), making it necessary to have a level of over-collateralization that would be incompatible with the profitability of the business model. S&P's rating is limited to one notch above that of France.

The rating of *obligations foncières* is also limited by S&P to one notch above the rating of Sfil, by reason of the non-conformity of certain derivative contracts with the agency's most recent methodological criteria (counterparties not rated by S&P or absence of a replacement clause).

The rating of Sfil is now set at the same level as France for S&P and one notch below France for Moody's and Fitch. These very good ratings have been attributed because the agencies consider Sfil as an entity that is linked to the French government because of the strong probability of the State's extraordinary support if necessary.

2. Highlights of 2014 and post-closing events

2.1 - SITUATION IN THE COVERED BOND MARKET

Business in the euro-denominated covered bond market flourished in 2014 with a primary offering of EUR 117 billion (compared with EUR 100 billion in 2013). This dynamic performance was partly due to the refinancing of a large amount of matured covered bonds in 2014 (EUR 152 billion), but also to the active presence of issuers outside the eurozone who found favorable conditions for long-term financing in this market. If German and French issuers remained the most dynamic with overall more than 30% of the offering, Canadian, Australian and British issuers accounted for 22% (to be compared with 10% in 2013).

A highlight of 2014 was the announcement by the ECB at the beginning of September of a new covered bond purchase program, as part of the implementation of its unconventional monetary policy. This announcement increased the tightening trend in secondary spreads and thus primary spreads. Generally speaking, with almost EUR 30 billion purchased in the primary and secondary market in the fourth quarter of 2014, the eurosystem, while repeating how important it considered the market, was a major player itself. After a long period of performance, the market nonetheless reported a movement of consolidation from mid-November. This concerned secondary spreads in particular, reflecting the relative value of the covered bond product vis-à-vis sovereign bonds.

The covered bond class of assets has always benefited from a particularly positive treatment in a context of regulatory changes (Basel III or Solvency 2), inciting investors to focus on this class in their asset allocation despite the context of low rates and tight spreads. The demand will naturally remain sustained, in particular because of the arrival at maturity of significant volumes of covered bonds in 2015 (EUR 145 billion), again generating an anticipated marked negative net offering of EUR 35 billion.

In this environment, Caisse Française de Financement Local carried out its *obligations foncières* financing program under good conditions of volume, spread and average length of life in order to provide the long-term liquidity required to develop the commercial offer of La Banque Postale to the public sector in France and accompany its policy to reduce loan sensitivity.

2.2 - BUSINESS OF LOCAL GOVERNMENT FINANCING IN 2014

As part of its main activity, Caisse Française de Financement Local refinances the loans granted by La Banque Postale (LBP) to French local governments and hospitals. It has also been led to grant direct loans to these categories of customers together with its operations to reduce its outstanding sensitive structured loans.

Investment by local governments was expected to decline in 2014 because of the communal and inter-communal elections in France, and of the slight decrease in gross savings by local governments. However, and in spite of

fierce competition, La Banque Postale granted loans of EUR 3.3 billion, with an excellent final quarter, up approximately 10% from the previous year. Combined with the loans directly granted by Caisse Française de Financement Local, the total production rose to EUR 4.1 billion and confirmed the leading role of the LBP/Sfil arrangement in refinancing the local public sector (second largest lender in terms of market share). For its second year of business, the organization that had been set up confirmed its efficiency and pursued its progressive and regular ramp up.

Sfil continued to implement the policy that consists in reducing the sensitivity of the structured loans of Caisse Française de Financement Local with a volume of EUR 1.2 billion of sensitive loans transformed into fixed rate contracts. The number of sensitive loans totally transformed into vanilla loans was multiplied by two in 2014 compared with 2013. Since the beginning of 2013, the total amount of outstanding structured loans was reduced by a quarter, from EUR 8.5 billion to EUR 6.3 billion, and more than 150 customers definitively moved out of the "sensitive customer" category. Since the support funds initiated by the French State are fully operational, many legal settlements have been signed, in particular, with the Département de la Seine-Saint-Denis and the cities of Asnières-sur-Seine and Saint-Étienne. The efforts to reduce sensitivity were generally accompanied by new loans of which EUR 0.9 billion were paid out in 2014.

2.3 - CHANGES IN THE REGULATION OF COVERED BONDS IN FRANCE

Changes were introduced into regulations governing the activity of issuers of French covered bonds (*sociétés de crédit foncier* - SCF and *sociétés de financement de l'habitat* - SFH) in the first half of 2014.

These changes were integrated into current regulations by decree 2014-526 of May 23, 2014, and by an *arrêté* dated May 26, 2014. They took effect at the end of May 2014, after publication in the Journal Officiel.

The objective is to bolster the prudential framework of SCF/SFH and guarantee for *obligations foncières* the best prudential treatment.

These measures mainly consist in:

- raising the minimum level of over-collateralization (OC) from 2% to 5%;
- limiting the exposure of an SCF or SFH to its parent company by modifying the way in which the OC ratio and the coverage of liquidity needs for the next 180 days are calculated;
- imposing greater congruence between asset/liability maturities with the introduction of an annual cover plan and with the limitation to 18 months of the gap between the weighted average life of eligible assets, considered up to their minimum amount required to satisfy the OC ratio of 105%, and the weighted average life of the privileged liabilities;
- rendering effective the possibility of a transfer of servicing the SCF/SFH via the annual setting up of a servicing transfer plan submitted to the Autorité de contrôle prudentiel et de résolution;
- limiting the use of securitizations.

Caisse Française de Financement Local will be able to respect all of these changes before the specified deadlines.

2.4 - PREPARATION FOR THE SINGLE SUPERVISION MECHANISM

Within the framework of the Single Supervision Mechanism (SSM), the European Central Bank (ECB) directly oversees the 120 largest banks in the eurozone as of 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 oversight obligations, the ECB launched 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. It marked a major step forward in the effort to bolster confidence in eurozone banks, increase the transparency of bank balance sheets and harmonize supervisory practices in Europe.

The AQR focused on the assets on bank balance sheets as of December 31, 2013. It covered exposure to credit and market risks, including the evaluation of assets for which it is difficult to determine the value (level 3 according to accounting standards). All risk exposures, be they domestic or foreign, and all categories of assets, including non-performing exposures, forbearance and exposure to sovereign debt were taken into account. This assessment was carried out using harmonized definitions, in particular those that apply to non-performing exposures and forbearance. The stress test was based on an examination of the quality of the assets and completes this study to support an opinion, over time, on the capacity of the banks to absorb shocks in the event of a serious crisis.

The definitive results, published on October 26, 2014, by the EBC, are very satisfactory for the Sfil Group. They confirm the relevance and the considerable prudence of the risk management system set up by the bank, the high quality of its public sector assets and its solid capitalization.

The Asset Quality Review of the ECB had no significant impact on Caisse Française de Financement Local'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 stress test confirms the Sfil Group's low risk profile, which results from the quality of its economic model based on public sector assets with little risk. 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 an adverse scenario, the ratio remains robust at 13.17%. The high level of the ratio results from the good level of capitalization combined with a very low risk weighting of the Sfil Group's assets, reflecting the credit quality of local governments. For more than 15 years, the default rate is less than 1% and the loss given default rate is less than 1% for most of the asset classes in the portfolio.

2.5 - EVENTS AFFECTING THE RATING OF OBLIGATIONS FONCIÈRES IN 2014

The changes observed in 2014 as concerns the rating of the *obligations foncières* of Caisse Française de Financement Local (a notch down in the Fitch rating and a negative

outlook in the S&P rating) are the result of Fitch's and S&P's review of the rating of the French Republic, and then that of French public sector entities, including Sfil, the parent company of Caisse Française de Financement Local. As of December 31, 2014, the ratings of Caisse Française de Financement Local were AA+ at Standard and Poor's, Aaa at Moody's and AA at Fitch.

2.6 - LITIGATION AND GOVERNMENTAL MEASURES

In its portfolio, Caisse Française de Financement Local has structured loans considered as sensitive, which had been granted to French customers by Dexia Credit Local. Some of these customers sued Dexia Credit Local, Caisse Française de Financement Local and/or Société de Financement Local, contesting the contractual interest rate. As of December 31, 2014, the number of customers having brought suit was 210 as compared with 205 at the end of 2013.

A limited number of cases were judged in initial hearings.

Following the suit brought against Dexia Credit Local by the Département de la Seine-Saint-Denis, three legal decisions were handed down on February 8, 2013, by the Tribunal de Grande Instance de Nanterre. It was a question of three structured loans representing a total capital of EUR 178 million.

The Tribunal de Grande Instance de Nanterre rejected the claims of the Département de la Seine-Saint-Denis, which sought to have the three disputed loan agreements canceled and asked for compensation and damages. In particular, the Tribunal considered that these loans were not of a speculative character, that the Département was competent to sign these loan agreements, and that Dexia Credit Local acted in the respect of its duty to inform and advise the Département. The Tribunal de Grande Instance de Nanterre however estimated that the faxes which had preceded the signing of the agreements could be qualified as "loan agreements", and that the lack of mention of the annual percentage rate of charge (*Taux Effectif Global - TEG*) implied the application of an official interest rate (*taux légal*). Dexia Credit Local appealed this decision on April 4, 2013, and Caisse Française de Financement Local decided to intervene voluntarily in the proceedings that oppose the Département de la Seine-Saint-Denis and Dexia Credit Local in order to defend its interests by taking part in the proceedings. In December 2014, the Département de la Seine-Saint-Denis committed to put an end to these proceedings in signing a legal settlement that organized the full transformation of its debt into vanilla loans.

Since the February 2013 legal decisions concerning the Département de la Seine-Saint-Denis, decisions were handed down by the Tribunal de Grande Instance (TGI) of Nanterre in the suits brought by four municipalities against Dexia Credit Local (and Caisse Française de Financement Local, which intervened voluntarily in the proceedings in order to defend its interests). These decisions concerned structured loans marketed by Dexia Credit Local and recognized on the balance sheet of Caisse Française de Financement Local, with total initial capital of EUR 98 million. As in the February 2013 decisions, the Tribunal's decision did not address the core issue (validity of the agreement, failure to provide adequate information, advice and warning, etc.), but it was motivated by the formal absence of the annual rate of charge (TEG) or intermediary data with which to calculate the TEG in the fax which had preceded the signing of the loan agreement. This item led the Tribunal to decide

to apply the official interest rate (*taux légal*) instead of the contractual rate. Dexia Credit Local and Caisse Française de Financement Local have appealed these decisions.

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 significant resources enabling local governments to finance the unwinding of structured loans; a similar system is currently being set up for public hospitals;
- legislative measures targeting a legal basis to secure loan agreements in effect with local governments.

The 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 à risque.

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), bringing together representatives of the State, local governments and qualified individuals, 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, as the financial situation of the customer and the share of eligible contracts in the total debt of this customer; the maximum amount of aid will be 45% of the indemnity to be paid by the customer to the bank (maximum rate of aid being granted to customers with the worst financial situation);
- use of the aid received by local governments: it will be paid by 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 redeemed 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 ensured by the State, via the CNOS;
- the funds come from the banks for 60% of the amount and from the State for the remaining part.

Caisse Française de Financement Local 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.

Substantial changes were made in February 2015 in the operation and ceilings of these funds. They are described in section 2.7 of this report.

New legislative provisions targeting a legal basis to secure loan agreements in effect with local governments were specified, and they take into account the comments of the Conseil constitutionnel at the end of December 2013. Legislation to secure structured loan agreements with public sector entities was adopted by the National Assembly on July 10, 2014, and passed by the Senate on July 17, 2014. The

Conseil constitutionnel validated this legislation on July 24, 2014, and it took effect on July 30, 2014.

2.7 - POST-CLOSING EVENTS

On January 15, 2015, the Swiss National Bank (SNB) announced its decision to put an end to the floor rate of exchange of its national currency, the Swiss franc (CHF). 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 French 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 its decision to increase massively the intervention capacity of the funds earmarked to support public sector entities having contracted sensitive structured loans.

- The amount of the fund 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 significantly raised for the most vulnerable entities.
- The amount of the fund 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.

To prepare its 2014 financial statements, Caisse Française de Financement Local took into account the effects of the decision of the SNB and the hypothesis that the solution announced by the government (in particular, strengthening the funds' intervention capacity and pushing up the ceiling for assistance to the most vulnerable local governments) would in fact rapidly be made available so that the support would remain at least as attractive as before the SNB decision for local governments holding loans indexed on the EUR/CHF exchange rate. Caisse Française de Financement Local voluntarily contributed EUR 150 million to the local government support fund and EUR 18 million to the hospital support fund, but it did not book 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).

As a reminder, to prepare its financial statements for 2013, Caisse Française de Financement Local 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 to secure structured loan contracts would be voted

and implemented in 2014. The same was true for the half-year accounts as of June 30, 2014. The passing of the law specifying a legal basis to secure these loans on July 30, 2014, made it possible to reduce significantly residual legal risks and their financial impact, which was considered to be very minor at that closing date.

3. Changes in main balance sheet items

EUR billions - value after currency swaps	12/31/2012	12/31/2013	12/31/2014	Change Dec. 2014 / Dec. 2013
Cover pool	69.2	63.7	62.3	(2.1)%
Loans	51.7	53.2	51.6	(2.9)%
Securities	15.1	9.0	10.2	13.2%
Cash deposit in central bank	2.4	1.5	0.5	(65.4)%
Assets assigned in guarantee to Banque de France	-	-	-	-
Privileged debt	59.7	55.3	54.6	(1.4)%
Obligations foncières*	56.2	52.8	52.2	(1.1)%
Cash collateral received	3.5	2.5	2.4	(7.7)%
Non-privileged debt	7.6	6.8	6.2	(8.9)%
Parent company	7.6	6.8	6.2	(8.9)%
Banque de France	-	-	-	-
Equity IFRS (excluding unrealized gains and losses)	1.5	1.5	1.5	(0.1)%

* Including registered covered bonds

Caisse Française de Financement Local's cover pool is composed of loans and debt securities; it also includes the temporary cash surplus, deposited at the Banque de France or invested in short-term French sovereign securities for respectively EUR 0.5 billion and EUR 1.6 billion as of the end of 2014.

As of December 31, 2014, the cover pool totaled EUR 62.3 billion, excluding accrued interest not yet due. As of December 31, 2013, the total was EUR 63.7 billion; the decrease was therefore EUR 1.4 billion (-2.1%).

As of December 31, 2014, no asset was excluded from the cover pool in order to be sold to a bank in a repurchase

agreement or assigned in guarantee to the Banque de France.

Outstanding debt benefiting from the legal privilege was EUR 54.6 billion, including cash collateral received, which decreased (-1.4%) in comparison with December 2013.

The debt contracted with the parent company totaled EUR 6.2 billion and does not benefit from the legal privilege. It mainly corresponds to the financing of the over-collateralization of the cover pool, which is at a significantly higher level than the amount required by regulators and the rating agencies.

4. Cover pool

4.1 - CHANGE IN ASSETS IN 2014

The net change in the cover pool as of December 31, 2014, corresponded to a decrease in assets in the amount of EUR 1.4 billion. This change is explained by the following items.

(EUR billions)	12/31/2014
1- Amortization of portfolio of loans and securities	(4.6)
2- Acquisition of loans to La Banque Postale	1.7
Loans to the French public sector (vanilla loans in euros)	1.7
3- Reduction of loan sensitivity	0.9
Sensitive structured loans removed	(0.8)
Refinancing loans (vanilla loans in euros)	0.8
New loans (vanilla loans in euros)	0.9
4- Other changes	0.6
Acquisition of French government securities with short maturity	1.6
Change in Banque de France cash deposit	(1.0)
Other loans to the French public sector	0.1
Early reimbursements	(0.1)
Divestments	(0.1)
Impairment and currency adjustment	0.1
Net change in the cover pool	(1.4)

The natural amortization of the portfolio of loans and securities represented EUR 4.6 billion in 2014.

In 2014, Caisse Française de Financement Local acquired a total amount of EUR 1.7 billion in loans to the French public sector originated by La Banque Postale.

The operations conducted in application of the policy of reduction of loan sensitivity since the beginning of 2014 made it possible to decrease outstanding loans considered as sensitive by EUR 1.2 billion (of which EUR 0.8 billion were recorded with a value date in 2014) by substituting fixed rate loans in their place. They were accompanied

by new fixed rate loans in the amount of EUR 0.9 billion. After accounting for their amortization in the amount of EUR 0.5 billion, outstanding loans considered as sensitive diminished by EUR 1.3 billion in 2014.

The other changes in assets (EUR 0.6 billion) mainly corresponded to fluctuations in available cash deposited at the Banque de France or invested in short-term French sovereign securities.

4.2 - OUTSTANDING ASSETS AS OF DECEMBER 31, 2014

Caisse Française de Financement Local's pool of assets is exclusively composed of exposures on public sector entities, or guaranteed by the same, and replacement assets (within the limits specified by current legislation).

EUR billions	12/31/2013	12/31/2014
Loans and bonds to the public sector	57.8	56.3
Treasury (sight accounts and short term investments)	1.5	2.1
Replacement assets	4.4	3.9
TOTAL	63.7	62.3

Surplus cash is deposited in an account opened by Caisse Française de Financement Local at the Banque de France or invested in short-term French sovereign securities, respectively amounting to EUR 0.5 billion and EUR 1.6 billion as of December 31, 2014.

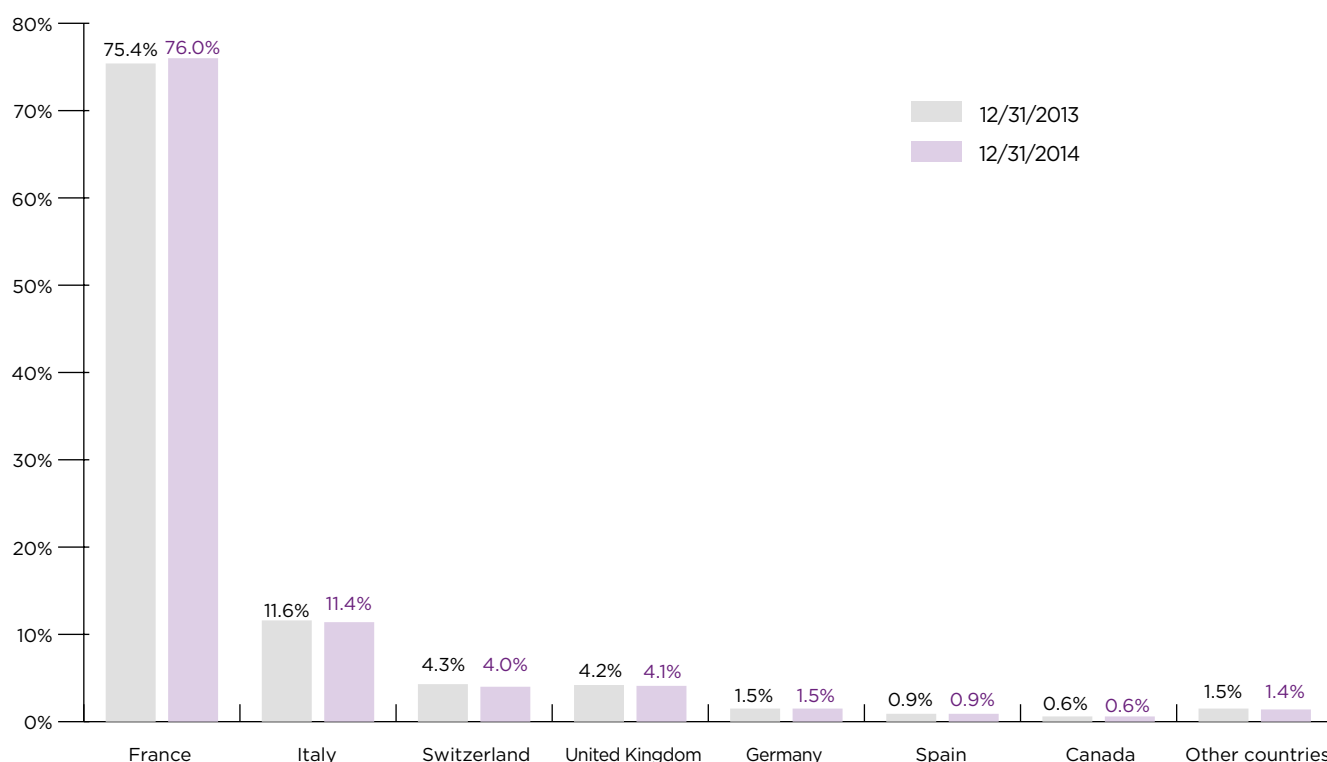
Loans acquired through La Banque Postale accounted for EUR 2.5 billion, representing 4% of public sector loans included in the cover pool.

a. Public sector loans and securities (excluding replacement assets and treasury)

1. Geographic breakdown

French assets are predominant in the cover pool (almost 76%), and their percentage is expected to rise in the future. The other assets are managed in a run-off mode; they correspond to granular and geographically diversified exposures on foreign public sector entities. They were originated by the subsidiaries of the Dexia Group.

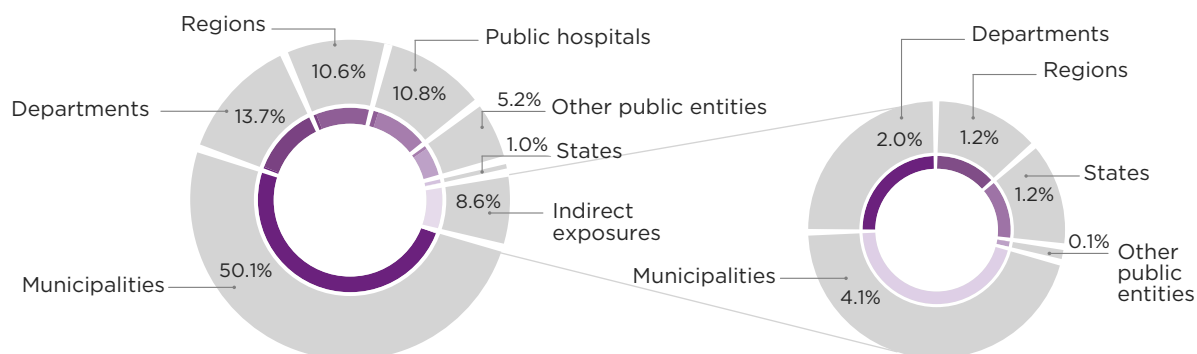
The relative proportion of the total assets can be broken down as follows.



Exposures to Other countries as of December 31, 2014, are broken down by country in the section Bonds and public sector loans, which is presented at the end of the management report.

2. Breakdown by type of counterparty

The portfolio of Caisse Française de Financement Local is made up for almost 82% of direct or indirect exposures on municipalities, departments or regions. Indirect exposures are composed of exposures guaranteed by public sector entities, most of which are local.



3. Securitizations

Since July 2013, there are no longer any securitization units in the cover pool of Caisse Française de Financement Local. The current and future *obligations foncières* issued by Caisse Française de Financement Local respect the conditions of eligibility for refinancing by the European Central Bank and the new CRR / CRD IV requirements.

4. Exposures on sovereign countries

Caisse Française de Financement Local has stable and limited exposure to sovereign countries.

EUR millions	Ratings**	12/31/2013	12/31/2014	in % of the cover pool***
France*	AA/Aa1/AA	147	172	0.3%
United Kingdom	AAA/Aa1/AA+	555	481	0.9%
Italy	BBB-/Baa2/BBB+	580	576	1.0%
TOTAL		1,282	1,229	2.2%

* Excluding cash investments (Banque de France sight account and short term sovereign bonds)

** S&P, Moody's and Fitch ratings at the publication date of this report

*** Excluding cash investments and replacement assets

Most of these exposures are concentrated on countries that benefit from very good ratings as of December 31, 2014, and which guarantee these loans.

b. Replacement assets

Assets considered by law as replacement assets correspond to exposures on credit institutions benefiting of at least a Step 1 rating, or a Step 2 rating when their duration does not exceed 100 days, and their total amount is limited to 15% of all debt benefiting from the legal privilege (*obligations foncières* and registered covered bonds).

As of December 31, 2014, the replacement assets of Caisse Française de Financement Local were comprised of long-

term loans to Société de Financement Local, which benefited from a Step 1 rating (rated AA by S&P, Aa2 by Moody's and AA- by Fitch), as well as bank account balances usually with a Step 2 rating. They represented 7.2% of the *obligations foncières* and registered covered bonds of Caisse Française de Financement Local.

Replacement assets	Country	Counterparty	EUR millions	
			12/31/2013	12/31/2014
Step 1 credit rating				
Loans to sponsor bank	France	Société de Financement Local	4,363	3,912
Step 2 credit rating				
Bank account balances	Miscellaneous	Miscellaneous	18	14
TOTAL			4,381	3,926

c. Assets removed from the cover pool

Because of its status as a credit institution, Caisse Française de Financement Local has access to refinancing operations offered to banks by the Banque de France within the Eurosystem. In steering its cover pool and its over-collateralization or in order to meet the need for

temporary liquidity, Caisse Française de Financement Local may thus convert a portion of its assets into cash. The loans or securities assigned in guarantee with the central bank in order to obtain financing on the occasion of tenders organized by the Banque de France are then removed from the cover pool and replaced by the cash thus obtained.

The same treatment would be applied to the assets in the cover pool if they were mobilized in interbank repurchase agreements in the event of a need for liquidity.

In the last two fiscal years, Caisse Française de Financement Local mobilized or pledged no assets with the Banque de France or a bank counterparty.

d. Yield

Article R.511-16-1 of the Monetary and Financial Code, introduced by the decree 2014-1315 of November 3, 2014, requires that in their annual financial report, credit institutions publish the yield of their assets, defined as the ratio between the net result and the total of their balance sheet. In 2014, this ratio equals -0.03% in IFRS and +0.01% in French GAAP.

e. Structured loans

1. Definition of structured loans

Certain loans to French public sector entities in the cover pool of Caisse Française de Financement Local may be qualified as structured loans. To define this notion, Caisse Française de Financement Local refers to the charter of good practices signed by banks and local governments

(the Gissler charter), which can be consulted on the Internet site of the French Ministry of the Interior⁽²⁾. This document was signed on December 7, 2009, by several organizations that represent local governments in France (Association des maires de France, Fédération des maires des villes moyennes, Association des petites villes de France, Association des maires de grandes villes de France and Assemblée des communautés de France) as well as certain banks.

Therefore, structured loans are defined as:

- all the loans with structures belonging to Gissler charter categories B to E;
- all the loans “outside the charter”, the commercialization of which is excluded by the charter, either because of their structure (leverage > 5, etc.), the underlying index(es) (foreign exchange, commodities, etc.), or the currency of the exposure (loans denominated in CHF, JPY, etc.);
- to the exclusion of all the loans of which the structured phase is terminated and the interest rate is definitively a fixed rate or a simple variable rate.

2. Structured loans and sensitive loans

In 2014, outstanding non-structured loans increased by EUR 1.3 billion, and outstanding structured loans (as defined above) declined by EUR 2.1 billion.

EUR billions	12/31/2013	12/31/2014	% cover pool	Number of customers
Sensitive loans not in the charter	3.7	3.2	5.2%	378
Sensitive loans (3E/4E/5E)	3.9	3.1	4.9%	372
SENSITIVE LOANS	7.6	6.3	10.1%	750
Other structured loans	6.0	5.2	8.3%	1,359
STRUCTURED LOANS	13.6	11.5	18.4%	2,109
Vanilla loans	29.3	30.6	49.0%	15,589
TOTAL FRENCH LOCAL PUBLIC SECTOR LOANS	42.9	42.1	67.4%	17,698
COVER POOL	63.7	62.3		

As of December 31, 2014, outstanding structured loans on the balance sheet of Caisse Française de Financement Local represented EUR 11.5 billion (versus EUR 13.6 and 15.4 billion at the end of 2013 and 2012).

The most structured loans according to the Gissler categories (3E, 4E and 5E as well as loans which the charter does not allow to be marketed) may be qualified as “sensitive”. They are closely monitored and specific measures are taken to reduce their sensitivity. These loans represented a total of EUR 6.3 billion at the end of December 2014 compared with EUR 7.6 billion at the end of 2013.

The EUR 1.3 billion decrease in these outstanding loans was due for EUR 0.8 billion to proactive efforts to reduce the sensitivity of the outstanding amount and for EUR 0.5 billion to the contractual amortization of these loans.

The most sensitive structured loans (loans not in the charter) represented 5.2% of the cover pool and 378 customers. In particular, this portfolio included loans indexed on the EUR/CHF exchange rate.

These loans concern the following customer categories.

Sensitive loans not in the charter	Amounts EUR billions	Number of customers
Municipalities with fewer than 10,000 inhabitants	0.2	76
Municipalities with more than 10,000 inhabitants and groups of municipalities	1.7	218
Regions and departments	0.7	21
Public hospitals	0.5	48
Other customers	0.1	15
TOTAL	3.2	378

Interest rates

The average rate paid by customers with sensitive loans in 2014 was 5.5%. The 10% of customers who paid the highest

rates in 2014 for these sensitive loans paid an average of 13.7% and the 10% of customers having paid the lowest rate in 2014 paid an average of 2.6% for their sensitive loans (see below).

(2) http://www.interieur.gouv.fr/content/download/3021/30417/file/Charte_de_bonne_conduite_entre_les_etablissements_bancaires_et_les_collectivites_territoriales.pdf

%	2014
Decile 1	13.7
Decile 2	9.3
Decile 3	6.6
Decile 4	5.2
Decile 5	4.5
Decile 6	4.2
Decile 7	3.9
Decile 8	3.7
Decile 9	3.4
Decile 10	2.6
AVERAGE RATE PAID	5.5

3. Reduction in loan sensitivity

The policy implemented by Sfil since 2013 to reduce the sensitivity of outstanding loans on the balance sheet of its subsidiary Caisse Française de Financement Local was carried out in accordance with the schemas validated by the Supervisory Board.

The method used consists in reducing the sensitivity of loans definitively by converting them into fixed rate loans. To this end, Caisse Française de Financement Local may allocate if necessary new liquidity at cost for loans refinancing the early reimbursement indemnities and for new loans granted at market price.

These measures made it possible to eliminate entirely the sensitivity of outstanding loans to 104 customers in 2014, and more than 150 since Sfil was created.

The support fund created by the French State, which has been operational since the final quarter of 2014, may, under certain conditions, finance the payment of a portion of the early reimbursement indemnity.

5. Debt benefiting from the legal privilege as of December 31, 2014

Debt benefiting from the legal privilege is composed of cash collateral received from counterparties in derivative transactions, as well as of *obligations foncières* and registered covered bonds issued by Caisse Française de Financement Local.

EUR billions	12/31/2013	12/31/2014
Cash collateral received	2.5	2.4
<i>Obligations foncières</i> and registered covered bonds	52.8	52.2
TOTAL	55.3	54.6

5.1 - CASH COLLATERAL IN 2014

Cash collateral received by Caisse Française de Financement Local was stable compared with the situation at the end of December 2013. Its level stood at EUR 2.4 billion at the end of December 2014.

5.2 - CHANGES IN ISSUES IN 2014

Within the framework of an annual recurrent program totaling EUR 4 billion to EUR 6 billion, the issuance policy of Caisse Française de Financement Local primarily aimed to construct a coherent reference curve in the euro market

while ensuring the good performance of its benchmark in the secondary market. The diversification of its funding sources is necessary to attain long maturities that match its needs. This implies an active presence in the market for private placements within the framework of the EMTN program or the issue of registered covered bonds. In 2014, Caisse Française de Financement Local did not implement its issuance policy in foreign currencies since market conditions were not favorable to such a euro/non-euro arbitrage.

a. New issues in 2014

In 2014, Caisse Française de Financement Local reported a volume of issues totaling EUR 4.0 billion by enriching its reference curve with two additional points and developing its presence in the segment of private placements.

On three occasions, Caisse Française de Financement Local sought funding in the public primary market for a total of EUR 2.7 billion:

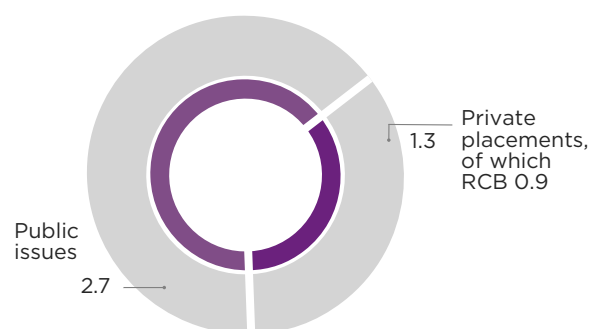
- in January a 10 year issue for EUR 1.0 billion;
- in April a 15 year issue for EUR 500 million (increase in the existing 2028 souche);
- in September a 5 year issue for EUR 1.25 billion.

Each of these transactions met significant demand on the part of investors, in all segments, with the highpoint 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 since the crisis.

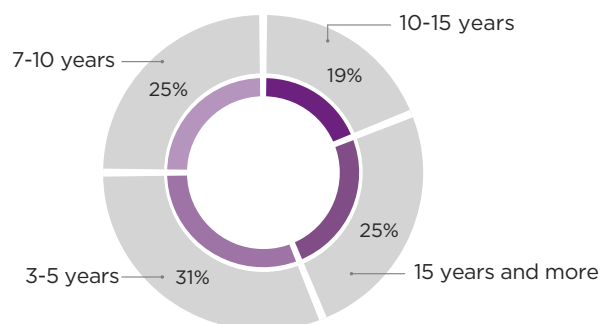
In addition to these public transactions, Caisse Française de Financement Local was very active in the private placement segment and, in particular, in registered covered bonds (RCB). This allowed the bank to satisfy investors' search for long and very long maturities. Altogether, EUR 1.3 billion were raised in this market segment.

The breakdown of new issues by public and private format, type, and maturity is presented below.

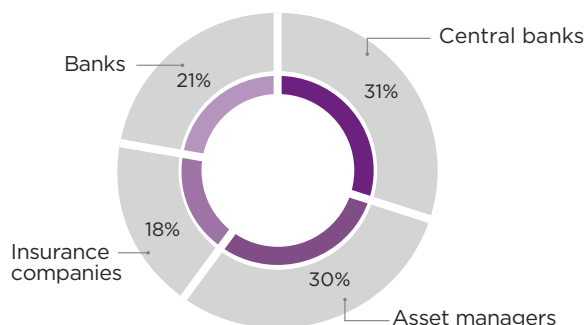
2014 issues by format
EUR billions



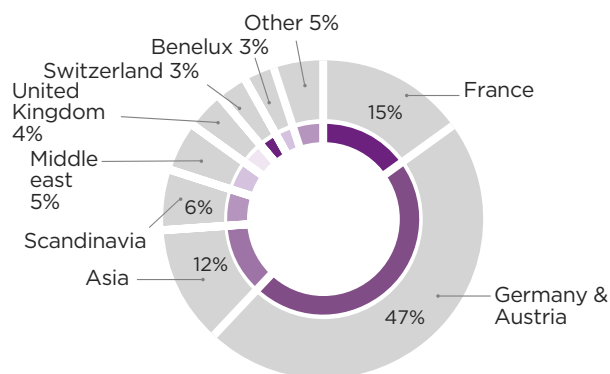
2014 issues by maturity



2014 public issues by investor type



2014 public issues by geographic zone

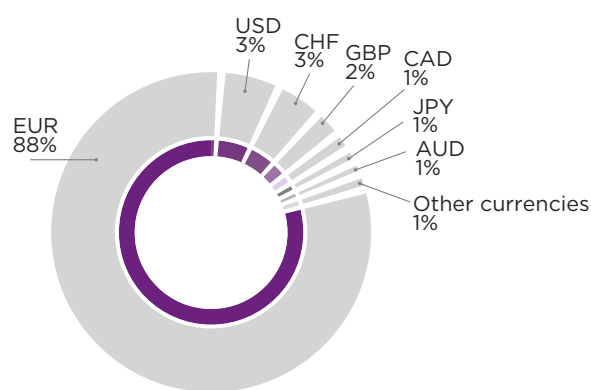


b. Outstanding debt as of December 2014

Outstanding *obligations foncières* and registered covered bonds totaled EUR 52.2 billion in swapped value at the end of December 2014, including the new *obligations foncières* for EUR 4.0 billion and the amortization of issues arriving at maturity for EUR 3.7 billion. The buyback of *obligations foncières* during the year was designed to smooth out the amortization profile of Caisse Française de Financement Local's privileged debt.

EUR billions - swapped value	2013	2014
Beginning of the year	56.2	52.8
Issues	3.1	4.0
Amortizations	(6.1)	(3.7)
Buyback	(0.4)	(0.9)
END OF THE YEAR	52.8	52.2

As of December 31, 2014, issues can be broken down by currency as follows.



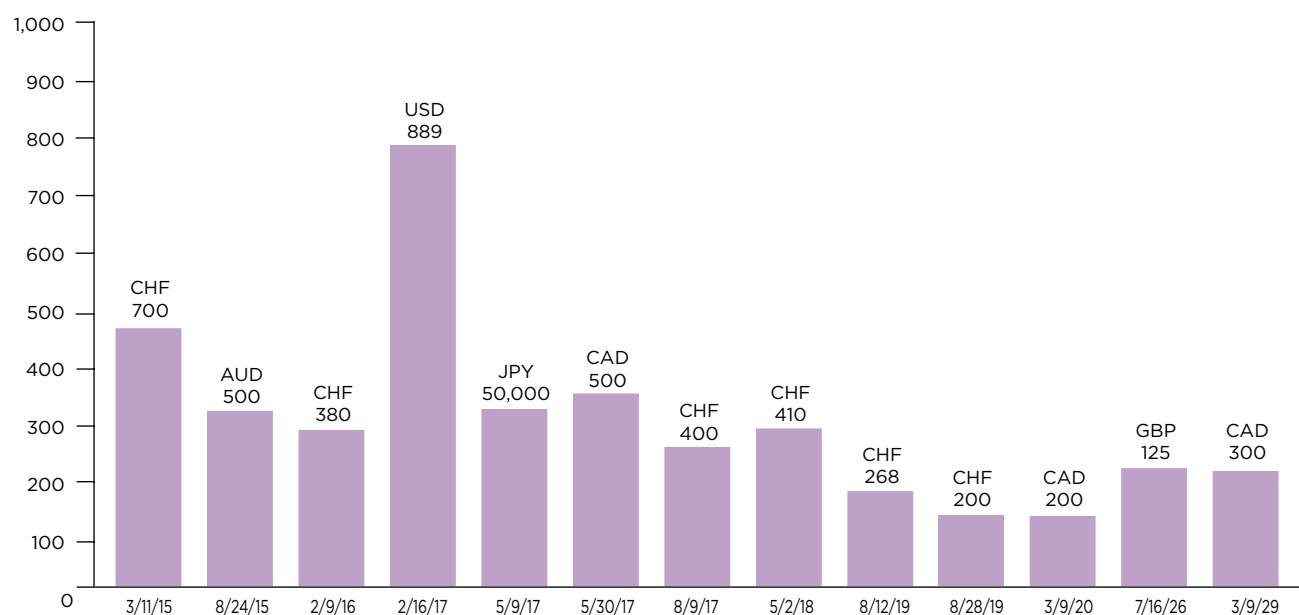
Benchmarks in Euro

EUR millions



Main Issues in non-euro currencies

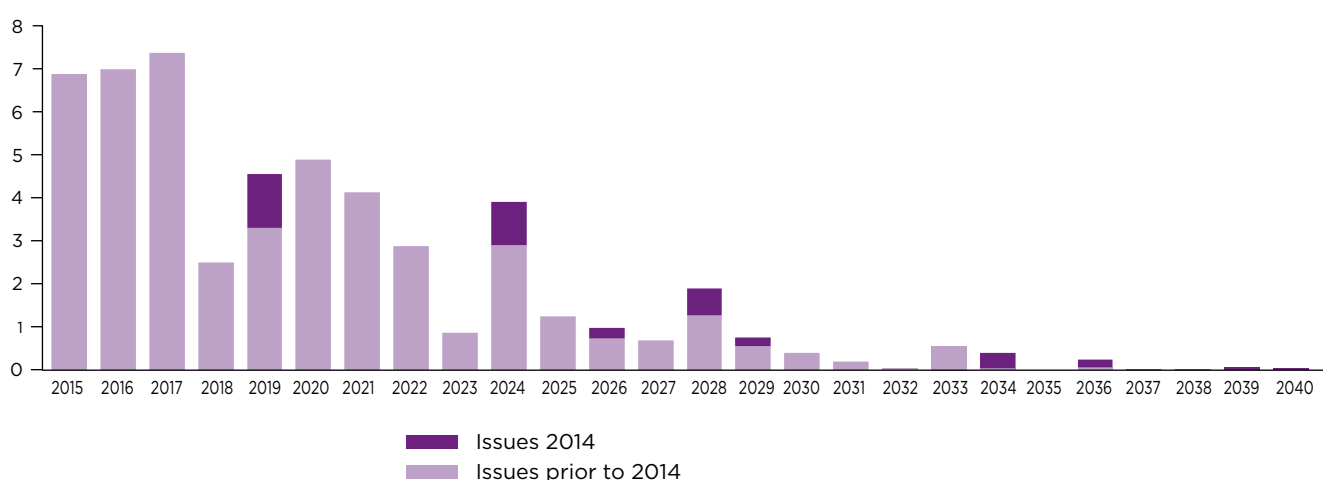
Value in EUR millions (swapped value)



Amounts in foreign currencies are expressed in euros (swapped value).

Amortization of *obligations foncières* and registered covered bonds

EUR billions



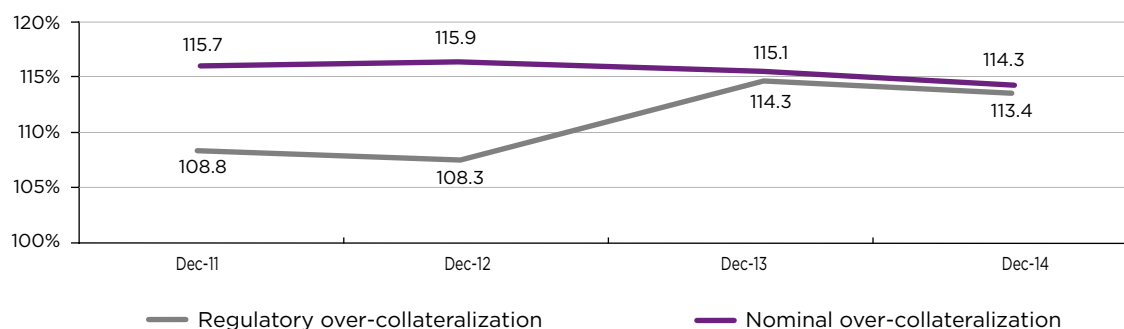
6. Changes in the over-collateralization ratio in 2014

The over-collateralization (OC) ratio, which is calculated on the basis of regulatory standards governing *sociétés de crédit foncier*, is the ratio between the assets and the resources benefiting from the legal privilege. Since the reinforcement of the regulatory framework of SCF/SFH took effect (at the end of May 2014 – cf. Highlights 2.3), it must be more than 105% versus 102% in the past. Caisse Française de Financement Local is able to respect this limitation.

This new legal minimum threshold of 105% corresponds to the minimum level that Caisse Française de Financement Local had committed to maintain since its creation.

In practice, the over-collateralization ratio is regularly higher than 105%. To maintain an adequate level of credit rating, a level of over-collateralization of more than 5% may be required. This requirement depends on the method applied by each of the rating agencies and on the new assets and liabilities on Caisse Française de Financement Local's balance sheet, and it may vary over time. Caisse Française de Financement Local takes these particular requirements into account in the management of its activity in order to make sure they are constantly met and strives to maintain its over-collateralization at a relatively stable level, as can be seen in the following graph.

Change in over-collateralization ratio

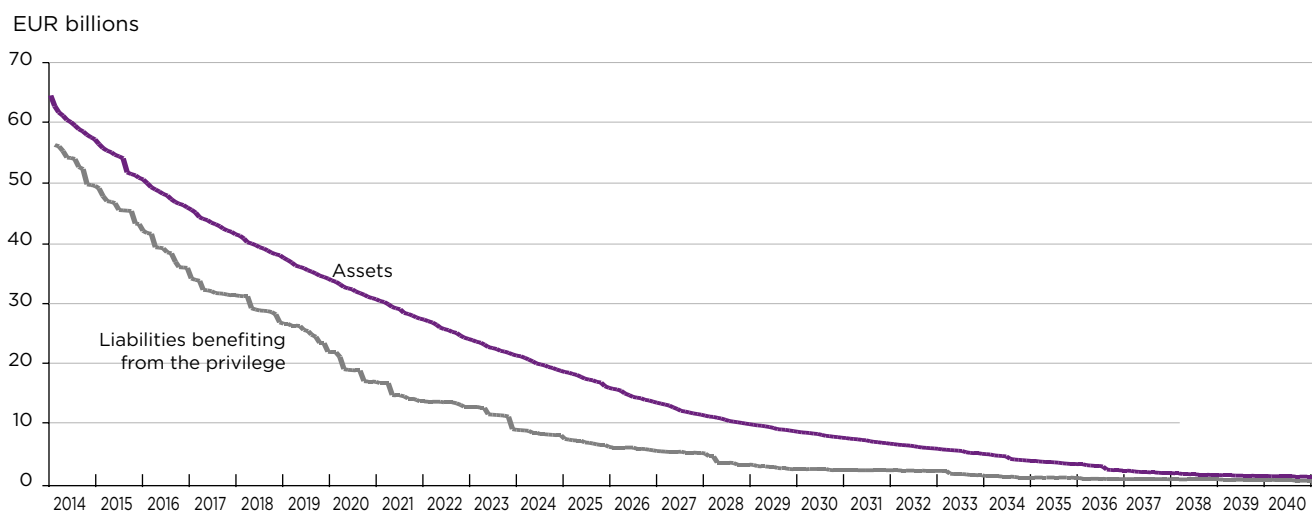


Regulatory over-collateralization may differ from nominal over-collateralization. In fact, it is calculated on the basis of the rules determined by the Autorité de contrôle prudentiel et de résolution (ACPR). In particular, these rules require different weighting levels according to the assets. The assets in Caisse Française de Financement Local's cover pool are generally weighted at 100%, except for certain units of securitization vehicles which were present in Caisse Française de Financement Local's cover pool until July 1, 2013. These particular weightings were the primary reason for the gap that existed between regulatory over-

collateralization and nominal over-collateralization prior to the sale of the securitization units on July 1, 2013. Any assets that Caisse Française de Financement Local may have assigned in guarantee to borrow funds from the Banque de France or any other banking institution would be excluded from the calculation of over-collateralization.

Over-collateralization may also be illustrated by the gap between the amortization curves of the assets and issues benefiting from the privilege. The following graph presents the curves as of December 31, 2014.

Amortization of assets and liabilities as of December 31, 2014



7. Change in debt that does not benefit from the legal privilege

The asset surplus (assets exceeding *obligations foncières* and registered covered bonds) and miscellaneous needs are financed by equity and debt that does not benefit from the privilege of the law on *sociétés de crédit foncier*.

Such financing is generally obtained through the parent company. At the end of 2014, the funds borrowed from Sfil within the framework of the financing agreement were made up of different loans with maturities that could initially run from one day to seven years borrowed with an Euribor or Eonia index.

Temporary financing may also be obtained from the Banque de France. These funds do not benefit from the

privilege stipulated in the law on *sociétés de crédit foncier*, but they are guaranteed by loans and securities assigned for this purpose in the account of Caisse Française de Financement Local at the central bank. Caisse Française de Financement Local had already used such financing in the past.

In 2013 and 2014, Caisse Française de Financement Local did not contract any loans from the Banque de France, except for very small sums when it regularly tests the access procedure for such funding. Neither did it contract any loans from credit institutions other than its parent company.

The change in financing that does not benefit from the legal privilege, excluding accrued interest not yet due, can be presented as follows.

EUR billions	12/31/2013	12/31/2014
Parent company	6.8	6.2
Banque de France	-	-
TOTAL	6.8	6.2

The decrease in debt not benefiting from the legal privilege was primarily the result of the change in the level of over-collateralization during the fiscal year 2014.

8. Risk management

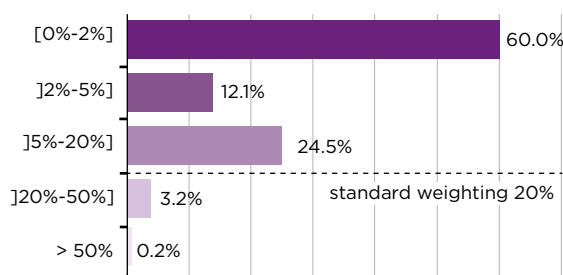
8.1 - CREDIT RISK

Credit risk represents the potential loss that Caisse Française de Financement Local may incur as the result of the decline in a counterparty's solvency.

a. Breakdown of exposures according to risk weighting

The quality of Caisse Française de Financement Local's portfolio can also be seen in the weighting of its assets within the framework of the calculation of the solvency ratio. The Company chose the advanced method within the framework of the calculation of the solvency ratio and capital adequacy. Banking regulators authorized the Company and its parent company to use the advanced internal models developed for the calculation and reporting of capital requirements for credit risk. This enables Caisse Française de Financement Local to present an analysis of its exposures as of December 2014, broken down by risk weighting, such as used for the calculation of capital requirements for credit risk. The calculation of such weighting in particular combines the probability of default (PD) and loss given default (LGD) of the counterparty.

Risk weighting of Caisse Française de Financement Local's portfolio as of December 31, 2014



This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio, since only 3.4% of the portfolio has a weighting of more than 20%. The average weighting of the cover pool risk is 6.8%, versus 20% for European local governments in the Basel II / III standard model.

By the credit quality of its assets, combined with its high level of regulatory equity, Caisse Française de Financement Local was able to post a Basel III solvency ratio of 23.3% as of December 31, 2014, compared to a Basel II solvency ratio of 28% as of December 2013. The Common Equity Tier One in Basel III was 22.6% as of December 31, 2014.

b. Concentration by customer

The risk of concentration refers to exposure to a limited number of counterparties. Diversification can make it

possible to avoid this problem, and it is a risk management tool to protect from any loss in capital.

The table below presents the concentration on large counterparty portfolios (amounts and percentages of the portfolios). It confirms the great diversity of Caisse Française de Financement Local's portfolio of assets.

EUR millions	% cover pool	Top 5	Top 20	Top 100
Sovereign	2%	1,229	1,229	1,229
		100%	100%	100%
French local authorities	76%	2,310	5,229	11,851
		5%	12%	28%
Non-French local authorities	22%	3,090	6,631	10,514
		25%	53%	84%
TOTAL	100%	3,222	8,970	20,936
		6%	16%	37%

As of December 31, 2014, in all categories, the 20 largest exposures (excluding replacement assets and cash investments) represented 16% of the cover pool excluding replacement assets and cash investments, versus 15.9% as of December 31, 2013. The largest exposure accounted for only 1.7% of the cover pool and the twentieth exposure 0.4%.

c. Non-performing loans, litigious loans, provisions

Loans and most of the bonds held by Caisse Française de Financement Local are classified in the Loans and advances portfolio according to IFRS, corresponding to its intention to hold them until maturity. They are valued at their historical cost and, if necessary, are hedged for variations in the fair value of the risk covered (if there is a fair value hedge); they are subject to provisions for impairment when there is a risk of non-payment.

In addition, collective impairment is calculated on the different portfolios of loans and advances. In the absence of specific depreciation, it covers the risk of loss in value when there is an objective indication of the probability of loss in certain segments of the portfolio or in other commitments involving outstanding loans at the end of the period. These losses are estimated on the basis of each segment's past performance and trends, each borrower's rating, and the borrower's economic environment. To this end, Caisse Française de Financement Local uses a credit risk model based on an approach that combines probabilities of default and loss given default. This model is regularly tested *a posteriori*.

The limited amount of non-performing loans observed indicates the low risk profile and the portfolio's overall high quality. Nonetheless, non-performing loans increased significantly since the change of Caisse Française de Financement Local's shareholder, reflecting a more conservative approach. Thus, in 2013 and 2014, there was a rise in the number of customers in default, including certain customers with whom there was already litigation concerning their structured loans and who in addition were in financial difficulties. Customers in default in terms of credit risk generally find the total amount of their outstanding loans classified as non-performing by contagion.

The increase in the number of customers with non-performing loans and customers with part of their outstanding commitments classified as litigious (past-due or sensitive loans) are presented below.

Non-performing loans and litigious loans (number of customers)	12/31/2013		12/31/2014	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
Beginning of the year	33	25	47	53
New	23	28	53	13
Outgoing	9	-	10	14
END OF THE YEAR	47	53	90	52

No litigious situation was resolved in 2013, given the length of the procedures involved (cf. 2.6 - Litigation and governmental measures). In 2014, three files were resolved following the payment of the sums due and eleven litigious files were reclassified as non-performing.

Non-performing and litigious loans at the end of 2014 totaled EUR 463 million, approximately 0.7% of the total cover pool (EUR 62.3 billion). These commitments can be broken down as follows.

Non-performing loans and litigious loans EUR millions	12/31/2013		12/31/2014	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
FRANCE				
State	0	-	-	-
Regions	-	-	-	-
Departments	2	17	-	4
Group of municipalities	46	20	85	30
Municipalities	88	28	189	31
Public sector entities	52	1	122	2
TOTAL	188	66	396	67

As in 2012 and 2013, Caisse Française de Financement Local increased its provisions in 2014 in the amount of EUR 26 million.

The total amount of provisions at the end of the year is presented in the following table.

EUR millions	12/31/2013	12/31/2014
Specific impairment	14	47
Collective impairment	70	63
TOTAL	84	110

Specific provisions for non-performing loans increased by EUR 33 million in 2014. The main reason for this rise was the mandatory impairment of accrued interest on non-performing loans (EUR 26 million), the outstanding amount of which increased dramatically.

The review of the portfolio and its associated risks entailed an adjustment of collective impairment in the amount of EUR 7 million.

The provisions were determined by taking into account the comprehensive set of measures decided by the French government to provide a solution to the problem of structured loans. The hypotheses adopted are presented at the end of section 2.7 of this report.

Net changes in impairment had no impact on Cost of risk for 2014⁽³⁾. The impairment was EUR 28 million in both 2012 and 2013. In addition, the Cost of risk in 2014 incorporated the voluntary contribution of EUR 18 million to the public hospital fund.

⁽³⁾ Cost of risk also included contributions of the Company to support funds for local governments and hospitals for EUR 150 million in 2013 and EUR 18 million in 2014.

- EUR 396 million of commitments qualified as non-performing, corresponding to loans to customers with total unpaid amounts of EUR 33 million (of which EUR 22 millions were unpaid on structured loans);
- EUR 67 million of commitments qualified as litigious, corresponding to unpaid interest on structured loans that are subject to litigation.

d. Bank counterparty risk

Counterparty risk refers to the risk of loss on an exposure linked to the default of a counterparty. It is naturally in function of the amount of the exposure, of the probability of default on the part of the counterparty, and the portion of the loan that cannot be recovered in the event of default.

Caisse Française de Financement Local holds three types of exposure to banks:

- loans to Société de Financement Local, the parent company of Caisse Française de Financement Local, which are considered as replacement assets in the amount of EUR 3.9 billion (cf. 4.2.b);
- bank account balances in euros and other currencies, representing EUR 14 million, excluding cash deposited on the Banque de France account;
- its derivative contracts, entered into within the framework of its management of interest rate and foreign exchange risks.

All of Caisse Française de Financement Local's derivative operations are conducted within the framework of standard ISDA or FBF (Fédération bancaire française) contracts with major international banks. These contracts have particular characteristics, since they must meet the standards set by rating agencies for *sociétés de crédit foncier* (and other issuers of covered bonds). These interest rate and currency swaps all benefit from the same legal privilege as *obligations foncières*. For this reason, Caisse Française de Financement Local does not pay its derivative counterparties any collateral, whereas they have to pay Caisse Française de Financement Local unless they benefit from the agencies' highest short-term rating.

At the end of 2014, Caisse Française de Financement Local was exposed (positive fair value of the swaps) on 12 banking counterparties. Ten of these paid collateral for EUR 2.4 billion, offsetting total exposure, and two paid no collateral because of their very good short-term ratings.

These counterparties represented an exposure of less than EUR 0.02 billion.

All derivative exposures as of December 31, 2014, are listed below.

EUR billions	Short-term notional	Long-term notional	% Long-term	Mark to Market - +	Collateral received	Number of counterparties
Sfil	0.7	20.5	20.7%	(3.2)	-	1
Other counterparties	49.7	78.4	79.3%	(4.5)	2.4	29
TOTAL	50.4	98.9	100.0%	(7.7)	2.4	30

The swaps negotiated with external counterparties represented 79.3% of outstanding long-term swaps and those signed with Société de Financement Local 20.7%. Long-term swaps signed with the five largest counterparties represented a total of 35% of notional amounts.

Short-term swaps (Eonia) were principally contracted with external counterparties (98.7%).

basis risk generated by differences in Euribor fixing dates (1, 3, 6 or 12 months) and the fixing risk due to refixing dates based on different reference indices in the assets and the liabilities.

The possibility of hedging a purchased portfolio of loans by unwinding swaps of liabilities with an adequate profile rather than contracting new swaps is a change in hedging policy and was applied for the first time when loans were acquired in the second half of 2014. This made it possible to protect the bank from interest rate risk by backing the new assets by liabilities already on the balance sheet. Derivative hedging these liabilities up to that point were unwound on this occasion. This policy makes it possible to limit the use of derivatives, of which the regulatory and accounting cost has significantly increased in the last few years.

Non-privileged debt is not concerned by these hedging operations. In fact, debt contracted by Caisse Française de Financement Local with its shareholder to finance over-collateralization is borrowed either directly with a monetary index and needs no swapping, or with a Euribor index and thus finances assets also indexed on Euribor. In this case, short term debt owed the Banque de France with a fixed rate is not hedged, but also finances fixed rate assets.

3. Limits on interest rate risk

The sensitivity of residual positions that remain after the first step and after the second level of hedges is monitored carefully and kept within strict limits.

Changes in 2014

In addition to the control of directional risks which existed previously, risk monitoring was bolstered this year with the introduction of supplementary limits focused on the control of the slope risk.

Without modifying the Company's risk appetite, limits on interest rate risk were adapted and strengthened. The new set of limits guarantees, with 99% probability, a maximum one year loss of less than EUR 80 million in the event of a change in interest rates of 200 basis point (bp), equivalent to the maximum loss that could have been incurred with the sensitivity limit previously set at EUR 40 million (3% of equity) for a fluctuation in interest rates of 100 bp. This calibration is based on a directional shift in rates corresponding to the 1% at one-year decile observed over the period 2005-2013, which was approximately 200 bp.

In addition, the new method makes it possible to have a better grasp of the slope risk, as well as the directional risk. Three new limits control the sensitivity of the fixed rate risk for shifts in rates of 100 bp (sensitivities calculated for a shift of +10 bp / -10 bp and multiplied by 10) and together

8.2 - OTHER BALANCE SHEET RISKS

a. Interest rate risk

1. Definition

Interest rate risk corresponds to the risk of financial loss that may occur in the case of interest rate fluctuations in the market that would lead to a loss in value of certain items on the bank's balance sheet (or off-balance sheet).

Three types of interest rate risk can be distinguished:

- the risk related to long-term interest rates, which results from the gap in volume and maturity between the fixed rate assets and liabilities, the initial maturity of which is greater than a year;
- the basis risk, which results from the gap that may exist in the backing of assets and liabilities with a floating rate in the same currency but with different tenors;
- the fixed rate risk, which results from the variation in the rate of an asset or a liability with a floating interest rate pre-fixed over the period in which the adjustable index is fixed.

These risks are generally hedged using derivative instruments.

2. Hedging strategy

The policy applied by Caisse Française de Financement Local makes it possible to be protected from interest rate risk because any acquisition of assets or issue of liabilities is systematically hedged in a variable rate from the beginning.

There are two steps in the hedging of interest rate risk.

- In the first stage, all the assets and the liabilities benefiting from the privilege which do not naturally have a floating rate are hedged against Euribor until maturity as soon as they are recorded on the balance sheet. In practice, acquisitions of loan portfolios (in which the unit amount is generally small) are usually macro-hedged whereas loans granted individually or bond issues are micro-hedged. Hedging is more often done by interest rate swaps, but the same effect may be obtained whenever possible by the cancelation of liability swaps.
- In the second step, Euribor lending and borrowing flows (naturally or after hedges) are swapped against Eonia over a sliding period of two years in order to eliminate the

guarantee maximum losses of EUR 40 million (for a variation in rates of 100 bp). The limits are as follows.

Monitoring of limits in 2014 (new method)

Limiting directional risk

The new limit in total sensitivity for a shift in rates of 100 bp of all points in the yield curve is set at EUR 25 million. The measurement of sensitivity at the end of each quarter is presented below.

Directional risk

Total sensitivity

EUR millions, end of quarter	Limit	1Q 2014	2Q 2014	3Q 2014	4Q 2014
SENSITIVITY	25.0	(2.0)	(2.0)	0.3	0.6

This new measurement of total sensitivity incorporates premiums for acquisition and rescheduling of loans, and this was not the case in the past.

Limiting the slope risk

The slope risk was already incorporated in the management of interest rate positions, but now benefits from specific limits which are applied to four segments of maturity on the yield curve (short, medium, long and very long).

- *Limiting the slope risk between two points of maturity distant from one another on the curve:* sensitivity to a shift in rates of 100 bp is limited to EUR 10 million by segment of maturity. Measurement of sensitivity at the end of the quarter is presented below.

Risk of slope between two distant points on the rate curve

Sum of sensitivities

EUR millions, end of quarter	Limit	1Q 2014	2Q 2014	3Q 2014	4Q 2014
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)

- *Limiting the slope risk between two points of maturity close to one another on the curve:* in each segment, the sum in absolute value of the sensitivities of points on the yield curve (grouped in several points of reference) is

limited to EUR 20 million per segment. Measurement of sensitivity at the end of the quarter is presented below.

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

EUR millions, end of quarter	Limit	1Q 2014	2Q 2014	3Q 2014	4Q 2014
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

Monitoring of limits in 2014 (former method)

In 2014, interest rate risk was managed by previous limits and by new limits.

In the former method, the sensitivity of interest rate risk was defined as the variation in the net present value of interest rate positions for a parallel shift in interest rates of 100 bp. The limit was set at EUR 40 million, broken down between EUR 9 million for interest rate positions of less than a year and EUR 31 million for fixed rate positions of more than a year. Measurement of sensitivity at the end of the quarter is presented below.

EUR millions		Average	Maximum	Minimum	Limit
Fixed Rate	1Q 2014	13.4	13.5	13.1	31.0
	2Q 2014	12.1	12.9	11.5	31.0
	3Q 2014	10.2	10.6	9.7	31.0
	4Q 2014	9.4	9.7	9.1	31.0
Mone- tary	1Q 2014	0.8	1.0	0.5	9.0
	2Q 2014	0.9	1.2	0.7	9.0
	3Q 2014	0.5	2.2	(0.6)	9.0
	4Q 2014	(0.5)	1.3	(1.7)	9.0
TOTAL	1Q 2014	14.2	14.5	13.6	40.0
	2Q 2014	13.0	13.6	12.4	40.0
	3Q 2014	10.7	11.8	10.0	40.0
	4Q 2014	8.8	10.4	7.6	40.0

4. Outstanding derivatives

The strategies employed to hedge interest rate risk and foreign exchange risk are illustrated by notional outstanding swaps analyzed in the following table, broken down between external counterparties and an internal counterparty (Sfil), as of December 31, 2014.

Breakdown of outstanding swaps	Notional* EUR billions	Sfil (%)	External counterparties (%)
Euribor against Eonia			
Macro-hedges	50.4	1.3%	98.7%
TOTAL SHORT-TERM SWAPS	50.4	1.3%	98.7%
Fixed rate swaps against Euribor			
Micro-hedges on <i>obligations foncières</i>	46.2	12.1%	87.9%
Micro-hedges on loans and debt securities	23.8	13.3%	86.7%
Macro-hedges on loans	19.1	37.0%	63.0%
Subtotal	89.1	17.8%	82.2%
Currency swaps			
Micro-hedges on <i>obligations foncières</i>	6.1	43.1%	56.9%
Micro-hedges on loans	2.7	53.2%	46.8%
Micro-hedges on loans and debt securities	1.0	57.1%	42.9%
Subtotal	9.8	47.3%	52.7%
TOTAL LONG-TERM SWAPS	98.9	20.7%	79.3%

* Absolute value

b. Foreign exchange risk

The foreign exchange risk is defined as the risk of volatility in result, be it observed or latent, linked to a change in the exchange rate of currencies vis-à-vis a reference currency. The reference currency of Caisse Française de Financement Local is the euro.

The foreign exchange risk reflects a change in the value of assets and liabilities denominated in a currency other than the euro by reason of fluctuations of this same currency vis-à-vis the euro.

Its risk management policy consists in not taking any foreign exchange risk: all issues and assets denominated in foreign currencies are hedged as soon as they are recognized on the balance sheet and until their final due date, by a cross-currency swap against the euro. Floating rate exposures generated by this management policy are incorporated into interest rate risk management.

c. Transformation risk

The transformation risk arises from the fact that the assets are financed in part by resources with a different maturity.

1. Duration gap

The difference in maturity between the assets and the liabilities may create a liquidity risk.

With the interest rate risk under control as presented above, Caisse Française de Financement Local manages

the congruence of maturities between the assets and the liabilities by maintaining the duration gap between the assets and the liabilities within a maximum limit of three years.

From the point of view of the method, since both the assets and the resources benefiting from the privilege have a floating rate after swaps, Caisse Française de Financement Local's balance sheet appears to indicate that there is a single loan vis-à-vis a single borrowing. Duration (D) is calculated as follows: "sum of the periods weighted by the cash flows and discounted at the interest rate of the zero coupon curve for period (t) / sum of the cash flows discounted at the interest rate of the zero coupon curve for period (t)".

$$D = \frac{\sum_{t=1}^T [(t \times Cft) / (1 + st)^t]}{\sum_{t=1}^T [Cft / (1 + st)^t]}$$

The duration gap between the assets and the liabilities is closely monitored since it is sensitive to fluctuations in interest rates used to calculate the net present value and to significant changes in assets and liabilities.

The management policy of Caisse Française de Financement Local is a commitment not to exceed three years for the duration gap between the assets in the cover pool and the resources benefiting from the privilege.

In practice, the actual duration gap is maintained below this limit, and was significantly reduced in the period, as can be seen in the following table.

Duration (in years)	12/31/2013	3/31/2014	6/30/2014	9/30/2014	12/31/2014
Cover pool	6.99	7.24	7.21	7.05	7.24
Privileged liabilities	4.91	5.17	5.26	5.12	5.40
Gap in asset-liability duration	2.08	2.07	1.95	1.93	1.84
Duration gap limit	3	3	3	3	3

2. Weighted average life gap

The gap in the weighted average life changes less than the duration over the same period, for the rise in the duration gap is partly attributable to movements in the interest rate curve.

The gap in the weighted average life of the cover pool and the liabilities benefiting from the legal privilege is presented below.

Weighted average life (in years)	12/31/2013	3/31/2014	6/30/2014	9/30/2014	12/31/2014
Cover pool	8.23	8.34	8.17	7.86	7.84
Privileged liabilities	5.36	5.58	5.65	5.43	5.71
Gap in asset-liability weighted average life	2.87	2.76	2.52	2.43	2.13

3. Regulatory limit

The regulatory changes in May 2014 imposed a limit of one and a half years on the weighted average life gap between the cover pool, considered on the basis of the minimum amount required to satisfy the legal over-collateralization ratio of 105% and the resources benefiting from the privilege. This limit must be respected as of December 31, 2015. Caisse Française de Financement Local is already able to respect the new limit.

d. Liquidity risk

The liquidity risk can be defined as the risk that Caisse Française de Financement Local may not be able to settle privileged debt commitments at the due date owing to the fact that there is too great a gap between the reimbursement of the assets and the reimbursement of its privileged resources.

By limiting the duration gap between assets and resources to three years, Caisse Française de Financement Local maintains control over its future needs for liquidity.

To meet its liquidity needs, Caisse Française de Financement Local makes use of the following resources:

- first of all, the cash flows from the amortization of the assets in the cover pool or from the issue of new *obligations foncières* to replace those that arrive at maturity and the reimbursement of which creates the need for liquidity;
- funds granted by its parent company. Caisse Française de Financement Local has at its disposal in any case the support of its parent company formalized in a "declaration of support" (the full text is incorporated into the EMTN program and Caisse Française de Financement Local's annual financial report). This debt is contracted with Société de Financement

Local through financing agreements between Caisse Française de Financement Local and its parent company.

- pledges of assets with other banks through repurchase agreements, or with the central bank.

Because of the nature of the assets that make up its cover pool, Caisse Française de Financement Local has a large number of assets that are directly eligible for refinancing by the central bank, so that its need for cash can be easily covered.

Since it is a credit institution, Caisse Française de Financement Local can post these eligible assets:

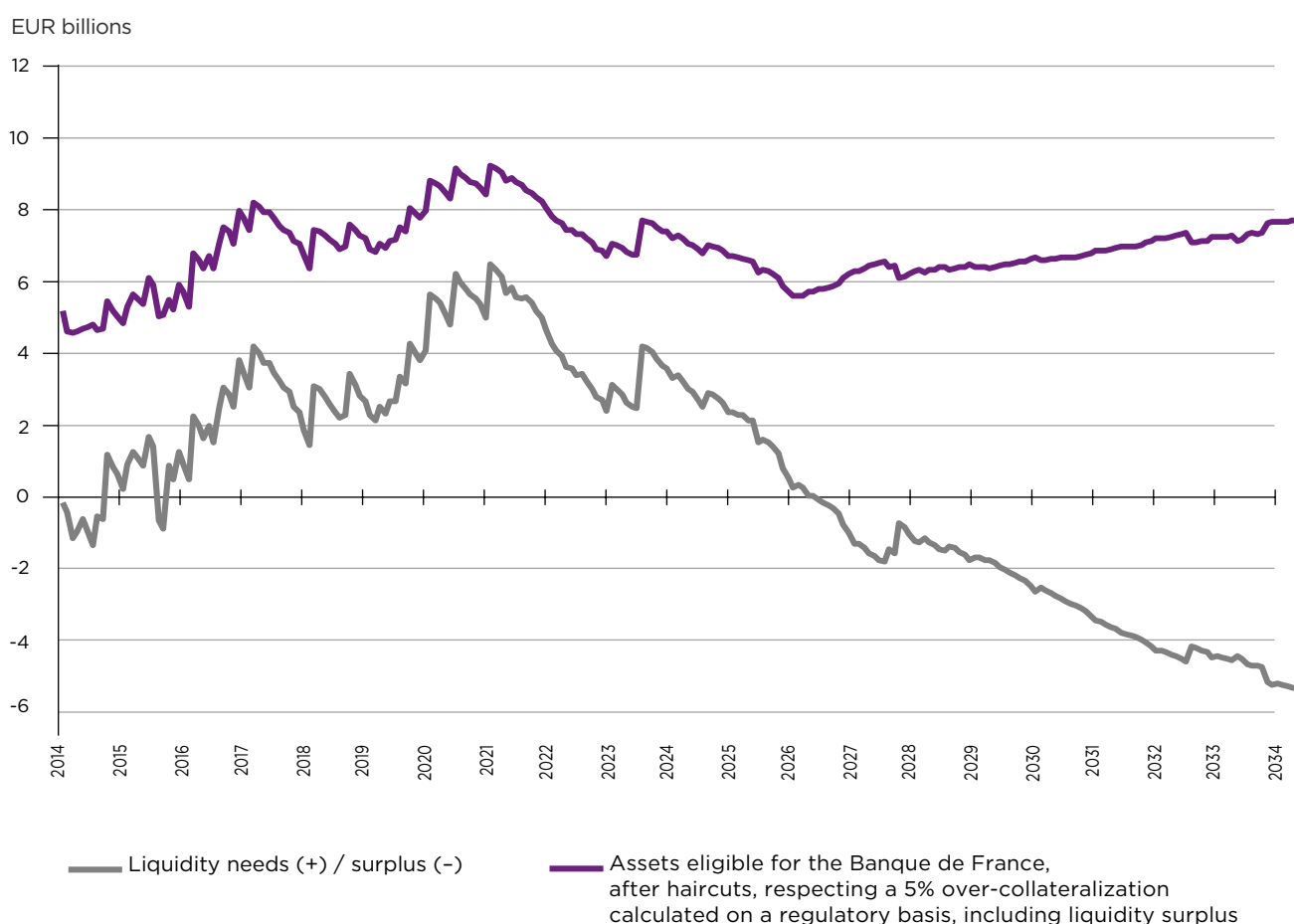
- either by using, in its own name, the refinancing possibilities offered by the European Central Bank through the Banque de France;
- or by using interbank financing in the form of repurchase agreements.

Caisse Française de Financement Local has its own autonomous resources that enable it to cover its temporary

liquidity needs, even in the event of the default of its parent company, since any legal proceedings engaged for the bankruptcy or liquidation of its parent company cannot be extended to Caisse Française de Financement Local (article L.513-20 of the Monetary and Financial Code).

The maximum cumulated liquidity that Caisse Française de Financement Local might need in the future, in a run-off situation and if it was not able to issue new *obligations foncières*, is less than the maximum financing already occasionally obtained from Banque de France in the past. This need is also less than Caisse Française de Financement Local's capacity to obtain refinancing from the Banque de France, measured by the amount of eligible assets after haircuts that would be available respecting the level of over-collateralization required by the regulation.

The forecast of cumulative liquidity needs and eligible assets to cover those needs as defined above, is presented in the following graph.

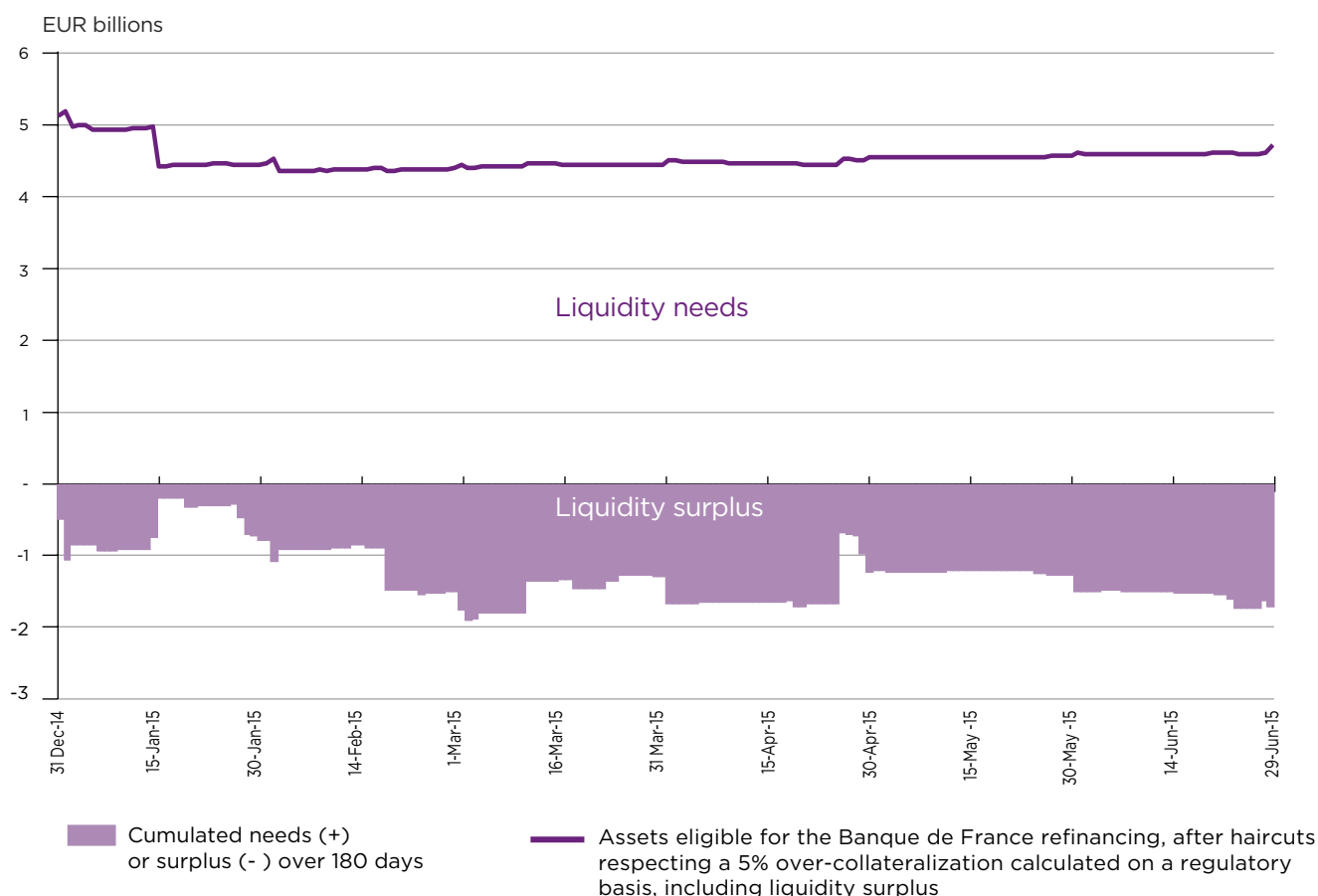


In addition, Caisse Française de Financement Local manages its liquidity risk by means of the following three indicators:

- the liquidity ratio for one month and the Liquidity Coverage Ratio (LCR) (regulatory reporting to the Autorité de contrôle prudentiel et de résolution);
- the duration gap between the assets and the resources benefiting from the legal privilege (limited to three years), which is published quarterly, and the new regulatory limit on weighted average life gap;
- projected cash needs over the next 180 days: Caisse Française de Financement Local ensures that at any time,

its cash needs over a period of 180 days are covered by replacement assets and assets eligible for credit operations with the Banque de France. Cash needs are defined as repayments of *obligations foncières* and RCB, of debts that do not benefit from the legal privilege and forecasts of repayment of the cash collateral received, after deduction of cash flows from amortization of assets. This forecast is published quarterly in the Asset Quality Report and is presented below.

At the end of 2014, no net need for liquidity was recognized for the next 180 days. The movements observed correspond to cash flows from the amortization of *obligations foncières*, cash collateral, non-privileged liabilities, and assets.



8.3 - MANAGEMENT OF OTHER RISKS

a. Legal risks

Legal risk is the risk of any litigation with a counterparty resulting from any misunderstanding, lack or insufficiency that may be attributed to the Company in the exercise of its activities.

Caisse Française de Financement Local is involved in no litigation or suit other than those described in the year's highlights (2.6).

b. Operational risks and permanent control

Operational risk is the risk of direct or indirect loss due to an inadequacy or lack in the bank's procedures (absent or incomplete analysis or control, procedures not secured), in its staff (errors, bad intention and fraud), in internal systems (computer crash, etc.) or external risks (flood, fire, etc.).

Caisse Française de Financement Local delegates to Société de Financement Local the functions of internal control within the framework of a management agreement. The management processes applied to operational risks and permanent control are described in the section of the 2014 annual financial report entitled Supplemental information - Report of the Chairman of the Supervisory Board.

c. Security and means of payment

Caisse Française de Financement Local does not make any means of payment available to its customers.

9. Commitments granted - commitments received

Commitments granted as of December 31, 2014, are mainly comprised of the portion of loans not yet paid out of loans granted to French local governments in the amount of EUR 0.2 billion.

Commitments received were principally:

- the authorized overdraft in the current account as stipulated in the financing agreement signed with Société de Financement Local for EUR 50 million;
- the pledge of securities to the benefit of Caisse Française de Financement Local in guarantee of the reimbursement of loans granted to the parent company, Société de Financement Local, in the amount of EUR 3.9 billion;
- guarantees received on loans to customers for EUR 7.1 billion.

10. Payment deadlines

In application of articles L.441-6-1 and D.441-4 of the Code of Commerce, Caisse Française de Financement Local must publish every year a breakdown of the balance of the monies it owes to suppliers by due date.

Caisse Française de Financement Local has a very limited number of direct suppliers, since its management is contractually entrusted to its parent company, in conformity with article L.513-15 of the Monetary and Financial Code. Caisse Française de Financement Local usually settles its bills as soon as they are recorded, and the balance of monies owed to suppliers is theoretically always zero.

As of December 31, 2014 and 2013, all supplier accounts were settled. The only supplier debt recorded corresponded to invoices not yet received.

11. Research and development

Since the Company exercises no activity in research and development, no data related to this activity is mentioned in the financial statements.

12. Non-tax-deductible charges and expense

In accordance with article 223 (4) of the French General Tax Code, no non-deductible expense or charge referred to in article 39-4 of the General Tax Code was made by the Company during the year.

General operating expenses considered as non-deductible following a definitive tax assessment (article 223 (5), article 39-5 and 54 (4) of the General Tax Code) are therefore zero given the absence of any recent tax adjustment.

IFRS EUR millions	2012	2013	2014	Change 2014/2013
Interest margin	239	141	103	(27)%
Net commissions	(4)	(24)	(28)	
Net result of assets at fair value	1	119	(14)	
Net result of financial assets available for sale	21	6	8	
Other income and expense	-	-	-	
NET BANKING INCOME	257	242	69	(71)%
General operating expenses	(87)	(74)	(90)	
Taxes	(4)	(5)	(3)	
OPERATING INCOME BEFORE COST OF RISK	166	163	(24)	(115)%
Cost of risk	(28)	(178)	(18)	
PRE-TAX INCOME	138	(15)	(42)	(180)%
Income tax	(47)	18	13	
NET INCOME	91	3	(29)	(1,067)%

Income in 2013 and 2014 was strongly influenced by two exceptional factors that should be mentioned in this analysis:

- adjustments in fair value concerning interest rate risk hedges: the application of these changes in accounting standards or methods is a source of volatility in net banking income. The impact was very positive in 2013 (EUR +116 million) and negative in 2014 (EUR -24 million);
- the contribution to the support funds created by the French State to solve the problem of sensitive structured loans. This contribution was totally covered by a provision and had an impact on the cost of risk of EUR -150 million (local government fund) in 2013 and of EUR -18 million (public hospital fund) in 2014.

Corrected for these items, net banking income went from EUR +126 million in 2013 to EUR +93 million in 2014, and net income from EUR +26 million to EUR -1 million.

a. Net banking income

Net banking income fell significantly as compared with 2013, from EUR 242 million to EUR 69 million. This trend was due to variations in the Interest margin as well as in the Net result from assets at fair value.

- Net result from assets at fair value

Whereas this item previously corresponded to the inefficiency of interest risk hedges (absent or very low given the strict hedging rules applied by the Company), since 2013 it includes the impact of the Credit Value Adjustment/Debit Value Adjustment (CVA / DVA) introduced by the application of IFRS 13. The effect of the application of this

13. Income for the year

13.1 - INCOME IN IFRS

Caisse Française de Financement Local publishes its financial statements according to IFRS, as adopted by the European Commission in order to allow for a better understanding and a better comparability of its financial statements by international investors.

Since the year 2013, the application of IFRS 13 to the hedging of the balance sheet items by derivatives produces very significant effects that make it difficult to compare net banking income from one period to another.

The income statement for 2014 is presented in a synthetic form as follows.

standard on net banking income in 2013 and 2014 was, respectively, for the CVA, EUR -9 million and EUR +6 million, and for the DVA, EUR +127 million and EUR -26 million.

Two other causes of accounting inefficiency in interest rate hedges exist since the implementation of the following changes in method in the second half of 2013:

- valuation of collateralized derivatives: to account for developments in French banks' best practices, the Company chose a valuation against Eonia for derivatives for which it receives cash collateral while the other derivatives remain valued against Euribor. This change in the valuation of hedging derivatives, whereas the valuation of hedged items is not modified, creates inefficiency in hedging relations. The inefficiency observed for that reason in net banking income for 2013 and 2014 totaled respectively EUR +19 million and EUR -6 million.
- evaluation of the hedged risk of certain assets and liabilities that are swapped against an Euribor index different from that in the traditional curve that serves to value instruments on the balance sheet. The value of the derivative and that of the hedged item follow independent trends, thereby creating hedging inefficiency, accounting for a gain of EUR 2 million in 2014 and a loss of EUR -20 million in 2013.

- Interest margin

Corrected for the adjustments in fair value observed in 2013 and 2014, net banking income was down EUR 33 million, from EUR 126 million to EUR 93 million. This decline was mainly due to a decrease of EUR 38 million in the Interest margin (-27%). The interest margin corresponds to the difference

between income from the assets and the cost of the liabilities (with comprehensive hedging of interest rate and foreign exchange risks). The decline in the margin was mainly due to balance sheet management factors (maturity of high margin hedging derivatives that covered the fixing risk and *obligations foncières* issued before the crisis replaced by new ones that are slightly more expensive) and to a decrease in interest rates (reduction in revenues of placement of equity).

- Other changes

The item Net result of financial assets available for sale mainly represents the results on early reimbursements of loans or issues, and if such is the case on sales of portfolio securities. It improved slightly (EUR +2 million) compared with 2013. Lastly, the EUR 4 million rise in net commissions paid principally corresponds to billing by Sfil within the framework of its management agreement as defined in article L.513-15 of the Monetary and Financial Code.

b. Other items

Most of the General operating expenses are also made up of billing by the parent company for the operational management of the Company. The increase was the result of the progressive constitution of Sfil teams in 2013 and 2014, and the end of synergies with the previous servicer.

The Cost of risk was impacted by accounting for the voluntary contributions of Caisse Française de Financement Local to the support funds in the amount of EUR 150 million (local government fund) in 2013, and for EUR 18 million in 2014 (hospital fund). Excluding provisions for these contributions, the Cost of risk can be attributed to efforts to bolster specific and collective provisions in 2013 in the amount of EUR 32 million and in 2014 for EUR 26 million (cf. 8.1.c Non-performing loans, litigious loans, provisions) of which respectively EUR 28 million and EUR 0 million were recorded in the Cost of risk.

Net income totaled EUR -29 million in 2014 as compared with EUR +3 million in 2013. Corrected for adjustments in fair value and extraordinary contributions to support funds, net income dropped from EUR +26 million to EUR -1 million.

13.2 - INCOME IN FRENCH GAAP

Net income for the year 2014 is presented below in a synthetic manner.

French GAAP EUR millions	2012	2013	2014	Change 2014/ 2013
Interest margin	237	160	158	(1)%
Net commissions	(4)	(24)	(28)	
Provisions and income on trading portfolio	-	-	-	
Provisions and income on placement portfolio	13	41	(2)	
Other income and expense	-	-	-	
NET BANKING INCOME	246	177	128	(28)%
General operating expenses	(91)	(79)	(90)	
Taxes	-	-	(3)	
OPERATING INCOME BEFORE COST OF RISK	155	98	35	(64)%
Cost of risk	(41)	(183)	(18)	
OPERATING INCOME	114	(85)	17	120%
Income (loss) on fixed assets	(26)	-	-	
Income tax	(50)	(5)	(9)	
Regulated provision on long- and medium- term loans	(1)	70	-	
NET INCOME	37	(20)	8	140%

Net banking income was down 28%, or EUR 49 million, as compared with the same period in 2013, decreasing from EUR 177 million to EUR 128 million.

This trend was mainly due to the item Provisions and income on placement portfolio, which reported a change of EUR -43 million (reversal of provisions in the amount of EUR 41 million in 2013).

The Interest margin was rather stable at EUR 158 million. The Interest margin corresponds to the difference between income from the assets and the cost of the liabilities (with comprehensive hedging of interest rate and foreign exchange risks). It was influenced in 2013 by the decrease in the size of the balance sheet and by changes in the structure of financing over-collateralization. The Interest margin varies differently when it is presented in IFRS (economic presentation) or in French GAAP (tax presentation). The

way debt management is accounted for is, in certain cases, asymmetrical in French GAAP (see below), a fact that can make it difficult to interpret the changes, especially the years in which local government debt management (including reduction in loan sensitivity) is very active.

Readers are reminded that Caisse Française de Financement Local applies an accounting treatment to early loan reimbursement penalties and swap unwinding payments that is in compliance with the tax treatment specified by government tax authorities.

This accounting method introduces accelerated recognition of income compared with systematic amortization. These penalties and payments are generated by early reimbursements, but also by renegotiations, which generally accompany active debt management by borrowers.

The methods employed, which have not changed in the last three years, are described in the rules of presentation and

evaluation of the financial statements in the notes to the financial statements in the sections entitled *Customer loans*, *Micro-hedge transactions* and *Macro-hedge transactions*.

Most of the General operating expenses are made up of billing by the parent company for the operational management of the Company within the framework of its management agreement as defined in article L.513-15 of the Monetary and Financial Code. The increase was the result of the progressive constitution of Sfil teams in 2013 and 2014, and the end of synergies with the previous servicer.

The Cost of risk was impacted by accounting for the voluntary contributions of Caisse Française de Financement Local to the support fund in the amount of EUR 150 million (local government fund) in 2013, and for EUR 18 million in 2014 (hospital fund). Excluding provisions for these contributions, the Cost of risk can be attributed to efforts to bolster specific and collective provisions in 2013 in the amount of EUR 33 million and in 2014 for EUR 26 million (cf. 8.1.c Non performing loans, litigious loans, provisions) of which respectively EUR 33 million and EUR 0 million were recorded in the Cost of risk.

Net income was up from EUR -20 million to EUR +8 million.

14. Proposed allocation of net income

In previous years, Caisse Française de Financement Local distributed the following dividends.

Year of distribution	Distributed from the year's income	Amount distributed (EUR)	Amount per share (EUR)	Number of shares
2000	1999	3,600,000	1.20	3,000,000
2001	2000	-	-	4,000,000
2002	2001	-	-	4,500,000
2003	2002	-	-	4,500,000
2004	2003	120,000,000	24.00	5,000,000
2005	2004	62,000,000	10.00	6,200,000
2006	2005	84,320,000	12.40	6,800,000
2007	2006	116,280,000	15.30	7,600,000
2008	2007	70,080,000	8.00	8,760,000
2009	2008	113,520,000	12.00	9,460,000
2010	2009	133,560,000	12.60	10,600,000
2011	2010	110,075,000	9.25	11,900,000
2012	2011	15,080,000	1.16	13,000,000
2013	2012	-	-	13,150,000
2014	2013	-	-	13,150,000

The Ordinary Shareholders' Meeting will be asked not to distribute a dividend and to vote a resolution to allocate net income as follows (in euros).

Net income for the year 2014	7,713,941.02
Allocated to the legal reserve (5%)	(385,697.05)
Income available	7,328,243.97
Prior retained earnings	18,011,364.98
Amount available for distribution	25,339,608.95
Proposed allocation	-
Retained earnings after distribution	25,339,608.95

15. Outlook for 2015

Two years after the introduction by the French State of the new organization of the financing system for local governments and public hospitals, Caisse Française de Financement Local has become the leading European issuer of covered bonds backed by public sector assets and has demonstrated its ability to supply efficient financing to refinance these loans, with particularly long maturities and in large amounts.

This performance led the French government to entrust the bank with a second refinancing mission at the beginning of 2015. This will involve loans granted to accompany French exports (see below 16.). Caisse Française de Financement Local will remain totally specialized in the refinancing of

French public sector assets, and the strategic importance of its parent company, Sfil, for the government and the French economy will be strengthened.

For the year 2015, the volume of issues planned is between EUR 4.5 billion and EUR 5.5 billion. Caisse Française de Financement Local launched its first public issue in 2015 on January 15, in the amount of EUR 500 million with a maturity of 20 years, a period that is exceptionally long and rare in the covered bond market. The success of this transaction makes it possible to complete the public issue curve after 5, 7, 10 and 15 year tranches launched since the creation of the CAFFIL signature at the beginning of 2013.

16. Project to extend activity to the refinancing of export credit

16.1 - A NEW MISSION ASSIGNED BY THE STATE

On February 6, 2015, the President of the French Republic announced the creation of a national scheme dedicated to the refinancing of export credit, that would be competitive and similar to what exists in most OECD countries. This new scheme will bolster the export capacity of French companies.

The mission was entrusted to Sfil and its subsidiary, Caisse Française de Financement Local, by the State, their reference shareholder. They will refinance buyer credit contracts insured by Coface on behalf of the State and will help improve competitiveness in large export contracts. Thus, banks that are partners of French exporters will be able to rely on the capacities of Caisse Française de Financement Local to raise funds in the market with the volumes and maturities adapted to the refinancing of large-sized export credits and under conditions that are those of the best issuers of French covered bonds.

The project may be operative by the second half of 2015, once the necessary authorizations have been obtained. This new activity will develop progressively and complement the initial business of financing the French local public sector.

16.2 - NEW ASSETS FOR THE COVER POOL

The new activity will root Caisse Française de Financement Local even more firmly in the French public sector without modifying the risk profile of its cover pool.

The system will function as follows.

- Sfil will contribute to the financial proposal made by one or more banks in the banking syndicate granting the buyer credit insured by the export credit agency Coface on behalf of the State; these banks will then sell to Sfil all or a part of the credit (and the rights attached) and keep the 5% of the credit sold that is not insured.

- Caisse Française de Financement Local will grant a loan to Sfil to enable it to refinance the export credit; this refinancing loan will benefit from an irrevocable and unconditional 100% guarantee provided by Coface for and with the guarantee of the French State, referred to as an “enhanced guarantee”⁽⁴⁾. Loans granted by Caisse Française de Financement Local to Sfil to refinance the purchased export credit loans will constitute exposures that are totally guaranteed by France, thus eligible for the cover pool of a *société de crédit foncier*. These loans will also comply with the European CRR regulation (article 129, that specifies which assets are authorized for the inclusion in a cover pool to ensure that the covered bonds will benefit from the best prudential treatment).

These new loans, like the new French local public sector loans marketed by La Banque Postale, will complement the portfolio (cover pool) of Caisse Française de Financement Local, which is financed by the issue of covered bonds. Given the current size of the cover pool and the growth of its traditional business, the share of the new activity in the portfolio of Caisse Française de Financement Local will increase progressively and will only become significant in several years.

⁽⁴⁾ The enhanced guarantee was created by law 2012-1510 of December 29, 2012, and decree 2013-693 of July 30, 2013.

Bonds and public sector loans as of December 31, 2014

EUR millions	12/31/2014					12/31/2013
	Direct exposure		Indirect exposure			
COUNTRY	Loans	Bonds	Loans	Bonds	Total	Total
France						
State		1,550	172		1,722	147
Banque de France	519				519	1,471
Regions	1,634	114	282		2,030	2,160
Departments	6,126		274		6,400	6,156
Municipalities	15,361	100	649		16,110	16,626
Groups of municipalities	9,057	102	212		9,371	9,601
Public sector entities:						
- health	6,102				6,102	6,168
- social housing	1,667				1,667	1,795
- other	925		6		931	998
Credit institutions	3,926				3,926	4,381
Subtotal	45,317	1,866	1,595		48,778	49,503
Germany						
Länder		511		343	854	854
Subtotal		511		343	854	854
Austria						
Länder	197				197	199
Subtotal	197				197	199
Belgium						
Regions	37		50		87	114
Communities		50			50	50
Public sector entities	69				69	74
Subtotal	106	50	50		206	238
Canada						
Provinces		22			22	22
Communities	192				192	202
Public sector entities	129				129	129
Subtotal	321	22			343	353
Spain						
Regions		232			232	229
Municipalities	253				253	267
Subtotal	253	232			485	496
United States						
Federated States		253			253	253
Subtotal		253			253	253
Finland						
Municipalities	2				2	5
Public sector entities	41				41	42
Subtotal	43				43	47

EUR millions	12/31/2014					12/31/2013
	Direct exposure		Indirect exposure			
COUNTRY	Loans	Bonds	Loans	Bonds	Total	Total
Italy						
State		576			576	580
Regions		2,967			2,967	3,051
Provinces		653			653	717
Municipalities	11	2,212			2,223	2,351
Subtotal	11	6,408			6,419	6,699
Japan						
Municipalities		25			25	25
Subtotal		25			25	25
Portugal						
Municipalities	51				51	58
Public sector entities	7				7	8
Subtotal	58				58	66
United Kingdom						
State				481	481	555
Counties			398		398	398
Districts			28		28	28
Municipalities			1,368		1,368	1,368
Public sector entities			56		56	56
Subtotal			1,850	481	2,331	2,405
Sweden						
Municipalities	23		11		34	55
Public sector entities					-	5
Subtotal	23		11		34	60
Switzerland						
Cantons	951		473		1,424	1,621
Municipalities	765				765	778
Public sector entities	91				91	91
Subtotal	1,807		473		2,280	2,490
Supranational						
International organizations	39				39	43
Subtotal	39				39	43
TOTAL COVER POOL	48,175	9,367	3,979	824	62,345	63,731

Loans and securities are off premium / discount.

Loans and securities denominated in foreign currencies are recorded at their euro swapped value. Loans and bonds are presented after specific impairments. In addition to these impairments, Caisse Française de Financement Local recognizes collective and sectorial impairments.

Supervisory Board and Executive Board

Supervisory Board (March 2015)

Philippe Mills
Chairman

François Laugier
Vice Chairman

Stéphane Costa de Beauregard
Member of the Supervisory Board

Sami Gotrane
Member of the Supervisory Board

Béatrice Gosserez
Member of the Supervisory Board

Florent Lecinq
Member of the Supervisory Board

Executive Board (March 2015)

Gilles Gallerne
Chairman

Caroline Gruson
Chief Executive Officer
Member of the Executive Board

Cyril Cudennec
Member of the Executive Board

Pierre-Marie Debreuille
Member of the Executive Board

Emmanuel Moritz
Member of the Executive Board

Directorships and positions of members of supervisory and management bodies

In application of article L.225-102-1 of the Code of Commerce, the following list presents the directorships and positions exercised in 2014 by every corporate officer of Caisse Française de Financement Local who served during the year.

Supervisory Board

CHAIRMAN

Philippe Mills

49 years old

Chairman of the Board of Directors and Chief Executive Officer, Société de Financement Local

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

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

VICE CHAIRMAN

François Laugier

50 years old

Deputy Chief Executive Officer, Société de Financement Local

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

- Member of the Executive Committee, Société de Financement Local

MEMBERS

Stéphane Costa de Beauregard

48 years old

Vice President, Debt Management, Société de Financement Local

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

- Member of the Executive Committee, Société de Financement Local

Béatrice Gosserez

49 years old

General Secretary, Société de Financement Local

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

- Member of the Executive Committee, Société de Financement Local

Sami Gotrane

50 years old

Vice President, Cash Management and Financial Markets, Société de Financement Local

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

- Chairman of the Board of Directors, CTG Financial Consulting
- Member of the Executive Committee, Société de Financement Local

Florent Lecinq

39 years old

Chief Financial Officer, Société de Financement Local

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

- Member of the Executive Committee, Société de Financement Local

Marc Robert (until March 28, 2014)

41 years old

26, rue Berthollet - 75005 Paris

- Member of the Executive Committee, Société de Financement Local (until March 2014)

Executive Board

CHAIRMAN

Gilles Gallerne

51 years old

Vice President in charge of the coordination of Caisse Française de Financement Local within Société de Financement Local

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

- Member of the Executive Committee, Société de Financement Local (until March 2014)

MEMBERS

Caroline Gruson - Chief Executive Officer

41 years old

Deputy to the Vice President in charge of the coordination of Caisse Française de Financement Local within Société de Financement Local

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

Cyril Cudennec

38 years old

Vice President, Market Activities, Deputy to the Vice President, Cash Management and Financial Markets, Société de Financement Local

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

Pierre-Marie Debreuille

39 years old

Vice President, Financial Steering, Deputy to the Chief Financial Officer, Société de Financement Local
Société de Financement Local – 1-3, rue du Passeur de Boulogne – 92130 Issy-les-Moulineaux

Emmanuel Moritz

39 years old

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

Compensation of members of management bodies

In 2014, Caisse Française de Financement Local paid no compensation to the members of its management bodies, all of whom were employees of Société de Financement Local and who exercised their mandates with no specific compensation, except for the Chairman of the Supervisory Board, who is also a member of the parent company's Board of Directors and only in this role receives any compensation.

Readers are reminded that Caisse Française de Financement Local has no compensation committee and that reference is made to the Appointment and Compensation Committees that exist at the level of its parent company, Société de Financement Local.

Statutory Auditors

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

Mazars

Exaltis – 61, rue Henri Regnault – 92075 – La Défense Cedex
represented by Virginie Chauvin, Partner (until after the shareholders' meeting called to approve the financial statements for the year ended December 31, 2014), and Anne Veaute, Partner

Alternate: Pierre Masieri

Re-appointed by the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2011, 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
Alternate: BEAS, represented by Mireille Berthelot, Partner
Re-appointed by the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2011, until after the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2016.

Specific Controller

Fidus

12, rue de Ponthieu – 75008 Paris

represented by Jean-Michel Thierry, Partner

This appointment was renewed by the Supervisory Board on March 18, 2015, for a term of four years.

Alternate: Eric Lebègue

Appointed by the Supervisory Board on March 18, 2015, for a term of four years, to replace Groupement d'expertise de France.

Social, environmental and societal information

In application of article L.225-102-1 of the Code of Commerce modified by article 225 of law 2010-788 of July 12, 2010 (Grenelle 2 law) and decree 2012-557 of April 24, 2012, Caisse Française de Financement Local must communicate information on labor, environmental and society-related issues in the Management Report. Since Caisse Française de Financement Local has no salaried employees nor actual premises, the labor and environmental issues do not apply to this entity.

Report of one of the Statutory Auditors, appointed as an independent third-party, on the social, environmental and societal information published in the management report Year ended December 31, 2014

This is a free translation into English of the original report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditor of Caisse Française de Financement Local, and appointed as independent third-party, for whom the certification request has been approved by the French National Accreditation Body (COFRAC) under the number 3-1048⁽¹⁾, we hereby present you with our report on the social, environmental and societal information prepared for the year ended December 31, 2014 (hereinafter the "CSR Information"), and presented in the management report pursuant to article L.225-102-1 of the Code of Commerce (Code de commerce).

RESPONSIBILITY OF THE COMPANY

The Executive Board of Caisse Française de Financement Local is responsible for preparing a management report including CSR Information in accordance with the provisions of article R.225-105-1 of the Code of Commerce.

INDEPENDENCE AND QUALITY CONTROL

Our independence is defined by regulatory texts, the profession's Code of Ethics as well as by the provisions set forth in article L.822-11 of the Code of Commerce. Furthermore, we have set up a quality control system that includes the documented policies and procedures designed to ensure compliance with rules of ethics, professional auditing standards and the applicable legal texts and regulations.

⁽¹⁾ the scope of which is available at www.cofrac.fr

RESPONSIBILITY OF THE STATUTORY AUDITOR

Based on our work, our responsibility is to issue a report which comprises:

- an attestation that the CSR Information required under article R.225-105-1 of the Code of Commerce is presented in the management report or, in the event of omission, is explained pursuant to the third paragraph of article R.225-105 of the Code of Commerce;
 - a reasoned opinion on the accuracy of information included in the management report and, if need be, the explanations relating to the omission of some of the CSR Information required under the third paragraph of article R.225-105 of the Code of Commerce;
 - the nature and scope of the tests and controls performed.
- Our work was carried out by a team of two people in March 2015. To assist us in conducting our work, we referred to our corporate responsibility experts.

We conducted the following procedures in accordance with professional auditing standards applicable in France and with the arrêté of May 13, 2013, determining the methodology according to which the independent third party entity conducts its assignment. As mentioned page 35 of the annual financial report for 2014, which includes the management report, the Company does not provide any CSR Information as it has no staff nor actual premises. Thus we assessed the relevance of the explanations relating to the total omission of CSR Information.

Based on our work:

- we attest that the explanations relating to the omission of required CSR Information is presented in the management report.
- we do not have any observation to mention about the provided explanations relating to the omission of CSR Information.

Neuilly-sur-Seine, March 31, 2015

French original signed by one of the Statutory Auditors:

DELOITTE & ASSOCIÉS
Charlotte Vandeputte

IFRS Financial Statements

Assets as of December 31, 2014

EUR millions	Note	12/31/2012	12/31/2013	12/31/2014
Central banks	2.1	2,400	1,471	519
Financial assets at fair value through profit or loss		-	-	2
Hedging derivatives	4.1	9,748	6,501	8,361
Financial assets available for sale	2.2	1,125	1,084	2,770
Loans and advances due from banks	2.3	3,741	7,314	6,752
Loans and advances to customers	2.4	71,996	61,929	62,242
Fair value revaluation of portfolio hedge		3,066	1,611	3,178
Financial assets held to maturity		-	-	-
Current tax assets	2.5	1	13	0
Deferred tax assets	2.5	89	90	99
Accruals and other assets	2.6	3	4	3
TOTAL ASSETS		92,169	80,017	83,926

Liabilities as of December 31, 2014

EUR millions	Note	12/31/2012	12/31/2013	12/31/2014
Central banks	3.1	-	-	-
Financial liabilities at fair value through profit or loss		-	8	0
Hedging derivatives	4.1	14,110	10,605	13,512
Due to banks	3.2	7,620	6,774	6,228
Customer borrowings and deposits		-	-	-
Debt securities	3.3	62,739	57,129	58,501
Fair value revaluation of portfolio hedge		2,861	1,398	1,786
Current tax liabilities	3.4	6	2	10
Deferred tax liabilities	3.4	-	-	-
Accruals and other liabilities	3.5	3,546	2,742	2,532
Provisions		-	-	-
Subordinated debt		-	-	-
Equity		1,287	1,359	1,357
Capital and related reserve		1,315	1,315	1,315
Reserves and retained earnings		125	215	218
Gains and losses through equity		(244)	(174)	(147)
Net income		91	3	(29)
TOTAL LIABILITIES		92,169	80,017	83,926

Income statement

EUR millions	Note	2012	2013	2014
Interest income	5.1	5,742	5,086	4,453
Interest expense	5.1	(5,503)	(4,945)	(4,350)
Fee and commission income	5.2	-	0	0
Fee and commission expense	5.2	(4)	(24)	(28)
Net result of financial instruments at fair value through profit or loss	5.3	1	119	(14)
Net result of financial assets available for sale	5.4	21	6	8
Other income		-	0	0
Other expense		-	0	(0)
NET BANKING INCOME		257	242	69
Operating expense	5.5	(91)	(79)	(93)
GROSS OPERATING INCOME		166	163	(24)
Cost of risk	5.6	(28)	(178)	(18)
OPERATING INCOME		138	(15)	(42)
Net gains (losses) on other assets		-	-	0
INCOME BEFORE TAX		138	(15)	(42)
Income tax	5.7	(47)	18	13
NET INCOME		91	3	(29)
Earnings per share (in EUR)				
- Basic		6.93	0.24	(2.22)
- Diluted		6.93	0.24	(2.22)

Net income and unrealized or deferred gains and losses through equity

EUR millions	2012	2013	2014
Net income	91	3	(29)
Items will be reclassified subsequently to profit or loss	104	70	27
Unrealized or deferred gains and losses of financial assets available for sale	107	71	39
Unrealized or deferred gains and losses of cash flow hedges	60	21	2
Taxes on items reclassified subsequently to profit or loss	(63)	(22)	(14)
Items will not be reclassified subsequently to profit or loss	-	-	-
Total of unrealized or deferred gains and losses through equity	104	70	27
NET INCOME AND GAINS AND LOSSES THROUGH EQUITY	195	73	(2)

Equity

EUR millions	Capital and reserves			Unrealized or deferred gains and losses			Total equity
	Share capital, additional paid-in capital	Retained earnings and net income for the period	Total	Net change in fair value of available-for-sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax	Total	
EQUITY AS OF DECEMBER 31, 2013	1,315	218	1,533	(143)	(30)	(174)	1,359
Shares issued	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Changes in fair value of available-for-sale financial assets through equity	-	-	-	25	-	25	25
Changes in fair value of derivatives through equity	-	-	-	-	2	2	2
Changes in fair value of available-for-sale financial assets through profit and loss	-	-	-	-	-	-	-
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-
Net income for the period	-	(29)	(29)	-	-	-	(29)
Other movements	-	-	-	-	-	-	-
EQUITY AS OF DECEMBER 31, 2014	1,315	189	1,504	(118)	(28)	(147)	1,357

Share capital currently stands at EUR 1,315,000,000 represented by 13,150,000 nominative shares.

Cash flow statement

EUR millions	12/31/2012	12/31/2013	12/31/2014
NET INCOME BEFORE TAXES	138	(15)	(42)
+/- Depreciation and write-downs	70	178	44
+/- Expense/income from investing activities	245	5	110
+/- Expense/income from financing activities	(124)	(110)	(88)
+/- Other non-cash items	(609)	40	(126)
= Non-monetary items included in net income before tax and other adjustments	(418)	113	(60)
+/- Cash from interbank operations	(3,007)	(474)	38
+/- Cash from customer operations	3,207	2,610	990
+/- Cash from financing assets and liabilities	8,706	4,775	(1,448)
+/- Cash from not financing assets and liabilities	0	0	0
- Income tax paid	5	(14)	(3)
= Decrease/(increase) in cash from operating activities	8,911	6,897	(423)
CASH FLOW FROM OPERATING ACTIVITIES (A)	8,631	6,995	(525)
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-	-
+/- Cash from or for shareholders	-	-	-
+/- Other cash from financing activities	(6,934)	(3,417)	(430)
CASH FLOW FROM FINANCING ACTIVITIES (C)	(6,934)	(3,417)	(430)
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	-	-	-
Increase/(decrease) in cash equivalents (A + B + C + D)	1,697	3,578	(955)
Cash flow from operating activities (A)	8,631	6,995	(525)
Cash flow from investing activities (B)	-	-	-
Cash flow from financing activities (C)	(6,934)	(3,417)	(430)
Effect of changes in exchange rates on cash and cash equivalents (D)	-	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	(3,787)	(2,090)	1,488
Cash and balances with central banks (assets & liabilities)	2,198	2,400	1,471
Interbank accounts (assets & liabilities) and loans/deposits at sight	(5,985)	(4,490)	17
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	(2,090)	1,488	533
Cash and balances with central banks (assets & liabilities)	2,400	1,471	519
Interbank accounts (assets & liabilities) and loans/deposits at sight	(4,490)	17	14
CHANGE IN NET CASH	1,697	3,578	(955)

Notes to the IFRS financial statements

1. ACCOUNTING POLICIES AND VALUATION METHODS

1.1 - CONTEXT OF PUBLICATION

Caisse Française de Financement Local decided to publish a set of individual financial statements according to IFRS. This publication is voluntary.

The financial statements as of December 31, 2014, were examined by the Executive Board on March 16, 2015.

Readers are reminded that in order to prepare its financial statements for 2013, Caisse Française de Financement Local 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 same was true for the half-year accounts as of June 30, 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 financial statements, Caisse Française de Financement Local took into account the effects of the decision of the Swiss National Bank (SNB) and the hypothesis that the solution announced by the government (in particular, strengthening the funds' intervention capacity and pushing up the ceiling for assistance to the most vulnerable local governments) would in fact rapidly be made available so that the support would remain at least as attractive as before the SNB decision for local governments holding loans indexed on the EUR/CHF exchange rate (cf. 1.2.g Post-Closing Events).

Caisse Française de Financement Local voluntarily contributed EUR 150 million to the local government support fund and EUR 18 million to the hospital support fund, but it did not book 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).

1.2 - HIGHLIGHTS OF THE PERIOD AND POST-CLOSING EVENTS

a. Situation in the covered bond market

Business in the euro-denominated covered bond market flourished in 2014 with a primary offering of EUR 117 billion (compared with EUR 100 billion in 2013). This dynamic performance was partly due to the refinancing of a large amount of matured covered bonds in 2014 (EUR 152 billion), but also to the active presence of issuers outside the eurozone who found favorable conditions for long-term financing in this market. If German and French issuers remained the most dynamic with overall more than 30% of the offering, Canadian, Australian and British issuers accounted for 22% (to be compared with 10% in 2013).

A highlight of 2014 was the announcement by the ECB at the beginning of September of a new covered bond purchase program, as part of the implementation of its unconventional

monetary policy. This announcement increased the tightening trend in secondary spreads and thus primary spreads. Generally speaking, with almost EUR 30 billion purchased in the primary and secondary market in the fourth quarter of 2014, the eurosystem, while repeating how important it considered the market, was a major player itself. After a long period of performance, the market nonetheless reported a movement of consolidation from mid-November. This concerned secondary spreads in particular, reflecting the relative value of the covered bond product vis-à-vis sovereign bonds.

The covered bond class of assets has always benefited from a particularly positive treatment in a context of regulatory changes (Basel III or Solvency 2), inciting investors to focus on this class in their asset allocation despite the context of low rates and tight spreads. The demand will naturally remain sustained, in particular because of the arrival at maturity of significant volumes of covered bonds in 2015 (EUR 145 billion), again generating an anticipated marked negative net offering of EUR 35 billion.

In this environment, Caisse Française de Financement Local carried out its *obligations foncières* financing program under good conditions of volume, spread and average length of life in order to provide the long-term liquidity required to develop the commercial offer of La Banque Postale to the public sector in France and accompany its policy to reduce loan sensitivity.

b. Business of local government financing in 2014

As part of its main activity, Caisse Française de Financement Local refinances the loans granted by La Banque Postale (LBP) to French local governments and hospitals. It has also been led to grant direct loans to these categories of customers together with its operations to reduce its outstanding sensitive structured loans.

Investment by local governments was expected to decline in 2014 because of the communal and inter-communal elections in France, and of the slight decrease in gross savings by local governments. However, and in spite of fierce competition, La Banque Postale granted loans of EUR 3.3 billion, with an excellent final quarter, up approximately 10% from the previous year. Combined with the loans directly granted by Caisse Française de Financement Local, the total production rose to EUR 4.1 billion and confirmed the leading role of the LBP/Sfil arrangement in refinancing the local public sector (second largest lender in terms of market share). For its second year of business, the organization that had been set up confirmed its efficiency and pursued its progressive and regular ramp up.

Sfil continued to implement the policy that consists in reducing the sensitivity of the structured loans of Caisse Française de Financement Local with a volume of EUR 1.2 billion of sensitive loans transformed into fixed rate contracts. The number of sensitive loans totally transformed into vanilla loans was multiplied by two in 2014 compared with 2013. Since the beginning of 2013, the total amount of outstanding structured loans was reduced by a quarter, from EUR 8.5 billion to EUR 6.3 billion, and more than 150 customers definitively moved out of the "sensitive customer" category. Since the support funds initiated by the French State are fully operational, many legal settlements have been signed, in particular, with

the Département de la Seine-Saint-Denis and the cities of Asnières-sur-Seine and Saint-Étienne. The efforts to reduce sensitivity were generally accompanied by new loans of which EUR 0.9 billion were paid out in 2014.

c. Changes in the regulation of covered bonds in France

Changes were introduced into regulations governing the activity of issuers of French covered bonds (*sociétés de crédit foncier* - SCF and *sociétés de financement de l'habitat* - SFH) in the first half of 2014.

These changes were integrated into current regulations by decree 2014-526 of May 23, 2014, and by an *arrêté* dated May 26, 2014. They took effect at the end of May 2014, after publication in the Journal Officiel.

The objective is to bolster the prudential framework of SCF/SFH and guarantee the eligibility of issues with the best prudential treatment.

These measures mainly consist in:

- raising the minimum level of over-collateralization (OC) from 2% to 5%;
- limiting the exposure of an SCF or SFH to its parent company by modifying the way in which the OC ratio and the coverage of liquidity needs for the next 180 days are calculated;
- imposing greater congruence between asset/liability maturities with the introduction of an annual cover plan and with the limitation to 18 months of the gap between the weighted average life of eligible assets, considered up to their minimum amount required to satisfy the OC ratio of 105%, and the weighted average life of the privileged liabilities;
- rendering effective the possibility of a transfer of servicing the SCF/SFH via the annual setting up of a servicing transfer plan submitted to the Autorité de contrôle prudentiel et de résolution.
- limiting the use of securitizations.

Caisse Française de Financement Local will be able to respect all of these changes before the specified deadlines.

d. Preparation for the single supervision mechanism

Within the framework of the Single Supervision Mechanism (SSM), the European Central Bank (ECB) directly oversees the 120 largest banks in the eurozone as of 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 oversight obligations, the ECB launched 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. It marked a major step forward in the effort to bolster confidence in eurozone banks, increase the transparency of bank balance sheets and harmonize supervisory practices in Europe.

The AQR focused on the assets on bank balance sheets as of December 31, 2013. It covered exposure to credit and market risks, including the evaluation of assets for which it is difficult to determine the value (level 3 according to accounting standards). All risk exposures, be they domestic or foreign, and all categories of assets, including non-performing exposures, forbearance and exposure to sovereign debt were taken into account. This assessment was carried out using harmonized definitions, in particular those that apply to non-performing

exposures and forbearance. The stress test was based on an examination of the quality of the assets and completes this study to support an opinion, over time, on the capacity of the banks to absorb shocks in the event of a serious crisis.

The definitive results, published on October 26, 2014, by the EBC, are very satisfactory for the Sfil Group. They confirm the relevance and the considerable prudence of the risk management system set up by the bank, the high quality of its public sector assets and its solid capitalization.

The Asset Quality Review of the ECB had no significant impact on Caisse Française de Financement Local'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 stress test confirms the Sfil Group's low risk profile, which results from the quality of its economic model based on public sector assets with little risk. 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 an adverse scenario, the ratio remains robust at 13.17%. The high level of the ratio results from the good level of capitalization combined with a very low risk weighting of the Sfil Group's assets, reflecting the credit quality of local governments. For more than 15 years, the default rate is less than 1‰ and the loss given default rate is less than 1% for most of the asset classes in the portfolio.

e. Events affecting the rating of obligations foncières in 2014

The changes observed in 2014 as concerns the rating of the *obligations foncières* of Caisse Française de Financement Local (a notch down in the Fitch rating and a negative outlook in the S&P rating) are the result of Fitch's and S&P's review of the rating of the French Republic, and then that of French public sector entities, including Sfil, the parent company of Caisse Française de Financement Local.

As of December 31, 2014, the ratings of Caisse Française de Financement Local were AA+ at Standard and Poor's, Aaa at Moody's and AA at Fitch.

f. Litigation and governmental measures

In its portfolio, Caisse Française de Financement Local has structured loans considered as sensitive, which had been granted to French customers by Dexia Credit Local. Some of these customers sued Dexia Credit Local, Caisse Française de Financement Local and/or Société de Financement Local, contesting the contractual interest rate. As of December 31, 2014, the number of customers having brought suit was 210 as compared with 205 at the end of 2013.

A limited number of cases were judged in initial hearings.

Following the suit brought against Dexia Credit Local by the Département de la Seine-Saint-Denis, three legal decisions were handed down on February 8, 2013, by the Tribunal de Grande Instance de Nanterre. It was a question of three structured loans representing a total capital of EUR 178 million.

The Tribunal de Grande Instance de Nanterre rejected the claims of the Département de la Seine-Saint-Denis, which sought to have the three disputed loan agreements canceled

and asked for compensation and damages. In particular, the Tribunal considered that these loans were not of a speculative character, that the Département was competent to sign these loan agreements, and that Dexia Credit Local acted in the respect of its duty to inform and advise the Département. The Tribunal de Grande Instance de Nanterre however estimated that the faxes which had preceded the signing of the agreements could be qualified as "loan agreements", and that the lack of mention of the annual percentage rate of charge (*Taux Effectif Global* – TEG) implied the application of an official interest rate (*taux légal*). Dexia Credit Local appealed this decision on April 4, 2013, and Caisse Française de Financement Local decided to intervene voluntarily in the proceedings that oppose the Département de la Seine-Saint-Denis and Dexia Credit Local in order to defend its interests by taking part in the proceedings. In December 2014, the Département de la Seine-Saint-Denis committed to put an end to these proceedings in signing a legal settlement that organized the full transformation of its debt into vanilla loans.

Since the February 2013 legal decisions concerning the Département de la Seine-Saint-Denis, decisions were handed down by the Tribunal de Grande Instance (TGI) of Nanterre in the suits brought by four municipalities against Dexia Credit Local (and Caisse Française de Financement Local, which intervened voluntarily in the proceedings in order to defend its interests). These decisions concerned structured loans marketed by Dexia Credit Local and recognized on the balance sheet of Caisse Française de Financement Local, with total initial capital of EUR 98 million. As in the February 2013 decisions, the Tribunal's decision did not address the core issue (validity of the agreement, failure to provide adequate information, advice and warning, etc.), but it was motivated by the formal absence of the annual rate of charge (TEG) or intermediary data with which to calculate the TEG in the fax which had preceded the signing of the loan agreement. This item led the Tribunal to decide to apply the official interest rate (*taux légal*) instead of the contractual rate. Dexia Credit Local and Caisse Française de Financement Local have appealed these decisions.

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 significant resources enabling local governments to finance the unwinding of structured loans; a similar system is currently being set up for public hospitals;
- legislative measures targeting a legal basis to secure loan agreements in effect with local governments.

The 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 à risque.

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), bringing together representatives of the State, local governments and qualified individuals, 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, as the financial situation of the customer and the share of eligible contracts in the total debt of this customer; the maximum amount of aid will be 45% of the indemnity to be paid by the customer to the bank (maximum rate of aid being granted to customers with the worst financial situation);
- use of the aid received by local governments: it will be paid by 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 redeemed 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 ensured by the State, via the CNOS;
- the funds come from the banks for 60% of the amount and from the State for the remaining part.

Caisse Française de Financement Local 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.

Substantial changes were made in February 2015 in the operation and ceilings of these funds. They are described in section 1.2.g.

New legislative provisions targeting a legal basis to secure loan agreements in effect with local governments were specified, and they take into account the comments of the Conseil constitutionnel at the end of December 2013. Legislation to secure structured loan agreements with public sector entities was adopted by the National Assembly on July 10, 2014, and passed by the Senate on July 17, 2014. The Conseil constitutionnel validated this legislation on July 24, 2014, and it took effect on July 30, 2014.

g. Post-closing events

On January 15, 2015, the Swiss National Bank (SNB) announced its decision to put an end to the floor rate of exchange of its national currency, the Swiss franc (CHF). 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 French 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 its decision to increase massively the intervention capacity of the funds earmarked to support public sector entities having contracted sensitive structured loans.

- The amount of the fund 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 significantly raised for the most vulnerable entities.

- The amount of the fund 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.

1.3 - APPLICABLE ACCOUNTING STANDARDS

a. Application of IFRS adopted by the European Commission

On July 19, 2002, the European Commission published regulation EC 1606/2002, which obliged listed groups to apply IFRS as from January 1, 2005. Caisse Française de Financement Local decided to apply all the IAS, IFRS, SIC and IFRIC adopted by the European Commission as of January 1, 2007.

Since its publication in 2002, regulation EC 1606/2002 has been updated several times. Caisse Française de Financement Local's financial statements have therefore been prepared in accordance with all IFRS as adopted and endorsed by the European Commission up to the accounting closing on December 31, 2014, including the conditions for the application of an interest-rate portfolio hedging and the possibility of hedging deposits.

The financial statements are prepared on a going-concern basis. They are stated in millions of euros (EUR) unless otherwise noted.

In preparing the financial statements, management is required to make 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. 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.

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 set out 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;
- Estimate of future taxable profit for the recognition and measurement of deferred tax assets.

b. Changes in accounting standards since the previous annual report that may impact Caisse Française de Financement Local

The following review of changes in accounting standards is based on the situation as of December 31, 2014.

IASB and IFRIC texts endorsed the European Commission and effective as of January 1, 2014

- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting: these amendments 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: these amendments clarify the requirements for offsetting financial instruments, specially the circumstances under which simultaneous gross settlement systems may be considered equivalent to net settlement.
- Amendments to IAS 27 Separate Financial Statements set the standards to be applied in accounting for investments in subsidiaries, joint ventures and associates when preparing separate financial statements.

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

IASB and IFRIC texts endorsed by the European Commission during the year but not applicable 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. Caisse Française de Financement Local anticipated the application of this interpretation on January 1, 2014. The main levy affected by this interpretation is "C3S" (Solidarity Social Contribution).
- Annual Improvements cycle 2011-2013: they provide small changes to existing standards. They are effective for annual periods beginning on or after January 1, 2015.

New standards, interpretations and amendments issued during the 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. The IASB currently has a separate active project of macro-hedging.
- 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 cycle 2012-2014 provide small changes to existing standards.
- Amendments to IAS 27 Equity Method in Separate Financial Statements allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Caisse Française de Financement Local is assessing the potential impact of these standards and amendments on its financial statements.

1.4 - ACCOUNTING PRINCIPLES APPLIED TO THE FINANCIAL STATEMENTS

a. Offsetting financial assets and financial liabilities

In certain circumstances, financial assets and financial liabilities are offset and the net amount is reported in the balance sheet. This may happen when there is a legally enforceable right to set off the recognized amounts and it is the intention of both parties that expected future cash flows will be settled on a net basis or that the asset will be realized and the liability settled simultaneously.

b. Foreign currency transactions

Foreign currency transactions are accounted for using the exchange rate on the transaction 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.

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

c. Trade date and settlement date

All purchases and sales of financial assets are recognized on the settlement date, which is the date that a financial asset is received or delivered by Caisse Française de Financement Local.

Hedging instruments are recognized at fair value on the transaction date.

d. Financial assets

Management determines the appropriate classification of its investments at initial recognition. However, under certain conditions 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 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.

Caisse Française de Financement Local recognizes loans and advances initially at fair value, to which transaction costs are added. Later estimates are made at amortized cost, less any impairment. Interest is recognized in net interest income based on the effective interest rate method.

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.

Held-to-maturity financial assets are initially recognized at fair value (including transaction costs) and subsequently at amortized cost, less any allowance for impairment. Interest is recognized in the interest margin 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 Financial assets available for sale. These assets are, except for certain cases, intended to be held to maturity.

Available-for-sale assets are initially recognized at fair value (including transaction costs). Interest on fixed-income securities is recognized based on the effective interest rate method in the interest margin. Dividends on variable-income securities are recorded in Net gains (losses) on financial assets available for sale.

Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in equity. When assets are disposed of, the related accumulated fair value adjustments are reversed in the income statement in Net gains (losses) on financial assets available for sale.

When available-for-sale financial 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

Caisse Française de Financement Local holds no assets for trading purposes.

Financial assets designated at fair value through profit or loss

Caisse Française de Financement Local 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 at amortized cost, realized gains and losses on disposals are the differences between the proceeds received (net of transaction costs) and the carrying amount of the assets. The carrying amount is systematically determined based on the "first in, first out" approach.

When an available-for-sale financial asset is sold, the total of gains and losses previously recognized in equity is reversed in the income statement.

Early reimbursement indemnities

Caisse Française de Financement Local has determined the accounting principles applicable to the restructuring of loans in accordance with AG 62 of IAS 39 concerning financial liabilities.

Several possibilities are considered depending on whether the early reimbursement is recognized as being an early reimbursement with refinancing or without refinancing.

Early reimbursement with refinancing

The method of accounting for early reimbursement indemnities 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, Caisse Française de Financement Local 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 net present value of the cash flows remaining from the original loan.

If the difference in net present value is less than 10%, any early reimbursement indemnities are amortized over the term of the new loan as there is continuity between the two operations. If the difference exceeds 10%, early reimbursement indemnities are recognized directly in income.

Early reimbursement without refinancing

When a loan has been extinguished, Caisse Française de Financement Local recognizes early reimbursement indemnities and any gains or losses of unamortized premium or discount, as income for the period.

Sale and repurchase agreements and lending of securities

Securities sold subject to a linked repurchase agreement (repo) are not derecognized 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 an agreement to resell (reverse repo) are recorded as off-balance sheet items and the corresponding loans are recorded in Loans and advances to customers or Loans and advances due from banks, as appropriate.

The difference between the sale and repurchase price is recognized as interest income or expense and is amortized over the life 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 to third parties, the obligation to return them is recorded at fair value in Financial liabilities at fair value through profit or loss, and the gain or loss is included in Net gains (losses) on financial instruments at fair value through profit or loss.

Impairment of financial assets

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

Financial assets at amortized cost

Caisse Française de Financement Local 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 impairment

– **Specific impairment:** if there is objective evidence that loans or other receivables, or financial assets classified as held-to-maturity are impaired, the amount of the provision 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 assessed as being impaired, it is excluded from the portfolio on which collective impairment is calculated.

– **Collective impairment:** collective impairment 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 patterns of losses in each segment and the current economic environment in which the borrowers operate. For this purpose, Caisse Française de Financement Local uses a credit risk model based on an approach that combines default probabilities and losses in the event of default. This model is subject to regular back-testing and is based on Basel III data and risk models, consistent with the incurred loss model.

• Accounting treatment of impairment

Changes in the amount of impairment losses are recognized in the income statement as Cost of risk. Once an asset has been written down, if the amount of the impairment subsequently decreases due to an event occurring after recognition of the impairment, the write-back of the impairment is credited to the Cost of risk.

When an asset is considered by management to be 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 recognized as Cost of risk.

Reclassified financial assets

Reclassified financial assets are impaired following the same rules as financial assets measured at amortized cost. 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 as available-for-sale financial assets, and the net present value of the expected cash flows discounted at the effective interest rate at the time of reclassification. Any existing unamortized reserve of unrealized gains and losses will be taken to the 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 the interest margin over the new schedule of expected cash flows, not by a reversal of impairment.

Financial assets available for sale

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 initial recognition of the asset. Caisse Française de Financement Local only holds interest bearing debt instruments as available-

for-sale financial assets. These assets are only subject to specific impairment.

- **Determination of impairment**

In the case of interest-bearing debt instruments, impairment is triggered based on the same criteria as those applied to financial assets valued at amortized cost (see above).

- **Accounting treatment of impairment**

When financial assets available for sale are impaired, the total reserve in other comprehensive income is recycled into profit or loss and Caisse Française de Financement Local reports these impairment losses in the income statement in Cost of risk (for financial asset available for sale with fixed income). 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, Caisse Française de Financement Local recognizes a reversal of the impairment loss in the income statement in Cost of risk.

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 credit worthiness has deteriorated to an extent that makes repayment of any loan and associated interest payments doubtful.

e. Financial liabilities

Financial liabilities designated at fair value through profit and loss

Caisse Française de Financement Local does not use this option.

Financial liabilities at amortized cost

Financial liabilities at amortized cost are recognized initially at fair value, being their issue proceeds net of transaction costs incurred. They are subsequently recognized at amortized cost and any difference between their initial carrying amount and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method.

Financial liabilities at amortized cost are mainly *obligations foncières* and other resources benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code. 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.

Obligations foncières are recorded at nominal value. Reimbursement premiums and issue premiums are amortized according to the straight-line method over the 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 spread of issue premiums is deducted from related interest income and expense on debt securities.

Interest related to *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 and commissions on bond issues are amortized over the life of the bonds to which they are attached. Bonds denominated in other currencies are treated in the same way as foreign exchange transactions (see above b. Foreign currency transactions).

Registered covered bonds are private placements recorded at nominal value. Issue premiums are dealt with in the same way as *obligations foncières* (see above).

f. Derivatives

Derivatives not used in a hedging relationship

Caisse Française de Financement Local is not authorized to conduct derivative transactions that would not be documented in a hedging relationship.

Nevertheless, as of December 31, 2014, transaction derivatives were recorded. They 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); or
- a hedge of a future cash flow attributable to a recognized asset or liability or a forecast transaction (cash flow hedge).

Hedge accounting may be used for such derivatives, 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 relationship 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 an ongoing 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 which 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 effective 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 effective in relation to the hedged risk, is recognized in equity as Unrealized or deferred gains and losses of cash-flow hedges. The non-effective 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 affects the income statement.

Hedging of the interest rate risk of a portfolio

Caisse Française de Financement Local makes use of the provisions of IAS 39 as adopted by the European Union (IAS 39 carve-out) because this standard better reflects the way Caisse Française de Financement Local 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 entity 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.

Caisse Française de Financement Local selects financial assets and liabilities to be included in the hedge of the portfolio's interest rate risk exposure. The entity constantly applies the same methodology for selecting financial assets and liabilities to be included in the portfolio. The financial assets and liabilities are classified by time-buckets. Hence, when they are removed from the portfolio, they must be removed from all the time-buckets on which they have an impact.

The Company chose to put together homogeneous portfolios of loans and portfolios of bond issues. Based on this gap analysis, which is realized on a net basis, Caisse Française de Financement Local defines at inception the risk exposure to be hedged, the length of the time buckets and the manner and the frequency of testing.

The hedging instruments are portfolios of derivatives, whose positions may be offsetting. The hedging items are recognized at their fair value (including accrued interest expense or income) with adjustments recorded in the income statement.

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

g. 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, either in the principal market, or in its absence, in the most advantageous market Caisse Française de Financement Local can access. The fair value of a liability reflects the effect of the risk of non-performance, which in particular includes Caisse Française de Financement Local's own credit risk.

Quoted prices are used to determine the fair value of financial assets and liabilities when there is an active market, defined as so by the existence, sufficient frequency and volume to provide pricing information on an ongoing basis. Active market prices are not, however, available for a significant number of the financial assets and liabilities held or issued by Caisse Française de Financement Local.

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

A valuation model reflects what the transaction would have been under the market conditions existing on the measurement date. The valuation model should take into account all the factors that market participants would consider when pricing the asset. Within this framework, Caisse Française de Financement Local 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 closing date.

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 financial assets, 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, Caisse Française de Financement Local uses different discounting curves in function of the effective exchange of collateral with its counterparty. When Caisse Française de Financement Local receives collateral, future derivative cash flows are discounted with an overnight indexed swap (OIS). On the other hand, when no collateral is exchanged, they are discounted with a Euribor-type curve. As a reminder, Caisse Française de Financement Local does not pay collateral to its derivative counterparties, since they benefit from the legal privilege on assets for the same reason as holders of *obligations foncières*.

Caisse Française de Financement Local, like other participants in the banking industry, is currently considering 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.

As of December 31, 2014, no funding valuation adjustment was included in the valuation of uncollateralized derivatives or those with asymmetric collateral. Caisse Française de Financement Local 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 taken into account in the valuation of derivatives to reflect the impact of a counterparty's credit risk (Credit Value Adjustment) or the counterparty's net exposure to the credit risk of Caisse Française de Financement Local (Debt Value Adjustment). This value adjustment makes it possible to go from a fair value based on the discounting of future cash flows with a risk-free rate, i.e. abstracting from the counterparty risk, to fair value that integrates this risk. It is determined in function of the exposure to risk combined with rates of losses integrating market parameters.

h. Interest income and expense

For all interest-bearing instruments not valued at fair value, interest income and expense are recognized in the income statement using the effective interest rate method.

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. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument.

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 effective interest rate used to discount the recoverable future cash flows.

i. Commission income and expense

Commissions are recognized in accordance with IAS 18. Pursuant to this standard, most of the commissions arising from Caisse Française de Financement Local's activities are recognized on an accrual basis over the life of the underlying transaction.

Loan commitment commissions are recognized as part of the effective interest rate if the loan is granted. They are recorded as commission income on the expiry date of the commitment if no loan is granted.

j. 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 related to fair value re-measurement of assets available for sale and cash flow hedges, and other operations charged or credited directly to other comprehensive income, are also credited or charged directly to other comprehensive income.

k. Provisions

Provisions are mainly for litigation, 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.

Provisions are recognized when:

- Caisse Française 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; and
- A reliable estimate of the amount of the obligation can be made.

Provisions on loan commitments are recognized using the method applied for the impairment of financial assets measured at amortized cost.

l. Dividends and ordinary shares

Dividends on ordinary shares are recognized in liabilities in the period in which they are authorized. Dividends of the year that are authorized after the balance sheet date are disclosed in the note on post-closing events.

m. Earnings per share

Basic earnings per share before dilution are calculated by dividing net income available to shareholders by the weighted average number of ordinary shares in issue during the year.

n. Related party transactions

Two parties are considered to be related if one has the ability to control the other party or exercise significant influence over the other party when making financial or operational decisions. The parent company of Caisse Française de Financement Local is Société de Financement Local, a *société anonyme* incorporated in France, which is owned by the French State, Caisse des Dépôts et Consignations and La Banque Postale, incorporated in France. Within this framework, related party transactions are those with parent companies and with directors.

o. Segment reporting

Caisse Française de Financement Local's sole activity is the refinancing of commitments on public sector entities. Caisse Française de Financement Local conducts its business solely from France. The Company has no direct activities in other countries and is unable to present a relevant breakdown of its results by geographic region. Geographic breakdown of assets by country of residence of the counterparty is presented quarterly at the end of the Management Report.

p. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with central banks and interbank deposits at sight.

2. NOTES TO THE ASSETS

2.1 - CENTRAL BANKS

EUR millions	12/31/2012	12/31/2013	12/31/2014
Mandatory reserve deposits with central banks	-	-	-
Other deposits	2,400	1,471	519
TOTAL	2,400	1,471	519

2.2 - FINANCIAL ASSETS AVAILABLE FOR SALE

a. Analysis by nature

EUR millions	12/31/2012	12/31/2013	12/31/2014
Loans	-	-	-
Bonds	1,125	1,084	2,770
TOTAL	1,125	1,084	2,770

b. Analysis by counterparty

EUR millions	12/31/2012	12/31/2013	12/31/2014
Public sector	784	742	2,427
Credit institutions guaranteed by the public sector	341	342	343
Total public sector	1,125	1,084	2,770
Replacement assets	-	-	-
TOTAL	1,125	1,084	2,770
<i>of which eligible for central bank refinancing</i>	<i>824</i>	<i>835</i>	<i>2,481</i>

c. Impairment

EUR millions	12/31/2012	12/31/2013	12/31/2014
Public sector	1,125	1,084	2,770
Replacement assets	-	-	-
Total performing assets	1,125	1,084	2,770
Public sector	-	-	-
Replacement assets	-	-	-
Total impaired assets	-	-	-
Specific impairment	-	-	-
TOTAL ASSETS AFTER IMPAIRMENT	1,125	1,084	2,770

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	12/31/2012	12/31/2013	12/31/2014
Sight accounts	23	18	14
Other loans and advances due from banks	3,718	7,296	6,738
Performing assets	3,741	7,314	6,752
Impaired loans and advances	-	-	-
Impaired assets	-	-	-
Total assets before impairment	3,741	7,314	6,752
Specific impairment	-	-	-
Collective impairment	-	-	-
TOTAL	3,741	7,314	6,752

b. Breakdown by counterparty

EUR millions	12/31/2012	12/31/2013	12/31/2014
Credit institutions	-	8	4
Swiss cantonal banks benefiting from their cantons' legal guarantee	924	686	629
Banks guaranteed by a local government, crédits municipaux	169	129	91
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	2,110	2,105	2,099
Credit institutions guaranteed by the State	15	-	-
Assets assigned in guarantee to the central bank	-	-	-
Replacement assets	523	4,386	3,929
TOTAL	3,741	7,314	6,752
<i>of which eligible for central bank refinancing</i>	-	-	-

c. Replacement assets

EUR millions	12/31/2012	12/31/2013	12/31/2014
Dexia Sabadell - <i>cedulas territoriales</i>	500	-	-
Société de Financement Local - loans secured by public sector assets	-	4,368	3,915
Credit institutions - sight accounts	23	18	14
TOTAL	523	4,386	3,929

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	12/31/2012	12/31/2013	12/31/2014
Public sector	59,792	58,234	57,915
Other - guaranteed by a State or local government	3,864	3,525	3,974
Other - ABS made up solely of public commitments	8,270	-	-
Performing assets	71,926	61,759	61,889
Impaired loans and advances	122	254	463
Impaired assets	122	254	463
Total assets before impairment	72,048	62,013	62,352
Specific impairment	(8)	(14)	(47)
Collective impairment	(44)	(70)	(63)
TOTAL	71,996	61,929	62,242
<i>of which eligible for central bank refinancing</i>	<i>38,585</i>	<i>42,118</i>	<i>41,139</i>
<i>Assets assigned in guarantee to the central bank</i>	-	-	-

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 maintains a high level of collective impairment which amounted to EUR 63 million.

Assets considered as forborne by Caisse Française 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 at reducing 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	12/31/2012	12/31/2013	12/31/2014
Colombo	-	3	-	-
Astrea	-	0	-	-
Blue Danube	-	70	-	-
DCC - Dexia Crediop per la Cartolarizzazione	-	3,361	-	-
DSFB - Dexia Secured Funding Belgium 2	-	1,303	-	-
DSFB - Dexia Secured Funding Belgium 4	-	3,533	-	-
TOTAL		8,270	-	-

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. Unrealised or deferred gains and losses breakdown by country

See note 4.4

2.5 - TAX ASSETS

EUR millions	12/31/2012	12/31/2013	12/31/2014
Current income tax	1	13	-
Other taxes	0	0	0
Current tax assets	1	13	0
Deferred tax assets (see note 4.2)	89	90	99
TOTAL TAX ASSETS	90	103	99

Deferred tax assets were submitted to a recoverability test taking into account the business plans presented to the Supervisory Board 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.

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 - ACCRUALS AND OTHER ASSETS

EUR millions	12/31/2012	12/31/2013	12/31/2014
Cash collateral paid	-	-	-
Other accounts receivable	-	0	-
Prepaid charges	-	1	1
Other assets	3	3	2
TOTAL ACCRUALS AND OTHER ASSETS	3	4	3

2.7 - 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) DUE TO RECLASSIFICATION	-	-	-
AMOUNT NOT RECOGNIZED THROUGH ASSETS AVAILABLE FOR SALE (3) DUE 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 involved 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	12/31/2012	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	12/31/2012	12/31/2013	12/31/2014
Demand deposits	4,510	1	0
Term deposits	3,110	6,773	6,228
TOTAL	7,620	6,774	6,228

At the end of december 2014, the funding borrowed from Sfil within the framework of the financing agreement was made up of different loans with maturities initially running from one day to seven years borrowed with an Euribor or Eonia index.

EUR millions	12/31/2012	12/31/2013	12/31/2014
Current account - parent company	4,510	-	-
Interest accrued not yet due	-	-	-
Term borrowing - parent company	3,100	6,758	6,212
Interest accrued not yet due	10	15	16
Sight accounts	-	1	0
TOTAL	7,620	6,774	6,228

b. Analysis by residual maturity

See note 7.4

3.3 - DEBT SECURITIES

a. Analysis by nature

EUR millions	12/31/2012	12/31/2013	12/31/2014
<i>Obligations foncières</i>	57,303	51,522	51,444
Registered covered bonds	5,436	5,607	7,057
TOTAL	62,739	57,129	58,501

b. Analysis by residual maturity

See note 7.4

3.4 - TAX LIABILITIES

EUR millions	12/31/2012	12/31/2013	12/31/2014
Current income tax	3	-	8
Other taxes	3	2	2
Current tax liabilities	6	2	10
Deferred tax liabilities (see note 4.2)	-	-	-
TOTAL TAX LIABILITIES	6	2	10

3.5 - ACCRUALS AND OTHER LIABILITIES

EUR millions	12/31/2012	12/31/2013	12/31/2014
Cash collateral received	3,518	2,546	2,351
Other accrued charges	25	45	21
Deferred income	-	-	-
Contribution to the support fund (1)	-	150	158
Other accounts payable and other liabilities	3	1	2
TOTAL	3,546	2,742	2,532

(1) This item corresponds to the commitment taken in 2014 by Caisse Française de Financement Local to contribute EUR 18 million for hospitals. An additional contribution to the multi-year support fund for local governments was added in 2013 in the amount of EUR 10 million over 15 years, minus an initial payment of EUR 10 million at the end of 2014.

4. OTHER NOTES ON THE BALANCE SHEET**4.1 - DERIVATIVES****a. Analysis by nature**

EUR millions	12/31/2012		12/31/2013		12/31/2014	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss ⁽¹⁾			-	8	2	0
Derivatives designated as fair value hedges	5,770	9,840	3,770	7,638	5,304	8,985
Derivatives designated as cash flow hedges	8	184	6	128	6	146
Derivatives designated as portfolio hedges	3,970	4,086	2,734	2,966	3,054	4,482
Hedging derivatives	9,748	14,110	6,510	10,732	8,364	13,613
CVA /DVA Impact	-	-	(9)	(127)	(3)	(101)
TOTAL DERIVATIVES	9,748	14,110	6,501	10,613	8,363	13,512

(1) Caisse Française de Financement Local is only authorized to conduct derivative transactions for reasons of hedging. In its IFRS accounts, a few derivatives are no longer treated as hedging instruments since 2013 because of the uncertainty of future cash flows from the hedged items (non-performing loans). These are interest rate derivatives.

b. Detail of derivatives designated as fair value hedges

EUR millions	12/31/2012			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	12,072	11,769	1,414	1,317
Interest rate derivatives	51,529	51,517	4,356	8,523
TOTAL	63,601	63,286	5,770	9,840

EUR millions	12/31/2013			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	9,807	10,190	480	797
Interest rate derivatives	51,792	51,777	3,290	6,841
TOTAL	61,599	61,967	3,770	7,638

EUR millions	12/31/2014			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	9,168	9,272	460	549
Interest rate derivatives	53,960	53,944	4,844	8,436
TOTAL	63,128	63,216	5,304	8,985

c. Detail of derivatives designated as cash flow hedges

EUR millions	12/31/2012			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,857	1,926	8	184
Interest rate derivatives	-	-	-	-
TOTAL	1,857	1,926	8	184

EUR millions	12/31/2013			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,468	1,547	6	128
Interest rate derivatives	-	-	-	-
TOTAL	1,468	1,547	6	128

EUR millions	12/31/2014			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,130	1,228	6	146
Interest rate derivatives	-	-	-	-
TOTAL	1,130	1,228	6	146

EUR millions	12/31/2012	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	12/31/2012			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	131,169	131,164	3,970	4,086
TOTAL	131,169	131,164	3,970	4,086
EUR millions	12/31/2013			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	96,626	96,621	2,734	2,966
TOTAL	96,626	96,621	2,734	2,966
EUR millions	12/31/2014			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	85,393	85,388	3,054	4,482
TOTAL	85,393	85,388	3,054	4,482

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	12/31/2012	12/31/2013	12/31/2014
Deferred tax assets before impairment	89	90	99
Impairment on deferred tax assets	-	-	-
Deferred tax assets	89	90	99
Deferred tax liabilities	-	-	-
TOTAL	89	90	99

b. Movements

EUR millions	12/31/2012	12/31/2013	12/31/2014
As of January 1	165	89	90
Charge/credit recognized in the income statement	(24)	23	23
Effect of change in tax rates - impact on the income statement	-	-	-
Movements directly recognized in equity	(63)	(22)	(14)
Effect of change in tax rates - impact on equity	-	-	-
Translation adjustment	-	-	-
Other movements	11	-	-
As of December 31	89	90	99

c. Deferred taxes from assets on the balance sheet

EUR millions	12/31/2012	12/31/2013	12/31/2014
Loans and loan loss provisions	(2)	475	(123)
Securities	89	91	54
Derivatives	(8)	(37)	81
Accruals and other assets	14	14	13
TOTAL	93	543	25

d. Deferred taxes from liabilities on the balance sheet

EUR millions	12/31/2012	12/31/2013	12/31/2014
Borrowings, deposits and issues of debt securities	20	(453)	74
Derivatives	-	-	-
Provisions	-	-	-
Regulatory provisions	(24)	-	-
Accruals and other liabilities	-	-	-
TOTAL	(4)	(453)	74

4.3 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature

EUR millions	Parent company and entities consolidated ⁽¹⁾			Other related parties ⁽²⁾		
	12/31/2012	12/31/2013	12/31/2014	12/31/2012	12/31/2013	12/31/2014
ASSETS						
Loans and advances	5,983	4,368	3,916	-	-	-
Bonds	-	-	-	-	-	-
LIABILITIES						
Due to banks - sight accounts	4,521	-	-	-	-	-
Due to banks - term loans	3,110	6,773	6,228	-	-	-
INCOME STATEMENT						
Interest income on loans and advances	111	16	23	-	(0)	(4)
Interest income on bonds	0	-	-	-	-	-
Interest expense on borrowings	(89)	(65)	(60)	-	-	-
Fees and commissions	(3)	(19)	(22)	-	-	-
OFF-BALANCE SHEET						
Foreign exchange derivatives	6,532	5,832	5,039	-	-	-
Interest rate derivatives	99,549	13,898	16,479	-	-	-
Commitments and guarantees issued by the Group	12,296	4,420	3,966	-	134	133

(1) Up to 2012, this item includes transactions with Dexia Group entities. Since 2013, it includes transactions with Société de Financement Local, the parent company of Caisse Française de Financement Local.

(2) This item includes transactions up to 2012 with companies in the Luxembourg subgroup consolidated by Dexia SA, the parent company of Dexia Credit Local. As of January 2013, it includes transactions with Caisse des dépôts et Consignations and La Banque Postale, shareholders of Sfil, the parent company of Caisse Française de Financement Local.

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

EUR millions	12/31/2012	12/31/2013	12/31/2014
Unrealized gains and losses on available for sale securities	(169)	(116)	(82)
Canada	1	-	-
Germany	0	1	1
France	(1)	2	1
Italy	(178)	(110)	(82)
United States	9	(9)	(2)
Unrealized gains and losses on loans and receivable securities	(122)	(105)	(100)
Belgium	(2)	-	-
Germany	(1)	-	-
Spain	(2)	(2)	(2)
France	5	5	4
Italy	(118)	(108)	(102)
United States	(4)	-	-
Unrealized gains and losses on derivatives designated as cash-flow hedges	(66)	(45)	(43)
TOTAL	(357)	(266)	(225)
Deferred taxes on gains and losses, available for sale securities	58	40	28
Deferred taxes on gains and losses, loans and receivable securities	40	36	35
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	15	16	15
TOTAL	(244)	(174)	(147)

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 AFS reserves, and taking into account accrued interest.

	12/31/2013					Total
	Spain	Ireland	Italy	Portugal	Greece	
Government bonds	-	-	592	-	-	592
TOTAL	-	-	592	-	-	592

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

	12/31/2013					Total
	Spain	Ireland	Italy	Portugal	Greece	
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)

	12/31/2014					Total
	Spain	Ireland	Italy	Portugal	Greece	
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	5,086	4,453
Central banks	-	-
Loans and advances due from banks	77	80
Loans and advances to customers	1,745	1,697
Financial assets available for sale	41	41
Financial assets held to maturity	-	-
Derivatives used for hedging	3,223	2,635
Impaired assets	-	-
Other	-	-
INTEREST EXPENSE	(4,945)	(4,350)
Accounts with central banks	(0)	(0)
Due to banks	(72)	(63)
Customer borrowings and deposits	-	(1)
Debt securities	(2,068)	(2,045)
Subordinated debt	-	-
Derivatives used for hedging	(2,805)	(2,241)
Other	(0)	0
INTEREST MARGIN	141	103

5.2 - FEES AND COMMISSIONS

EUR millions	2013			2014		
	Income	Expense	Net	Income	Expense	Net
Lending activity	0	(0)	-	0	-	-
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 underwriting of securities	-	(1)	(1)	-	0	0
Rebiling of expenses by Sfil	-	(19)	(19)	-	(22)	(22)
TOTAL	0	(24)	(24)	0	(28)	(28)

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

EUR millions	2013	2014
Net trading income	3	2
Net result of hedge accounting	116	(16)
Net result of foreign exchange transactions	0	(0)
TOTAL	119	(14)

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 trading transactions and 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⁾	(6)	7
Fair value changes in the hedged item attributable to the hedged risk	(404)	568
Fair value changes in the hedging derivatives	398	(561)
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⁾	4	(3)
Fair value changes in the hedged item	7	1,179
Fair value changes in the hedging derivatives	(3)	(1,182)
CVA / DVA Impact ⁽²⁾	118	(20)
TOTAL	116	(16)

(1) Caisse Française de Financement Local has adopted a valuation against EONIA for its derivatives subject to payment of collateral for its benefit. Derivatives for which no payment of collateral is made for the benefit of counterparties are assessed against EURIBOR. The impact of this change was a loss of EUR -6 million in 2014.

(2) As of December 31, 2014, the application of IFRS 13 shows a net impact of EUR 20 million comprised of EUR +6 million for CVA and EUR -26 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	9
Net result of the sale or cancellation of loans and advances	1	(1)
TOTAL	6	8

5.5 - OPERATING EXPENSE

EUR millions	2013	2014
Payroll costs	-	-
Other general and administrative expense ⁽¹⁾	(74)	(90)
Taxes	(5)	(3)
TOTAL	(79)	(93)

(1) Of which EUR 87 million paid to Sfil in 2014

Caisse Française de Financement Local has no salaried employees in accordance with article L.513-15 of the Monetary and Financial Code.

The general management of the operations of Caisse Française de Financement Local has been entrusted by an agreement to its parent company, a credit institution. This management was carried out by Dexia Credit Local until the end of January 2013. It has been ensured by Société de Financement Local since January 31, 2013.

Specific agreements were also drawn up with entities that transferred assets to the société de crédit foncier and continue to provide management services for their national customers. At the end of 2013, operative agreements were signed with the following entities: Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium) and Dexia Crediop (Italy). The management agreements already existed in the past.

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 EUR millions	2013				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(6)	4	-	-	(2)
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	(6)	4	-	-	(2)
Fixed income securities	-	-	-	-	-
TOTAL	(6)	4	-	-	(2)

Specific Impairment EUR millions	2014				
	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	-	-	-	-	-
Total credit	(10)	3	(0)	-	(7)
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)	(9)
Deferred taxes	24	22
Tax on prior years' income	2	-
Deferred taxes on prior years	-	-
Provisions for tax litigation	-	-
TOTAL	18	13

b. Effective tax expense as of December 31, 2014

The difference between these two rates can be analysed as follows:

EUR millions	2013	2014
INCOME BEFORE INCOME TAXES	(15)	(43)
Net income from associates	-	-
TAX BASE	(15)	(43)
Applicable tax rate at end of the period	36.10%	38.00%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	(5)	(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	2	3
Liability method	-	-
Provisions for tax litigation	-	0
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	(18)	(13)
EFFECTIVE TAX RATE	N/A	N/A

c. Tax consolidation

Caisse Française de Financement Local is no longer a member of the Dexia S.A. tax group since January 31, 2013. This change has no impact on recorded tax liabilities. As of January 1, 2014, Caisse Française de Financement Local has been a member of the Société de Financement Local tax group.

6. NOTE ON OFF-BALANCE SHEET ITEMS

6.1 - REGULAR WAY TRADE

EUR millions	12/31/2012	12/31/2013	12/31/2014
Assets to be delivered	-	-	-
Liabilities to be received ⁽¹⁾	-	120	500

(1) In 2013, registered covered bonds. In 2014, refinancing from Sfil for EUR 400 million and registered covered bonds for EUR 100 million.

6.2 - GUARANTEES

EUR millions	12/31/2012	12/31/2013	12/31/2014
Guarantees received from credit institutions (1)	4,742	4,568	4,103
Guarantees received from customers (2)	7,358	6,801	6,870

(1) At the end of December 2014, this amount was mainly composed of pledges of assets with benefits to Caisse Française de Financement Local, received as guarantee for loans granted to Sfil.

(2) Guarantees received from customers are generally granted by local governments.

6.3 - FINANCING COMMITMENTS

EUR millions	12/31/2012	12/31/2013	12/31/2014
Loan commitments granted to credit institutions	0	-	0
Loan commitments granted to customers ⁽¹⁾	317	228	150
Loan commitments received from credit institutions ⁽²⁾	6,006	50	50
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) At the end of December 2013 and 2014, this item corresponded to the amount of the overdraft, authorized in the current account agreement set up with Sfil, totaling EUR 50 million. At the end of December 2012, there was a firm and irrevocable commitment by Dexia Credit Local to make available to Caisse Française de Financement Local the funds required to reimburse obligations foncières that will mature in the next 12 months. This commitment came to an end on January 31, 2013, following the acquisition of Caisse Française de Financement Local by Société de Financement Local.

6.4 - OTHER COMMITMENTS

EUR millions	12/31/2012	12/31/2013	12/31/2014
Commitments received	286	278	272

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	1,471	1,471	-
Loans and advances due from banks	7,314	7,314	-
Loans and advances to customers	61,929	59,505	(2,424)
Financial assets available for sale	1,084	1,084	-
Hedging derivatives	6,501	6,501	-
TOTAL	78,299	75,875	(2,424)

EUR millions	12/31/2014		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	519	519	-
Loans and advances due from banks	6,752	6,760	8
Loans and advances to customers	62,242	59,832	(2,410)
Financial assets available for sale	2,770	2,770	-
Hedging derivatives	8,363	8,363	-
TOTAL	80,646	78,244	(2,402)

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	6,774	6,864	90
Hedging derivatives	10,613	10,613	-
Debt securities	57,129	55,529	(1,600)
TOTAL	74,516	73,006	(1,510)

EUR millions	12/31/2014		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	6,228	6,318	90
Hedging derivatives	13,512	13,512	-
Debt securities	58,501	57,191	(1,310)
TOTAL	78,241	77,021	(1,220)

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 reflect 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 price and spreads, with regard to 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 EUR millions	12/31/2013			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Central banks	1,471	0	-	1,471
Loans and advances due from banks	18	6,160	1,136	7,314
Loans and advances to customers	942	743	57,820	59,505
Subtotal of assets at amortized costs	2,431	6,903	58,956	68,290
Financial assets available for sale	589	153	342	1,084
Hedging derivatives	-	5,233	1,268	6,501
Subtotal of assets at fair value	589	5,386	1,610	7,585
TOTAL	3,020	12,289	60,566	75,875

(1) Price quoted on an active market for the same type of instrument.

(2) Price quoted on an active market for a similar type of financial instrument (but not exactly the same) or use of a valuation technique in which all significant parameters are observable.

(3) Use of a valuation technique in which all the significant parameters are not observable.

Fair value of financial assets EUR millions	12/31/2014			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Central banks	519	-	-	519
Loans and advances due from banks	14	5,779	967	6,760
Loans and advances to customers	1,724	668	57,440	59,832
Subtotal of assets at amortized costs	2,257	6,447	58,407	67,111
Financial assets available for sale	2,246	181	343	2,770
Hedging derivatives	-	6,332	2,031	8,363
Subtotal of assets at fair value	2,246	6,513	2,374	11,133
TOTAL	4,503	12,960	60,781	78,244

Fair value of financial liabilities EUR millions	12/31/2013			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Due to banks	1	6,863	-	6,864
Debt securities	-	55,529	-	55,529
Subtotal of liabilities at amortized costs	1	62,392	-	62,394
Hedging derivatives	-	4,951	5,662	10,613
Subtotal of liabilities at fair value	1	4,951	5,662	10,613
TOTAL	1	67,343	5,662	73,006

Fair value of financial liabilities EUR millions	12/31/2014			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Due to banks	-	6,318	-	6,318
Debt securities	-	57,191	-	57,191
Subtotal of liabilities at amortized costs	-	63,509	-	63,509
Hedging derivatives	-	8,284	5,228	13,512
Subtotal of liabilities at fair value	-	8,284	5,228	13,512
TOTAL	-	71,793	5,228	77,021

d. Transfer between Level 1 and 2

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

e. Level 3: analyses of flow

EUR millions	12/31/2013	Gains and losses through profit and loss	Unrealized or deferred gains and losses through profit and loss	Unrealized or deferred gains and losses through OCI	Purchase	Sale	Direct Origination	Settlement	Transfer to activities to be sold	Transfer to level 3	Transfer out of level 3	Other variations	12/31/2014
Financial assets available for sale	342											1	343
Hedging derivatives	1,268	(10)	593	0	271	0	0	0	-	1	(92)	-	2,031
TOTAL FINANCIAL ASSETS	1,610	(10)	593	0	271	0	0	0	-	1	(92)	1	2,374
Hedging derivatives	5,662	(566)	125	0	169	0	0	0	-	165	(327)	0	5,228
TOTAL FINANCIAL LIABILITIES	5,662	(566)	125	0	169	0	0	0	-	165	(327)	0	5,228

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. When there is no observable market data for the price, valuation models or techniques are used, thus making it possible to determine a price. The value is based on observable market data, either directly (a price) or indirectly (price/spread derivatives). 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 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)	6,501	-	6,501	(3,891)	(2,488)	122
Loans and advances due from banks	7,314	-	7,314	-	(1,856)	5,458
Loans and advances to customers	61,929	-	61,929	-	-	61,929
TOTAL	75,744	-	75,744	(3,891)	(4,344)	67,509

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 received as collateral	
Derivatives (including hedging instruments)	8,363	-	8,363	(5,914)	(2,333)	116
Loans and advances due from banks	6,752	-	6,752	-	(1,856)	4,896
Loans and advances to customers	62,242	-	62,242	-	-	62,242
TOTAL	77,357	-	77,357	(5,914)	(4,189)	67,254

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)	10,613	-	10,613	(3,891)	-	6,722
Due to banks	6,774	-	6,774	-	-	6,774
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	17,387	-	17,387	(3,891)	-	13,496

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)	13,512	-	13,512	(5,914)	-	7,598
Due to banks	6,228	-	6,228	-	-	6,228
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	19,740	-	19,740	(5,914)	-	13,826

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.

a. Breakdown of exposure to credit risks

Analysis of exposure by geographic region

EUR millions	Amount as of 12/31/2014
France	51,710
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	116
TOTAL EXPOSURE	66,493

Analysis of exposure by category of counterparty

EUR millions	Amount as of 12/31/2014
States	4,187
Local public sector	56,804
Other assets guaranteed by public sector entities	141
Financial institutions	5,361
TOTAL EXPOSURE	66,493

Exposure on financial institutions is primarily comprised of counterparties in hedging derivatives and replacement assets. As of December 2014, the Caisse Française de Financement Local has no asset-backed securities.

Analysis of exposure by category of instrument

EUR millions	Amount as of 12/31/2014
Debt securities	2,770
Loans and advances	63,503
Financing commitments on loans	150
Hedging derivatives	70
TOTAL EXPOSURE	66,493

b. Evaluation of asset credit quality

Société de Financement Local decided to use the advanced method recommended by the regulators in relation to the Basel II reforms on the capital adequacy ratio and capital requirements. This system is of paramount importance for Société de Financement Local and is under the exclusive responsibility of the Risks division, which has rating models covering the main client segments. Banking supervisors (the ACPR in France and CBFA in Belgium) have internal models to calculate and report equity requirements for credit risk as of January 1, 2008.

This enables Caisse Française de Financement Local to present on December 31, 2014, below an analysis of its exposures, broken down by risk weighting, as used to calculate equity requirements. Credit weighting is mainly calculated on the basis 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 Caisse Française de Financement Local's portfolio. More than 72% of the portfolio has a weighting of less than 5% and 99% 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	2,074	23	673	-	2,770
Loans and advances	45,702	16,278	1,395	128	63,503
Financing commitments on loans	144	6	-	-	150
Hedging derivatives	-	-	67	3	70
TOTAL EXPOSURE	47,920	16,307	2,135	131	66,493
SHARE	72.1%	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 banks	519	-	-	-	-	-	519
Hedging derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	1,170	744	54	566	-	2,534
Loans and advances due from banks	14	306	449	3,664	2,276	-	6,709
Loans and advances to customers	-	2,020	3,497	15,597	34,374	-	55,488
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	99	99
Accruals and other assets	-	3	-	-	-	-	3
TOTAL	533	3,499	4,690	19,315	37,216	99	65,352

EUR millions	12/31/2014				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	519	-	-	-	519
Hedging derivatives	-	571	7,792	-	8,363
Financial assets available for sale	2,534	8	228	-	2,770
Loans and advances due from banks	6,709	17	26	-	6,752
Loans and advances to customers	55,488	768	6,096	(110)	62,242
Fair value revaluation of portfolio hedge	-	-	3,178	-	3,178
Financial assets held to maturity	-	-	-	-	-
Tax assets	99	-	-	-	99
Accruals and other assets	3	-	-	-	3
TOTAL	65,352	1,364	17,320	(110)	83,926

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 banks	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-
Due to banks	0	1,094	-	3,903	1,215	-	6,212
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	1,197	5,792	21,113	24,667	-	52,769
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	10	-	-	-	10
Accruals and other liabilities	-	2,532	-	-	-	-	2,532
Provisions	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-
TOTAL	0	4,823	5,802	25,016	25,882	-	61,523

EUR millions	12/31/2014			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Hedging derivatives	-	812	12,700	13,512
Due to banks	6,212	16	-	6,228
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	10	-	-	10
Accruals and other liabilities	2,532	-	-	2,532
Provisions	-	-	-	-
Subordinated debt	-	-	-	-
TOTAL	61,523	1,845	19,201	82,569

c. Net liquidity gap

EUR millions	As of December 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	533	(1,324)	(1,112)	(5,701)	11,334	99	(2,472)	1,357

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 Company may obtain funding from the Banque de France, by giving 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 from the calculation of the over-collateralization ratio.

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 banks	519	-	-	-	-	-	519
Hedging derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	1,272	642	54	566	-	2,534
Loans and advances due from banks	14	5,962	252	389	92	-	6,709
Loans and advances to customers	-	7,818	9,249	11,500	26,921	-	55,488
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	99	99
Accruals and other assets	-	3	-	-	-	-	3
TOTAL	533	15,055	10,143	11,943	27,579	99	65,352

EUR millions	12/31/2014				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	519	-	-	-	519
Hedging derivatives	-	571	7,792	-	8,363
Financial assets available for sale	2,534	8	228	-	2,770
Loans and advances due from banks	6,709	17	26	-	6,752
Loans and advances to customers	55,488	768	6,096	(110)	62,242
Fair value revaluation of portfolio hedge	-	-	3,178	-	3,178
Financial assets held to maturity	-	-	-	-	-
Tax assets	99	-	-	-	99
Accruals and other assets	3	-	-	-	3
TOTAL	65,352	1,364	17,320	(110)	83,926

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 banks	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-
Due to banks	0	247	5,965	-	-	-	6,212
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	3,077	6,905	19,645	23,142	-	52,769
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	10	-	-	-	10
Accruals and other liabilities	-	2,532	-	-	-	-	2,532
Provisions	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-
TOTAL	0	5,856	12,880	19,645	23,142	-	61,523

EUR millions	12/31/2014			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Hedging derivatives	-	812	12,700	13,512
Due to banks	6,212	16	-	6,228
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	10	-	-	10
Accruals and other liabilities	2,532	-	-	2,532
Provisions	-	-	-	-
Subordinated debt	-	-	-	-
TOTAL	61,523	1,845	19,201	82,569

c. Net balance sheet sensitivity gap

EUR millions	As of December 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	533	9,198	(2,737)	(7,702)	4,437	99	(2,471)	1,357

7.6 - CURRENCY RISK

Classification by original currency EUR millions	12/31/2012				
	EUR	Other European currencies	U.S. dollars	Other currencies	Total
Total assets	81,728	4,177	2,969	3,295	92,169
Total liabilities	81,728	4,177	2,969	3,295	92,169
NET BALANCE SHEET POSITION	-	-	-	-	-

Classification by original currency EUR millions	12/31/2013				
	EUR	Other European currencies	U.S. dollars	Other currencies	Total
Total assets	71,676	3,730	2,303	2,308	80,017
Total liabilities	71,676	3,730	2,303	2,308	80,017
NET BALANCE SHEET POSITION	-	-	-	-	-

Classification by original currency EUR millions	12/31/2014				
	EUR	Other European currencies	U.S. dollars	Other currencies	Total
Total assets	76,158	3,813	1,996	1,959	83,926
Total liabilities	76,158	3,813	1,996	1,959	83,926
NET BALANCE SHEET POSITION	-	-	-	-	-

Caisse Française de Financement Local takes no foreign exchange risk. Assets and liabilities originally in non-euro currencies are swapped against Euribor as soon as they are recognized on the balance sheet.

7.7 - SENSITIVITY TO INTEREST RATE RISK

The policy applied by Caisse Française de Financement Local makes it possible to be protected from interest rate risk because any acquisition of assets or issue of liabilities is systematically hedged in a variable rate from the beginning.

There are two steps in the hedging of interest rate risk.

- In the first stage, all the assets and the liabilities benefiting from the privilege which do not naturally have a floating rate are hedged against Euribor until maturity as soon as they are recorded on the balance sheet. In practice, acquisitions of loan portfolios (in which the unit amount is generally small) are usually macro-hedged whereas loans granted individually or bond issues are micro-hedged.

Hedging is more often done by interest rate swaps, but the same effect may be obtained whenever possible by the cancelation of liability swaps.

- In the second step, Euribor lending and borrowing flows (naturally or after hedges) are swapped against Eonia over a sliding period of two years in order to eliminate the basis risk generated by differences in Euribor fixing dates (1, 3, 6 or 12 months) and the fixing risk due to refixing dates based on different reference indices in the assets and the liabilities.

The possibility of hedging a purchased portfolio of loans by unwinding swaps of liabilities with an adequate profile rather than contracting new swaps is a change in hedging policy and was applied for the first time when loans were acquired in the second half of 2014. This made it possible to protect the bank from interest rate risk by backing the new assets by liabilities already on the balance sheet. Derivative hedging these liabilities up to that point were unwound on this occasion. This policy makes it possible to limit the use of derivatives, of which the regulatory and accounting cost has significantly increased in the last few years.

Non-privileged debt is not concerned by these hedging operations. In fact, debt contracted by Caisse Française de Financement Local with its shareholder to finance over-collateralization is borrowed either directly with a monetary index and needs no swapping, or with a Euribor index and thus finances assets also indexed on Euribor.

In this case, short term debt owed the Banque de France with a fixed rate is not hedged, but also finances fixed rate assets.

The sensitivity of residual positions that remain after the first step and after the second level of hedges is monitored carefully and kept within strict limits. In addition to the control of directional risks which existed previously, risk monitoring was bolstered this year with the introduction of supplementary limits focused on the control of the slope risk. Without modifying the Company's risk appetite, limits on interest rate risk were adapted and strengthened. The new set of limits guarantees, with 99% probability, a maximum one year loss of less than EUR 80 million in the event of a change in interest rates of 200 basis point (bp), equivalent to the maximum loss that could have been incurred with the sensitivity limit previously set at EUR 40 million (3% of equity) for a fluctuation in interest rates of 100 bp. This calibration is based on a directional shift in rates corresponding to the 1% at one-year decile observed over the period 2005-2013, which was approximately 200 bp.

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

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

Risk of slope 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 slope between two close points on the rate curve

Sum of sensitivities in absolute value

EUR millions, end of quarter	Limit	1Q	2Q	3Q	4Q
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

Statutory Auditors' report on the financial statements established under IFRS

for the year ended December 31, 2014

This is a free translation into English of the Statutory Auditors' report on the annual financial statements established under IFRS 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.

To the Chairman of the Executive Board,

As Statutory Auditors of Caisse Française de Financement Local and at your request pursuant to the wish of your Company to provide more extensive financial information to investors, we have audited the accompanying financial statements of the Company for the year ended December 31, 2014, established in accordance with IFRS as adopted by the European Union.

These financial statements have been prepared under the responsibility of the Executive Board. Our role is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with professional standards applicable in France; 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 includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and significant accounting estimates made, as well as evaluating the overall financial statement presentation. 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 present fairly, in all material respects, the assets and liabilities and the financial

position of the Company as at year end, and the results of its operations for the year then ended in accordance with IFRS 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 "1.1 – Context of publication" to the annual financial statements established under IFRS, which mentions the assumptions used by Caisse Française de Financement Local for the preparation of the financial statements as at December 31, 2014, within the context of the Swiss National Bank's decision issued January 15, 2015, and note 1.3.b. that outlines the first-time application of new standards, amendments and interpretations as of January 1, 2014.

This report does not constitute the statutory report related to the annual financial statements established in accordance with French accounting principles, issued as per the requirements of article L.823-9 of the Code of Commerce (*Code de commerce*).

This report is governed by, and construed in accordance with, French law. The Courts of France shall have exclusive jurisdiction in relation to any claim, difference or dispute which may arise out of or in connection with our engagement letter or this report. Each party irrevocably waives any right it may have to object to an action being brought in any of those Courts, to claim that the action has been brought in an inconvenient forum or to claim that those Courts do not have jurisdiction.

Courbevoie and Neuilly-sur-Seine, March 31, 2015

The Statutory Auditors
French original signed by:

MAZARS

Virginie Chauvin

Anne Veaute

DELOITTE & ASSOCIÉS

Charlotte Vandeputte

French GAAP Financial Statements

Assets as of December 31, 2014

EUR millions	Notes	12/31/2012	12/31/2013	12/31/2014
Central banks	2.1	2,400	1,471	519
Government and public securities, eligible for central bank financing	2.2	3,278	4,983	6,025
Loans and advances due from banks	2.3	3,223	7,348	6,755
Loans and advances to customers	2.4	50,241	47,373	46,311
Bonds and other fixed income securities	2.5	11,879	4,368	4,590
Equities and other variable income securities		-	-	-
Investments in non-consolidated companies and other long-term investments		-	-	-
Investments in consolidated companies		-	-	-
Intangible assets		-	-	-
Property and equipment		-	-	-
Unpaid capital		-	-	-
Treasury stock		-	-	-
Other assets	2.6	1	13	0
Accruals and other assets	2.7	4,575	3,525	3,438
TOTAL ASSETS	2.8	75,597	69,081	67,638

Liabilities as of December 31, 2014

EUR millions	Notes	12/31/2012	12/31/2013	12/31/2014
Central banks	3.1	-	-	-
Due to banks	3.2	7,623	6,774	6,228
Customer borrowings and deposits		-	-	-
Debt securities	3.3	58,156	53,913	53,752
Other liabilities	3.4	3,524	2,699	2,520
Accruals and other liabilities	3.5	4,702	4,182	3,614
Provisions	3.6	193	134	137
General banking risks reserve		-	-	-
Subordinated debt		-	-	-
Equity		1,399	1,379	1,387
Share capital	3.7	1,315	1,315	1,315
Additional paid-in capital	3.7	-	-	-
Reserves and retained earnings	3.7	47	84	64
Net income	3.7	37	(20)	8
TOTAL LIABILITIES	3.8	75,597	69,081	67,638

Off-balance sheet items as of December 31, 2014

EUR millions	Notes	12/31/2012	12/31/2013	12/31/2014
COMMITMENTS GRANTED	4.1	317	228	150
Financing commitments		317	228	150
Guarantees granted		-	-	-
Other commitments granted		0	-	-
COMMITMENTS RECEIVED	4.2	18,394	11,816	11,795
Financing commitments		6,006	170	550
Guarantees received		12,388	11,646	11,245
Forward commitments		-	-	-
Other commitments received		-	-	-
Foreign currency transactions	4.3	26,600	23,012	20,799
Interest rate derivatives	4.4	180,105	148,666	139,550

Income statement

EUR millions	Notes	2012	2013	2014
Interest income	5.0	3,439	4,976	1,955
Interest expense	5.0	(3,202)	(4,816)	(1,797)
Income from variable income securities		-	-	-
Commission income		-	-	0
Commission expense	5.1	(4)	(24)	(28)
Net gains (losses) on held for trading portfolio		-	-	-
Net gains (losses) on placement portfolio	5.2	13	41	(2)
Other banking income		-	-	0
Other banking expense		-	-	(0)
NET BANKING INCOME		246	177	128
General operating expense	5.3	(91)	(79)	(93)
Depreciation and amortization		-	-	-
OPERATING INCOME BEFORE COST OF RISK		155	98	35
Cost of risk	5.4	(41)	(183)	(18)
INCOME FROM OPERATIONS		114	(85)	17
Income (loss) on fixed assets	5.5	(26)	-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		88	(85)	17
Non-recurring items		-	-	-
Income tax	5.6	(50)	(5)	(9)
Net allocation to general banking risks reserve and regulated provisions	5.7	(1)	70	-
NET INCOME		37	(20)	8
Basic earnings per share		2.83	(1.56)	0.59
Diluted earnings per share		2.83	(1.56)	0.59

Equity

EUR millions	Amount
AS OF 12/31/2013	
Share capital	1,315
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	84
Net income for the year	(20)
Interim dividends	-
EQUITY AS OF 12/31/2013	1,379
MOVEMENTS FOR THE PERIOD	
Changes in share capital	-
Changes in additional paid-in capital	-
Changes in commitments to increase share capital and additional paid-in capital	-
Changes in reserves and retained earnings	-
Dividends paid (-)	-
Net income for the period	8
Other movements	-
AS OF 12/31/2014	
Share capital	1,315
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	64
Net income for the period	8
EQUITY AS OF 12/31/2014	1,387

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General Information

Cash flow statement

EUR millions	12/31/2012	12/31/2013	12/31/2014
NET INCOME BEFORE TAXES	88	(85)	17
+/- Depreciation and writedowns	44	186	44
+/- Expense/income from operating activities	233	81	28
+/- Expense/income from financing activities	(124)	(110)	(88)
+/- Other non-cash items	(521)	26	(103)
= Non-monetary elements included in net income before tax and other adjustments	(368)	183	(119)
+/- Cash from interbank operations	(3,007)	(474)	38
+/- Cash from customer operations (loans)	3,207	2,610	990
+/- Cash from customer financing assets	6,813	5,787	(1,183)
+/- Cash from hedging financial instruments	1,893	(1,012)	(265)
- Income tax paid	5	(14)	(3)
= Decrease/(increase) in cash from operating activities	8,911	6,897	(423)
CASH FLOW FROM OPERATING ACTIVITIES (A)	8,631	6,995	(525)
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-	-
+/- Cash from or for shareholders	0	-	-
+/- Other cash from financing activities	(6,934)	(3,417)	(430)
CASH FLOW FROM FINANCING ACTIVITIES (C)	(6,934)	(3,417)	(430)
EFFECT OF EXCHANGE RATES CHANGES ON CASH (D)	-	-	-
INCREASE/(DECREASE) IN CASH EQUIVALENTS (A + B + C + D)	1,697	3,578	(955)
Cash flow from operating activities (A)	8,631	6,995	(525)
Cash flow from investing activities (B)	-	-	-
Cash flow from financing activities (C)	(6,934)	(3,417)	(430)
Effect of exchange rates on cash (D)	-	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	(3,787)	(2,090)	1,488
Central banks (assets & liabilities)	2,198	2,400	1,471
Interbank accounts (assets & liabilities) and loans/deposits at sight	(5,985)	(4,490)	17
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	(2,090)	1,488	533
Central banks (assets & liabilities)	2,400	1,471	519
Interbank accounts (assets & liabilities) and loans/deposits at sight	(4,490)	17	14
NET CASH	1,697	3,578	(955)

Notes to the French GAAP financial statements

1. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

1.1 - CONTEXT OF PUBLICATION

The financial statements as of December 31, 2014, were examined by the Executive Board on March 16, 2015.

Readers are reminded that in order to prepare up its financial statements for 2013, Caisse Française de Financement Local 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 same was true for the half-year accounts as of June 30, 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 financial statements, Caisse Française de Financement Local took into account the effects of the decision of the Swiss National Bank (SNB) and the hypothesis that the solution announced by the government (in particular, strengthening the funds' intervention capacity and pushing up the ceiling for assistance to the most vulnerable local governments) would in fact rapidly be made available so that the support would remain at least as attractive as before the SNB decision for local governments holding loans indexed on the EUR/CHF exchange rate (cf. 1.2.g Post-closing events).

Caisse Française de Financement Local voluntarily contributed EUR 150 million to the local government support fund and EUR 18 million to the hospital support fund, but it did not book 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).

1.2 - HIGHLIGHTS OF THE PERIOD AND POST-CLOSING EVENTS

a. Situation in the covered bond market

Business in the euro-denominated covered bond market flourished in 2014 with a primary offering of EUR 117 billion (compared with EUR 100 billion in 2013). This dynamic performance was partly due to the refinancing of a large amount of matured covered bonds in 2014 (EUR 152 billion), but also to the active presence of issuers outside the eurozone who found favorable conditions for long-term financing in this market. If German and French issuers remained the most dynamic with overall more than 30% of the offering, Canadian, Australian and British issuers accounted for 22% (to be compared with 10% in 2013).

A highlight of 2014 was the announcement by the ECB at the beginning of September of a new covered bond purchase program, as part of the implementation of its unconventional monetary policy. This announcement increased the tightening trend in secondary spreads and thus primary spreads. Generally speaking, with almost EUR 30 billion purchased

in the primary and secondary market in the fourth quarter of 2014, the eurosystem, while repeating how important it considered the market, was a major player itself. After a long period of performance, the market nonetheless reported a movement of consolidation from mid-November. This concerned secondary spreads in particular, reflecting the relative value of the covered bond product vis-à-vis sovereign bonds.

The covered bond class of assets has always benefited from a particularly positive treatment in a context of regulatory changes (Basel III or Solvency 2), inciting investors to focus on this class in their asset allocation despite the context of low rates and tight spreads. The demand will naturally remain sustained, in particular because of the arrival at maturity of significant volumes of covered bonds in 2015 (EUR 145 billion), again generating an anticipated marked negative net offering of EUR 35 billion.

In this environment, Caisse Française de Financement Local carried out its *obligations foncières* financing program under good conditions of volume, spread and average length of life in order to provide the long-term liquidity required to develop the commercial offer of La Banque Postale to the public sector in France and accompany its policy to reduce loan sensitivity.

b. Business of local government financing in 2014

As part of its main activity, Caisse Française de Financement Local refinances the loans granted by La Banque Postale (LBP) to French local governments and hospitals. It has also been led to grant direct loans to these categories of customers together with its operations to reduce its outstanding sensitive structured loans.

Investment by local governments was expected to decline in 2014 because of the communal and inter-communal elections in France, and of the slight decrease in gross savings by local governments. However, and in spite of fierce competition, La Banque Postale granted loans of EUR 3.3 billion, with an excellent final quarter, up approximately 10% from the previous year. Combined with the loans directly granted by Caisse Française de Financement Local, the total production rose to EUR 4.1 billion and confirmed the leading role of the LBP/Sfil arrangement in refinancing the local public sector (second largest lender in terms of market share). For its second year of business, the organization that had been set up confirmed its efficiency and pursued its progressive and regular ramp up.

Sfil continued to implement the policy that consists in reducing the sensitivity of the structured loans of Caisse Française de Financement Local with a volume of EUR 1.2 billion of sensitive loans transformed into fixed rate contracts. The number of sensitive loans totally transformed into vanilla loans was multiplied by two in 2014 compared with 2013. Since the beginning of 2013, the total amount of outstanding structured loans was reduced by a quarter, from EUR 8.5 billion to EUR 6.3 billion, and more than 150 customers definitively moved out of the "sensitive customer" category. Since the support funds initiated by the French State are fully operational, many legal settlements have been signed, in particular, with the Département de la Seine-Saint-Denis and the cities of

Asnières-sur-Seine and Saint-Étienne. The efforts to reduce sensitivity were generally accompanied by new loans of which EUR 0.9 billion were paid out in 2014.

c. Changes in the regulation of covered bonds in France

Changes were introduced into regulations governing the activity of issuers of French covered bonds (*sociétés de crédit foncier* - SCF and *sociétés de financement de l'habitat* - SFH) in the first half of 2014.

These changes were integrated into current regulations by decree 2014-526 of May 23, 2014, and by an arrêté dated May 26, 2014. They took effect at the end of May 2014, after publication in the Journal Officiel.

The objective is to bolster the prudential framework of SCF/SFH and guarantee the eligibility of issues with the best prudential treatment.

These measures mainly consist in:

- raising the minimum level of over-collateralization (OC) from 2% to 5%;
- limiting the exposure of an SCF or SFH to its parent company by modifying the way in which the OC ratio and the coverage of liquidity needs for the next 180 days are calculated;
- imposing greater congruence between asset/liability maturities with the introduction of an annual cover plan and with the limitation to 18 months of the gap between the weighted average life of eligible assets, considered up to their minimum amount required to satisfy the OC ratio of 105%, and the weighted average life of the privileged liabilities;
- rendering effective the possibility of a transfer of servicing the SCF/SFH via the annual setting up of a servicing transfer plan submitted to the Autorité de contrôle prudentiel et de résolution.
- limiting the use of securitizations.

Caisse Française de Financement Local will be able to respect all of these changes before the specified deadlines.

d. Preparation for the single supervision mechanism

Within the framework of the Single Supervision Mechanism (SSM), the European Central Bank (ECB) directly oversees the 120 largest banks in the eurozone as of 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 oversight obligations, the ECB launched 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. It marked a major step forward in the effort to bolster confidence in eurozone banks, increase the transparency of bank balance sheets and harmonize supervisory practices in Europe.

The AQR focused on the assets on bank balance sheets as of December 31, 2013. It covered exposure to credit and market risks, including the evaluation of assets for which it is difficult to determine the value (level 3 according to accounting standards). All risk exposures, be they domestic or foreign, and all categories of assets, including non-performing exposures, forbearance and exposure to sovereign debt were taken into account. This assessment was carried out using harmonized definitions, in particular those that apply to non-performing exposures and forbearance. The stress test was based on an

examination of the quality of the assets and completes this study to support an opinion, over time, on the capacity of the banks to absorb shocks in the event of a serious crisis.

The definitive results, published on October 26, 2014, by the ECB, are very satisfactory for the Sfil Group. They confirm the relevance and the considerable prudence of the risk management system set up by the bank, the high quality of its public sector assets and its solid capitalization.

The Asset Quality Review of the ECB had no significant impact on Caisse Française de Financement Local'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 stress test confirms the Sfil Group's low risk profile, which results from the quality of its economic model based on public sector assets with little risk. 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 an adverse scenario, the ratio remains robust at 13.17%. The high level of the ratio results from the good level of capitalization combined with a very low risk weighting of the Sfil Group's assets, reflecting the credit quality of local governments. For more than 15 years, the default rate is less than 1% and the loss given default rate is less than 1% for most of the asset classes in the portfolio.

e. Events affecting the rating of obligations foncières in 2014

The changes observed in 2014 as concerns the rating of the *obligations foncières* of Caisse Française de Financement Local (a notch down in the Fitch rating and a negative outlook in the S&P rating) are the result of Fitch's and S&P's review of the rating of the French Republic, and then that of French public sector entities, including Sfil, the parent company of Caisse Française de Financement Local.

As of December 31, 2014, the ratings of Caisse Française de Financement Local were AA+ at Standard and Poor's, Aaa at Moody's and AA at Fitch.

f. Litigation and governmental measures

In its portfolio, Caisse Française de Financement Local has structured loans considered as sensitive, which had been granted to French customers by Dexia Credit Local. Some of these customers sued Dexia Credit Local, Caisse Française de Financement Local and/or Société de Financement Local, contesting the contractual interest rate. As of December 31, 2014, the number of customers having brought suit was 210 as compared with 205 at the end of 2013.

A limited number of cases were judged in initial hearings.

Following the suit brought against Dexia Credit Local by the Département de la Seine-Saint-Denis, three legal decisions were handed down on February 8, 2013, by the Tribunal de Grande Instance de Nanterre. It was a question of three structured loans representing a total capital of EUR 178 million.

The Tribunal de Grande Instance de Nanterre rejected the claims of the Département de la Seine-Saint-Denis, which sought to have the three disputed loan agreements canceled and asked for compensation and damages. In particular, the

Tribunal considered that these loans were not of a speculative character, that the Département was competent to sign these loan agreements, and that Dexia Credit Local acted in the respect of its duty to inform and advise the Département. The Tribunal de Grande Instance de Nanterre however estimated that the faxes which had preceded the signing of the agreements could be qualified as "loan agreements", and that the lack of mention of the annual percentage rate of charge (*Taux Effectif Global* – TEG) implied the application of an official interest rate (*taux légal*). Dexia Credit Local appealed this decision on April 4, 2013, and Caisse Française de Financement Local decided to intervene voluntarily in the proceedings that oppose the Département de la Seine-Saint-Denis and Dexia Credit Local in order to defend its interests by taking part in the proceedings. In December 2014, the Département de la Seine-Saint-Denis committed to put an end to these proceedings in signing a legal settlement that organized the full transformation of its debt into vanilla loans.

Since the February 2013 legal decisions concerning the Département de la Seine-Saint-Denis, decisions were handed down by the Tribunal de Grande Instance (TGI) of Nanterre in the suits brought by four municipalities against Dexia Credit Local (and Caisse Française de Financement Local, which intervened voluntarily in the proceedings in order to defend its interests). These decisions concerned structured loans marketed by Dexia Credit Local and recognized on the balance sheet of Caisse Française de Financement Local, with total initial capital of EUR 98 million. As in the February 2013 decisions, the Tribunal's decision did not address the core issue (validity of the agreement, failure to provide adequate information, advice and warning, etc.), but it was motivated by the formal absence of the annual rate of charge (TEG) or intermediary data with which to calculate the TEG in the fax which had preceded the signing of the loan agreement. This item led the Tribunal to decide to apply the official interest rate (*taux légal*) instead of the contractual rate. Dexia Credit Local and Caisse Française de Financement Local have appealed these decisions.

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 significant resources enabling local governments to finance the unwinding of structured loans; a similar system is currently being set up for public hospitals;
- legislative measures targeting a legal basis to secure loan agreements in effect with local governments.

The 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 à risque.

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), bringing together representatives of the State, local governments and qualified individuals, 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, as the financial situation of the customer and the share of eligible contracts in the total debt of this customer; the maximum amount of aid will be 45% of the indemnity to be paid by the customer to the bank (maximum rate of aid being granted to customers with the worst financial situation);
- use of the aid received by local governments: it will be paid by 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 redeemed 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 ensured by the State, via the CNOS;
- the funds come from the banks for 60% of the amount and from the State for the remaining part.

Caisse Française de Financement Local 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.

Substantial changes were made in February 2015 in the operation and ceilings of these funds. They are described in section 1.2.g.

New legislative provisions targeting a legal basis to secure loan agreements in effect with local governments were specified, and they take into account the comments of the Conseil constitutionnel at the end of December 2013. Legislation to secure structured loan agreements with public sector entities was adopted by the National Assembly on July 10, 2014, and passed by the Senate on July 17, 2014. The Conseil constitutionnel validated this legislation on July 24, 2014, and it took effect on July 30, 2014.

g. Post-closing events

On January 15, 2015, the Swiss National Bank (SNB) announced its decision to put an end to the floor rate of exchange of its national currency, the Swiss franc (CHF). 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 French 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 its decision to increase massively the intervention capacity of the funds earmarked to support public sector entities having contracted sensitive structured loans.

- The amount of the fund 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 significantly raised for the most vulnerable entities.

- The amount of the fund 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.

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

Caisse Française de Financement Local prepares its annual and semiannual financial statements in compliance with CRB 91-01 and CRC 2000-3 as modified related to the annual accounts 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:

- Ongoing 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 APPLIED TO THE FINANCIAL STATEMENTS

a. Loans and advances to banks and to customers

Loans and advances to banks include all loans connected with banking operations except for those materialized by a security. They are broken down into sight accounts and term accounts.

Loans and advances to customers comprise loans granted to local governments. They are recorded in the balance sheet net of impairment for possible loss. The undrawn portion of signed loan agreements is recorded as an off-balance sheet item.

Interest on loans is recorded as Interest income *prorata temporis* for accrued amounts as is interest on past-dues.

Commissions 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 commis-

sion income is recorded in the income statement on a cash basis.

Early loan reimbursement indemnities recorded up to December 31, 2004, continue to be amortized, on a tax and accounting basis, over the residual maturity of the repaid loans, in function of the amount of interest that would have been paid on these loans. The remaining indemnities to be amortized over time are recorded in accruals and other liabilities.

Since January 1, 2005, early loan reimbursement penalties have been recorded in the income statement at the date they occur.

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 (past-due 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, warning 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 recognized for non-performing and compromised non-performing loans. Risk management determines the percentage of impaired capital in function of expected losses. Interest income is fully impaired. Impairment charges and reversals for credit risk are recognized as Cost of risk as well as the losses on non-recoverable loans and recoveries on amortized loans.

b. Securities

The securities held by Caisse Française de Financement Local are recorded in the assets as:

- Government and public entity securities eligible for central bank refinancing;
- 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.

They are recognized for accounting purposes as investment securities or placement securities.

Investment securities

Fixed income securities with a determined maturity are recorded as investment securities when there is the intention or the capacity to hold them to maturity. Securities in this category are subject to backed financing or interest-rate hedging over their residual maturity.

Securities considered as 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 positive or negative difference between the redemption value and the acquisition cost (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 recorded. Unrealized losses are not recognized except in the following cases:

- A doubt about the issuer's ability to meet their obligations;
- The probability that the company will not hold these securities until maturity due to new circumstances.

Placement securities

Securities that do not fit in any existing category are recognized as placement securities.

They are recorded on the date of purchase at acquisition 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 positive or negative difference between the redemption value and the acquisition cost (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, in application of the principle of prudence, placement securities are recorded on the balance sheet at their acquisition cost or selling price at the end of the reporting period, whichever is lower, after accounting, when relevant, for the value of the micro-hedge swap.

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 value the asset. Within this framework, Caisse Française 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.

Placement securities transferred to investment securities are recorded at their acquisition cost and previously recognized impairment is reversed over the residual maturity of the securities concerned.

c. Debt due to banks

Debt due to banks is broken down according to the type of debt (sight accounts, current accounts, long-term loans or non-allocated securities) and the initial maturity (sight or term debt).

Interest accrued on this debt is recorded in liabilities offsetting net income.

d. Debt securities

Debt securities include *obligations foncières* and other resources benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code. 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.

Obligations foncières

These debt securities are recorded at nominal value. Redemption and issue premiums are amortized on a straight-line basis over the maturity of the securities *pro rata temporis*. They are recorded on the balance sheet in the same categories as the corresponding debt.

Amortization of these premiums is recorded in the income statement as Interest expense on bonds and other fixed income securities. If bonds are issued above par, amortization of issue premiums is deducted from interest expense on bonds and other fixed income securities.

Interest on bonds is recorded as Interest expense for accrued amounts calculated *pro rata temporis*.

Bond issue costs and commissions are amortized in equal parts on a straight-line basis over the maturity of the related loans.

Bonds denominated in foreign currencies are accounted for by the same method as foreign currency transactions (see above).

Registered covered bonds

They are private placements that are recorded at their nominal value. The accounting principles applied are identical to those used for *obligations foncières* (see above).

e. Provisions

Provisions are recorded at present value when the three following conditions are met:

- Caisse Française 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.

f. Derivative transactions

Caisse Française de Financement Local engages in derivative transactions to hedge the interest rate and foreign exchange risks to which it is exposed in its activity.

Depending on their purpose, these transactions are assigned to micro-hedge or macro-hedge portfolios. Valuation methods and accounting principles are determined according to the portfolio to which they are assigned.

Pursuant to article L.513-10 of the Monetary and Financial Code, these transactions benefit from the privilege defined in article L.513-11 of the Monetary and Financial Code provided that their purpose is to hedge the assets or debt benefiting from the privilege and the overall risk on the assets, liabilities and off-balance sheet items.

The law stipulates that derivative transactions do not benefit from the privilege when related to sources of financing that do not benefit from the privilege. For Caisse Française de Financement Local, the only resources that do not benefit from the privilege comprise the debt with Société de Financement Local, which is not hedged.

The notional amount of these hedging instruments is recorded as an off-balance sheet item over the maturity of the contract, i.e. from the date the contract is signed (including forward contracts) up to maturity. The amount recorded is adjusted to reflect any changes in notional amounts so as to represent the maximum current or future commitment.

Payments at the inception of hedging derivatives are amortized over their maturity for the time remaining according to a quasi-actuarial method.

Micro-hedge transactions

Transactions are booked as micro-hedges when they are designed to hedge against the interest rate risk related to an item or set of homogeneous items identified from the start. They involve swaps used to hedge issues of debt securities and certain loans and advances to customers.

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

In the event of early reimbursement or the sale of the hedged item, or early repayment within the framework of the renegotiation of the hedged item, the termination fee received or paid because of the early interruption of the hedging instrument is recorded in the following manner, if the hedging instrument has been cancelled.

- prior to January 1, 2005, the termination fee is amortized over the length of time remaining of the cancelled transaction;
- since January 1, 2005, the termination fee is recorded at cancellation; however, the termination fee paid by Caisse Française de Financement Local is charged against income only for the portion that exceeds gains not yet recorded in income in the symmetric position.

In both cases, termination fees remaining to be amortized are recorded in other assets and other liabilities.

Macro-hedge transactions

This category includes transactions designed to hedge and manage the Company's overall exposure to interest rate risk on assets, liabilities and off-balance sheet items, excluding micro-hedge transactions. They were authorized on December 1, 1999, by a specific decision of the Executive Board of Caisse Française de Financement Local.

Expense and income on these transactions are recorded in the income statement *prorata temporis* respectively as Interest expense on macro-hedge transactions and Interest income from macro-hedge transactions. The contra entry is recorded in accruals until the payment date.

If an early reimbursement of a loan leads to the cancellation of macro-hedge swaps, the swap termination fee is treated in the following way if the cancellation has taken place:

- Prior to January 1, 2005, the termination fee is extended over the length of time remaining of the cancelled transaction. Termination fees remaining to be amortized are recorded in Other assets and Other liabilities;

- Since January 1, 2005, termination fees are recorded in the income statement at cancellation.

Monitoring market risks

Market risks refer to the risk of loss linked to fluctuations in market prices and interest rates, their interactions and levels of volatility.

Market risks arising from trading portfolios are not compatible with the activity of Caisse Française de Financement Local. The Company cannot have a derivative instrument in a trading position. All derivatives used by Caisse Française de Financement Local are part of a hedging strategy, either micro- or macro-hedges.

The policy of Caisse Française de Financement Local is to avoid any foreign exchange risk. Market risks related to foreign exchange transactions are eliminated from the start by currency swaps when an asset or liability that is not denominated in euros is recorded on the balance sheet. General accounting verifies that at each end of reporting period there is no foreign exchange risk.

The market back office and market accounting units regularly control the symmetry of micro-hedge swaps.

g. Foreign currency transactions

Caisse Française de Financement Local records 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.

h. Foreign exchange transactions

In the course of systematic hedging of its foreign exchange risk, Caisse Française 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 recognized. They are mainly used to hedge certain bond issues, debt securities and customer loans.

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

i. 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.

j. Tax consolidation

Since January 1, 2014, Caisse Française de Financement Local belongs to the tax group headed up by Société de Financement Local. This entity pays the total income tax owed by the group. Caisse Française de Financement Local records in its accounts the amount of tax for which it would be liable if it were not a member of the tax group. Tax savings realized by the tax group are recorded in the accounts of Société de Financement Local.

k. 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 Caisse Française de Financement Local has no offices in States 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).

Identity of the parent company consolidating the accounts of Caisse Française de Financement Local as of December 31, 2014

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

2. NOTES TO THE ASSETS (EUR millions)

2.1 - CENTRAL BANKS

	12/31/2012	12/31/2013	12/31/2014
Mandatory reserves	-	-	-
Other deposits	2,400	1,471	519
TOTAL	2,400	1,471	519

2.2 - GOVERNMENT AND PUBLIC ENTITY SECURITIES ELIGIBLE FOR CENTRAL BANK REFINANCING

a. Accrued interest included in this item: 70

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
930	964	403	3,658	5,955

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

	Amount as of 12/31/2012	Amount as of 12/31/2013	Amount as of 12/31/2014	Impairment as of 12/31/2014	Unrealized capital gain or loss as of 12/31/2014 ⁽²⁾
Listed securities ⁽¹⁾	3,214	4,481	5,629	(0)	(537)
Other securities	-	432	326	-	(42)
TOTAL	3,214	4,913	5,955	(0)	(579)

(1) Listed securities are registered for trading on a stock exchange.

(2) The unrealized capital gain or loss is after swapping and corresponds to the difference between accounting value and market value.

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

Portfolio	Gross amount as of 12/31/2012	Gross amount as of 12/31/2013	Increases ⁽¹⁾	Decreases	Transfers ⁽²⁾	Conversion differences	Impairment as of 12/31/2014	Net amount as of 12/31/2014	Unrealized capital gain or loss as of 12/31/2014 ⁽³⁾
Trading	-	-	-	-	-	-	-	-	-
Placement	729	756	1,550	(1)	50	0	-	2,355	(44)
Investment	2,489	4,157	-	(89)	(486)	10	-	3,592	(535)
TOTAL	3,218	4,913	1,550	(90)	(436)	10	-	5,947	(579)

(1) The increase is mainly due to the acquisition of French State bonds.

(2) Caisse Française de Financement Local reclassified bonds from and to "Bonds and other fixed income securities".

(3) The Unrealized capital gain or loss is after swapping and corresponds to the difference between accounting value and market value.

e. Impairment breakdown by country

See note 2.9

2.3 - LOANS AND ADVANCES DUE FROM BANKS

a. Sight loans and advances due from banks

	12/31/2012	12/31/2013	12/31/2014
Sight accounts	23	18	14
Unallocated sums	2	-	-
TOTAL	25	18	14

b. Term loans and advances due from banks**a. Accrued interest included in this item: 17****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
306	449	3,663	2,306	6,724

c. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2012	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	-	-	-	-	-
Loans of more than 1 year	3,176	7,308	6,724	-	6,724
TOTAL	3,176	7,308	6,724	-	6,724

d. Breakdown by counterparty

	12/31/2012	12/31/2013	12/31/2014
Swiss cantonal banks benefiting from their cantons' legal guarantee	867	684	598
Banks guaranteed by a local government, <i>crédits municipaux</i>	175	133	92
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	2,134	2,128	2,122
Loans to Société de Financement Local	-	4,363	3,912
TOTAL	3,176	7,308	6,724
- of which replacement assets	-	4,363	3,912

2.4 - CUSTOMER LOANS AND ADVANCES**a. Accrued interest included in this item: 681****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
1,446	2,856	13,925	27,403	45,630

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

ECONOMIC SECTOR	12/31/2012	12/31/2013	12/31/2014
Public sector	45,895	43,373	42,605
Other sectors	3,579	3,280	3,025
TOTAL	49,474	46,653	45,630

d. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2012	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	2	2	5	-	5
Loans of more than 1 year	49,472	46,651	45,672	(47)	45,625
TOTAL	49,474	46,653	45,677	(47)	45,630

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

	Net amount as of 12/31/2012	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	49,361	46,418	45,224	-	45,224
Non-performing loans	107	193	311	(21)	290
Compromised non-performing loans	6	42	142	(26)	116
TOTAL	49,474	46,653	45,677	(47)	45,630

Assets considered as forborne by Caisse Française 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 at reducing 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.

f. Depreciation for non-performing loans - changes during the year

	12/31/2012	12/31/2013	Allocations	Reversals	Transfers	12/31/2014
For non-performing loans						
On loans	(3)	(3)	(8)	2	-	(9)
On interest	(4)	(5)	(11)	4	-	(12)
For compromised non-performing loans						
On loans	0	(3)	(2)	1	-	(4)
On interest	(1)	(3)	(19)	0	-	(22)
TOTAL	(8)	(14)	(40)	7	-	(47)

- Provisions on interest are recorded in Net banking income.
- Provisions on outstanding are recorded in Cost of risk.

g. Impairment breakdown by country

See note 2.9

2.5 - BONDS AND OTHER FIXED INCOME SECURITIES**a. Accrued interest included in this item: 24****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
240	127	687	3,512	4,566

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

	12/31/2012	12/31/2013	12/31/2014
Public sector	1,882	3,452	3,710
Other sectors (guaranteed by a State or by a local government)	1,201	890	856
Other sectors (ABS)	73	-	-
DCC - Dexia Crediop per la Cartolarizzazione	3,360	-	-
DSFB - Dexia Secured Funding Belgium	4,831	-	-
Cedulas territoriales issued by Dexia Sabadell	500	-	-
Lettres de gage publiques issued by Dexia LdG Banque	-	-	-
TOTAL	11,847	4,342	4,566
- of which eligible for central bank refinancing	628	556	394
- assets assigned in guarantee to the central bank and removed from the cover pool	-	-	-
- of which replacement assets	500	-	-

d. Replacement assets

	12/31/2012	12/31/2013	12/31/2014
Dexia Sabadell	500	-	-
TOTAL	500	-	-

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

	12/31/2012	12/31/2013	12/31/2014	Impairment as of 12/31/2014	Unrealized capital gain or loss as of 12/31/2014 ⁽¹⁾
Listed securities	2,136	1,904	2,208	-	(66)
Other securities	9,711	2,438	2,358	-	(135)
TOTAL	11,847	4,342	4,566	-	(202)

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

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

PORTFOLIO	Net amount as of 12/31/2012	Net amount as of 12/31/2013	Gross amount as of 12/31/2013	Increases ⁽¹⁾	Decreases	Transfers	Conversion differences	Impairment as of 12/31/2014	Net amount as of 12/31/2014	Unrealized capital gain or loss as of 12/31/2014 ⁽²⁾
Trading	-	-	-	-	-	-	-	-	-	-
Placement	1,564	1,012	1,012	-	(69)	(50)	53	-	946	21
Investment	10,283	3,330	3,330	-	(232)	486	36	-	3,620	(223)
TOTAL	11,847	4,342	4,342	-	(301)	436	89	-	4,566	(202)

(1) Caisse Française de Financement Local reclassified bonds from or to "Government and public entity securities".

(2) The unrealized capital gain or loss is after swapping and corresponds to the difference between accounting value and market value.

g. Impairment breakdown by country

See note 2.9

2.6 - OTHER ASSETS

	12/31/2012	12/31/2013	12/31/2014
Other receivables	1	13	0
TOTAL	1	13	0

2.7 - ACCRUALS AND OTHER ASSETS

	12/31/2012	12/31/2013	12/31/2014
Deferred losses on hedging transactions	2,254	2,079	1,997
Deferred charges on bond issues	49	44	41
Deferred charges on hedging transactions	179	148	197
Premiums on acquisition of loans	111	110	136
Other prepaid charges	-	-	1
Accrued interest not yet due on hedging transactions	1,302	1,141	1,064
Translation adjustments	677	-	-
Other deferred income	-	-	-
Other accruals	3	3	2
TOTAL	4,575	3,525	3,438

2.8 - TOTAL ASSETS

Analysis by original currency	Amount in original currency as of 12/31/2012	Amount in euros as of 12/31/2012	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	66,639	66,639	61,634	61,634	60,841	60,841
AUD	1,079	848	1,079	700	530	358
CAD	1,022	776	1,020	696	1,019	725
CHF	2,760	2,286	2,660	2,168	2,643	2,197
GBP	637	783	637	764	637	818
HKD	201	20	201	19	201	21
JPY	156,881	1,374	106,641	737	95,837	661
NOK	1,039	141	1,039	124	1,039	115
PLN	34	8	36	9	37	9
SEK	1,342	156	1,335	150	1,334	141
USD	3,392	2,566	2,868	2,080	2,125	1,752
TOTAL		75,597		69,081		67,638

2.9 - IMPAIRMENT BREAKDOWN BY COUNTRY

	Amount as of 12/31/2012	Amount as of 12/31/2013	Amount as of 12/31/2014
Government and public entity securities eligible for central bank refinancing - placement securities	(5)	(8)	-
Italy	(5)	(8)	-
Bonds and other fixed income securities - placement securities	(37)	0	0
Spain	(3)	-	-
France	-	-	0
Germany	0	0	-
Austria	(4)	-	-
Italy	(16)	-	-
United Kingdom	(14)	-	-
Bonds and other fixed income securities - investment securities	-	-	-
Loans and advances to customers	(8)	(14)	(47)
France	(8)	(14)	(47)

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

The reported credit risk exposure represents the accounting net carrying amount, being the notional amounts after deduction of specific impairments and recording of accrued interest.

	12/31/2013					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	585	-	-	585
TOTAL	-	-	585	-	-	585

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

	12/31/2013					
	Spain	Ireland	Italy	Portugal	Greece	Total
Investment securities	-	-	480	-	-	480
Placement securities	-	-	105	-	-	105
TOTAL	-	-	585	-	-	585
IMPAIRMENT	-	-	(8)	-	-	(8)

	12/31/2014					
	Spain	Ireland	Italy	Portugal	Greece	Total
Investment securities	-	-	487	-	-	487
Placement securities	-	-	112	-	-	112
TOTAL	-	-	599	-	-	599
IMPAIRMENT	-	-	-	-	-	-

3. NOTES TO THE LIABILITIES (EUR millions)

3.1 - CENTRAL BANKS

This item includes refinancing obtained through Banque de France tenders. The use of such financing organized by tenders involved 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.

	12/31/2012	12/31/2013	12/31/2014
Overnight borrowing	-	-	-
Time borrowing	-	-	-
Accrued interest	-	-	-
TOTAL	-	-	-

3.2 DUE FROM BANKS

When Caisse Française de Financement Local was acquired on January 31, 2013, by its parent company Société de Financement Local, all the commitments received from Dexia Credit Local came to an end as of that date, and a new agreement was signed with Sfil.

At the end of December 2014, funds obtained from Sfil, within the framework of the financing agreement, were comprised of different loans with maturities that could run from one day to seven years, indexed on Euribor or Eonia.

	12/31/2012	12/31/2013	12/31/2014
Sight accounts	-	1	0
Current account - parent company	4,510	-	-
Interest accrued not yet due	-	-	-
Term borrowing - parent company	3,100	6,758	6,212
Interest accrued not yet due	10	15	16
Unallocated sums	3	0	-
TOTAL	7,623	6,774	6,228

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
Sight	0	-	-	-	0
Term	1,095	0	3,903	1,214	6,212
TOTAL	1,095	0	3,903	1,214	6,212

3.3 - DEBT SECURITIES

a. Debt securities (*obligations foncières*)

a. Accrued interest included in this item: 873

b. Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
<i>Obligations foncières</i>	1,199	5,792	20,837	19,421	47,249
of which issue premiums ⁽¹⁾	0	(9)	(12)	(42)	(63)

(1) The gross amount of issue premiums, before amortization, totaled EUR 192 million.

c. Changes during the year excluding accrued interest

12/31/2013	Increases	Decreases	Translation adjustments	12/31/2014
48,162	3,174	(4,498)	411	47,249

b. Other bonds (registered covered bonds)**a. Accrued interest included in this item: 144****b. Analysis by residual maturity excluding accrued interest**

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Registered covered bonds	-	-	276	5,210	5,486
of which issue premiums ⁽¹⁾	-	-	-	51	51

(1) The gross amount of positive and negative issue premiums totaled EUR 49.8 million.

c. Analysis by residual maturity excluding accrued interest

12/31/2013	Increases	Decreases	Translation adjustments	12/31/2014
4,705	910	(129)	-	5,486

3.4 - OTHER LIABILITIES

	12/31/2012	12/31/2013	12/31/2014
Cash collateral received	3,518	2,546	2,351
Accrued interest not yet due on cash collateral received	0	0	(0)
Taxes	6	3	10
Balances to pay on unwound hedging contracts	-	-	-
Contribution to the support fund ⁽¹⁾	-	150	158
Other creditors	-	-	1
TOTAL	3,524	2,699	2,520

(1) This item corresponds to the commitment taken in 2014 by Caisse Française de Financement Local to contribute EUR 18 million for hospitals. An additional contribution to the multi-year support fund for local governments was added in 2013 in the amount of EUR 10 million over 15 years, minus an initial payment of EUR 10 million at the end of 2014.

3.5 - ACCRUALS AND OTHER LIABILITIES

	12/31/2012	12/31/2013	12/31/2014
Deferred gains on hedging transactions	-	-	-
Deferred income on hedging transactions	2,675	2,432	2,301
Deferred income on loans	204	195	172
Accrued interest not yet due on hedging transactions	1,120	1,040	916
Other accrued charges	25	45	22
Translation adjustments	678	462	202
Other accruals	0	8	1
TOTAL	4,702	4,182	3,614

3.6 - PROVISIONS FOR RISKS AND CHARGES, DEFERRED TAX LIABILITIES AND REGULATED PROVISIONS

	12/31/2012	12/31/2013	Increases	Decreases	Translation adjustments	Amount as of 12/31/2014
Loans commitments	39	70	47	(54)	-	63
Financial instruments	55	35	13	(3)	-	45
Regulated provision	70	-	-	-	-	-
Other provisions	29	29	-	-	-	29
TOTAL	193	134	60	(57)	-	137

The 2014 Law of Finances eliminated the Provision for medium- and long-term loans for EUR 70 million. In addition, in 2014, Caisse Française de Financement Local kept in its books a high level of collective provision for EUR 63 million.

3.7 - EQUITY

	12/31/2012	12/31/2013	12/31/2014
Share capital	1,315	1,315	1,315
Legal reserve	44	46	46
Retained earnings (+/-)	3	38	18
Net income (+/-)	37	(20)	8
TOTAL	1,399	1,379	1,387

On May 22, 2014, the Ordinary Shareholders' Meeting decided to allocate the 2013 net loss of EUR 20 million to retained earnings, constituting income for distribution of EUR 18 million.

Caisse Française de Financement Local's share capital totaled EUR 1,315 million, comprising 13,150,000 shares.

3.8 - TOTAL LIABILITIES

Analysis by original currency	Amount in original currency as of 12/31/2012	Amount in euros as of 12/31/2012	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	66,639	66,639	61,634	61,634	60,841	60,841
AUD	1,079	848	1,079	700	530	358
CAD	1,022	776	1,020	696	1,019	725
CHF	2,760	2,286	2,660	2,168	2,643	2,197
GBP	637	783	637	764	637	818
HKD	201	20	201	19	201	21
JPY	156,881	1,374	106,641	737	95,837	661
NOK	1,039	141	1,039	124	1,039	115
PLN	34	8	36	9	37	9
SEK	1,342	156	1,335	150	1,334	141
USD	3,392	2,566	2,868	2,080	2,125	1,752
TOTAL		75,597		69,081		67,638

3.9 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Parent company and consolidated entities ⁽¹⁾			Other related parties ⁽²⁾		
	12/31/2012	12/31/2013	12/31/2014	12/31/2012	12/31/2013	12/31/2014
ASSETS						
Loans and advances due from banks - sight	-	-	-	-	-	-
Loans and advances due from banks - term	2,142	4,368	3,916	-	-	-
Bonds and other fixed income securities	3,864	-	-	-	-	-
LIABILITIES						
Due to banks - sight	4,510	-	-	-	-	-
Due to banks - term	3,110	6,773	6,228	-	-	-
INCOME STATEMENT						
Interest income on loans and advances	56	16	23	-	(0)	(4)
Interest income on debt securities	65	-	-	-	-	-
Interest expense on borrowings	(87)	(65)	(61)	-	-	-
Net commissions	(3)	(19)	(22)	-	-	-
OFF-BALANCE SHEET						
Interest rate derivatives	102,507	13,900	16,492	-	-	-
Foreign exchange derivatives	5,947	5,180	4,606	-	-	-
Commitments and guarantees received	12,010	4,420	4,366	-	134	133

(1) This item includes transactions up to 2012 with Dexia Group entities. Since 2013, it includes transactions with Société de Financement Local, the parent company of Caisse Française de Financement Local.

(2) This item includes transactions up to 2012 with companies of the Luxembourg sub-group consolidated by Dexia SA, the parent company of Dexia Credit Local. As of January 2013, it includes transactions with Caisse des Dépôts et Consignations and La Banque Postale, shareholders of Sfil, the parent company of Caisse Française de Financement Local.

4. NOTES TO THE OFF-BALANCE SHEET ITEMS (EUR millions)

4.1 - COMMITMENTS GRANTED

	12/31/2012	12/31/2013	12/31/2014
Financing commitments granted to credit institutions	-	-	-
Financing commitments granted to customers ⁽¹⁾	317	228	150
Other commitments given, assets assigned in guarantee	-	-	-
TOTAL	317	228	150

(1) Financing commitments on loans and advances correspond to contracts signed for loans not yet paid out to customers as of December 31, 2014.

4.2 - COMMITMENTS RECEIVED

	12/31/2012	12/31/2013	12/31/2014
Financing commitments received from credit institutions ⁽¹⁾	6,006	170	550
Currencies borrowed	-	-	-
Guarantees received from credit institutions ⁽²⁾	4,742	4,568	4,103
Guarantees received from local governments and asset transfers as guarantees of commitments on local governments	7,646	7,078	7,142
Other commitments received	-	0	-
TOTAL	18,394	11,816	11,795

(1) At the end of December 2014, this item corresponded:

- to loans granted by Sfil in the amount of EUR 400 million and registered covered bonds

- to the amount of the overdraft, authorized in the current account agreement set up with Sfil, totaling EUR 50 million. At the end of December 2012, there was a firm and irrevocable commitment by Dexia Credit Local to make available to Caisse Française de Financement Local the funds required to reimburse obligations foncières that will mature in the next 12 months. This commitment came to an end on January 31, 2013, following the acquisition of Caisse Française de Financement Local by Société de Financement Local;

(2) As of December 31, 2014, the total was mainly composed of pledges of securities to the benefit of Caisse Française de Financement Local as a guarantee for the reimbursement of loans granted to Sfil.

4.3 - FOREIGN CURRENCY TRANSACTIONS

Cash and forward foreign exchange transactions are recorded at their value in foreign currency 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.

	12/31/2012	12/31/2013	12/31/2014	Fair value as of 12/31/2014
Currencies to receive	13,299	11,275	10,298	524
Currencies to deliver	13,300	11,737	10,501	(551)
TOTAL	26,599	23,012	20,799	(27)

4.4 - 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.

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

Type of transaction	12/31/2013	Less than 1 year	1 year to 5 years	More than 5 years	Total
Unconditional transactions	148,666	54,795	27,473	57,282	139,550
of which deferred start	8,547	-	1	1,129	1,130

These hedging transactions include micro-hedge and macro-hedge transactions.

b. Analysis of interest rate transactions by product type

	12/31/2012	12/31/2013	12/31/2014
Interest rate swaps	180,105	148,666	139,550
Term contracts	-	-	-
Interest rate options	-	-	-
TOTAL	180,105	148,666	139,550

c. Analysis of interest rate swap transactions

	12/31/2012	12/31/2013	12/31/2014	Fair value as of 12/31/2014
Micro-hedge	73,913	69,996	69,999	(866)
Macro-hedge	106,192	78,670	69,551	(3,405)
TOTAL	180,105	148,666	139,550	(4,270)

d. Analysis of interest rate transactions by counterparty

	12/31/2012	12/31/2013	12/31/2014
Related parties	99,550	13,900	16,492
Counterparties with equity interests	-	-	-
Other counterparties	80,555	134,766	123,058
TOTAL	180,105	148,666	139,550

5. NOTES TO THE STATEMENT OF INCOME (EUR millions)**5.0 - INTEREST AND RELATED INCOME / EXPENSE**

EUR millions	12/31/2013	12/31/2014
INTEREST AND RELATED INCOME	4,976	1,955
Due from banks	77	80
Due from customers	2,725	1,563
Bonds and other fixed income securities	73	115
Macro-hedge transactions	2,101	197
Other commitments	-	-
INTEREST AND RELATED EXPENSE	(4,816)	(1,797)
Due to banks	(73)	(65)
Due to customers	(1,716)	(627)
Bonds and other fixed income securities	(338)	(327)
Macro-hedge transactions	(2,689)	(778)
Other commitments	-	-
INTEREST MARGIN	160	158

5.1 - ANALYSIS OF COMMISSIONS PAID

	12/31/2013	12/31/2014
Commission for business brokerage and securities portfolio management billed by Dexia Crediop	(4)	(4)
Commission paid on securities transactions	(1)	(2)
Rebilling of expenses from Société de Financement Local	(19)	(22)
TOTAL	(24)	(28)

5.2 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS

	12/31/2013	12/31/2014
Transactions on placement securities ⁽¹⁾	41	(2)
Transactions on investment securities	(0)	-
Transactions on interest rate derivatives	-	-
Foreign exchange transactions	0	-
TOTAL	41	(2)

(1) This item regroups capital gains and losses on sales and provisions and reversals on this portfolio. Amount after swap.

5.3 - GENERAL EXPENSES

Caisse Française de Financement Local has no salaried employees in accordance with article L.513-15 of the Monetary and Financial Code. Through an agreement, the general management of the operations of Caisse Française de Financement Local is entrusted to its parent company, a credit institution. This management was the responsibility of Dexia Credit Local until the end of January 2013. Since that date, it is in the hands of Société de Financement Local.

Particular agreements were also drawn up with the following entities: Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium) and Dexia Crediop (Italy). These management contracts already existed in previous years.

General operating expense can be broken down as follows.

	12/31/2013	12/31/2014
Taxes	(5)	(3)
Other general operating expense ⁽¹⁾	(74)	(90)
TOTAL	(79)	(93)

(1) of which EUR 87 million with Sfil

5.4 - COST OF RISK

	12/31/2013	12/31/2014
Contribution to the support fund	(150)	(18)
Collective and specific impairments	(33)	(0)
TOTAL	(183)	(18)

5.5 - GAINS AND LOSSES ON FIXED ASSETS

	12/31/2013	12/31/2014
Transactions on investment securities	-	-
Other operations	-	-
TOTAL	-	-

5.6 - CORPORATE INCOME TAX

	12/31/2013	12/31/2014
Income tax for the year	(5)	(9)
Deferred tax	-	-
TOTAL	(5)	(9)

The corporate tax rate in France in 2014 was 38%.

5.7 - INCREASE AND DECREASE IN THE REGULATED PROVISION

	12/31/2013	12/31/2014
Increase and decrease in the regulated provision	70	-
TOTAL	70	-

Following the elimination of the provision for medium- and long-term loans by the 2014 Law of Finances, this provision was completely reversed in the amount of EUR 70 million in 2013.

Statutory Auditors' report on the financial statements

for the year ended December 31, 2014

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

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 Caisse Française de Financement Local;
- the justification of our assessments;
- the specific verification and information required by law.

These financial statements have been approved by the Executive Board. 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 of 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 – Context of publication" to the financial statements which mentions the assumptions used by Caisse Française de Financement Local for the preparation of the financial statements as of December 31, 2014, within the context of the Swiss National Bank's decision issued January 15, 2015.

Justification of our assessments

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

Credit risks provisions

As described in Note "1.4.a Loans and advances to banks and to customers" to the annual financial statements, your company records provisions to cover credit risks inherent in any banking activity. As part of our assessment of these accounting estimates, we examined the credit risk review process, the assessment of the non-recoverability risk and the adequacy of specific allowances for loan losses.

Valuation of financial instruments

As described in Note "1.4.b Securities" 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 Executive Board and in the documents addressed to shareholders with respect to the financial position and the financial statements.

In accordance with French law, we inform you that the information given in accordance with the requirements of article L.225-102-1 of the Code of Commerce relating to remunerations and benefits received by the directors and any other commitments made in their favor, does not include the remunerations and benefits granted by the company controlling your company as per article L.223-16 of the Code of Commerce, for the reasons exposed in the paragraph "Compensation of members of management bodies" in the above-mentioned report. As a consequence, we cannot attest their fair presentation and accuracy.

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

Courbevoie and Neuilly-sur-Seine, March 31, 2015

The Statutory Auditors
French original signed by:

MAZARS

Virginie Chauvin

Anne Veaute

DELOITTE & ASSOCIÉS

Charlotte Vandeputte

Supplemental Disclosures

Income for the last five years

	2010	2011	2012	2013	2014
FINANCIAL POSITION					
Share capital (EUR thousands)	1,190,000	1,300,000	1,315,000	1,315,000	1,315,000
Number of shares	11,900,000	13,000,000	13,150,000	13,150,000	13,150,000
RESULTS OF OPERATIONS (EUR thousands)					
Revenues ⁽¹⁾	1,996,511	3,269,418	2,182,333	2,286,627	1,177,463
Income before income tax, amortization, depreciation and contingencies net of reversals	189,425	91,295	119,177	94,157	63,193
Income tax	65,754	19,482	49,509	5,498	9,063
Income after income tax, amortization, depreciation and contingencies net of reversals	120,057	5,417	37,213	(20,519)	7,714
Exceptional distribution	-	-	-	-	-
Dividend paid ⁽²⁾	110,075	15,080	36,820	-	-
PER SHARE DATA (EUR)					
Revenues	167.77	251.49	165.96	173.89	89.54
Income after income tax, before amortization, depreciation and contingencies net of reversals	10.39	5.52	5.30	6.74	4.12
Income tax	5.53	1.50	3.76	0.42	0.69
Income after income tax, amortization, depreciation and contingencies net of reversals	10.09	0.42	2.83	(1.56)	0.59
Exceptional distribution	-	-	-	-	-
Dividend per share ⁽²⁾	9.25	1.16	2.80	-	-

(1) Revenues are comprised of the macro-hedging items:
- interest and related income, netted of macro-hedging expense;
- commission income;
- net income on foreign exchange transactions;
- other operating income.

(2) Proposed distribution for 2014.

Over-collateralization ratio

Pursuant to articles L.513-12 and R.513-8 of the Monetary and Financial Code, the total of the assets of *sociétés de crédit foncier* must always exceed by at least 5% liabilities benefiting from the privilege referred to in article L.513-11 of the Monetary and Financial Code.

Assets covering liabilities benefiting from the privilege (weighted amounts in EUR millions)	12/31/2014
Exposures on public sector entities	58,745
Shares in funds or similar entities that meet the conditions of article L.513-5 of the Monetary and Financial Code	-
Replacement assets	3,934
Other assets	2,255
Operations deducted from the assets	-
TOTAL ASSETS	64,934
Liabilities benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code (weighted amounts in EUR millions)	12/31/2014
<i>Obligations foncières</i>	47,312
Other bonds benefiting from the privilege	5,434
Liabilities related to these securities	1,017
Amounts owed under the contract provided for in article L.513-15 of the Monetary and Financial Code	20
Amounts owed for derivatives benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code	3,469
Debt attributable to miscellaneous expense mentioned in the last section of article L.513-11 of the Monetary and Financial Code	-
TOTAL LIABILITIES	57,252
OVER-COLLATERALIZATION RATIO	113.41%

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 services rendered								
Audit, certification, examination of company financial statements	292	248	100%	100%	295	258	100%	100%
Other audit tasks	-	-	0%	0%	-	-	0%	0%
Subtotal	292	248	100%	100%	295	258	100%	100%
Other services								
Legal, tax, labor issues	-	-	-	-	-	-	-	-
Internal audit	-	-	-	-	-	-	-	-
Other (to specify if > 10% of audit fees)	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-
TOTAL	292	248	100%	100%	295	258	100%	100%

List of bonds issued by Caisse Française de Financement Local

(*obligations foncières*, registered covered bonds)

Obligations foncières ISIN code	Currency	Nominal amount in foreign currency	Balance	Redemption value*	Final due date	Next call date	Stock exchange
			EUR millions				
AU0000DXAHB0	AUD	20,000,000	13	11	16 Jan 26		Sydney
AU0000DXAHH7	AUD	200,000,000	135	124	24 Aug 15		Sydney
AU0000DXAHH7	AUD	200,000,000	135	123	24 Aug 15		Sydney
AU0000DXAHH7	AUD	100,000,000	67	58	24 Aug 15		Sydney
TOTAL	AUD	520,000,000	350	316			
FR0010172098	CAD	200,000,000	142	122	9 Mar 20		Luxembourg
FR0010443630	CAD	200,000,000	142	131	9 Mar 29		Luxembourg
FR0010443630	CAD	100,000,000	67	69	9 Mar 29		Luxembourg
FR0010477083	CAD	500,000,000	356	335	30 May 17		Luxembourg
TOTAL	CAD	1,000,000,000	707	658			
CH0020643760	CHF	200,000,000	166	128	11 Mar 15		Zurich
CH0020643760	CHF	100,000,000	83	65	11 Mar 15		Zurich
CH0020643760	CHF	150,000,000	125	97	11 Mar 15		Zurich
CH0020643760	CHF	100,000,000	83	64	11 Mar 15		Zurich
CH0020643760	CHF	100,000,000	83	64	11 Mar 15		Zurich
CH0020643760	CHF	50,000,000	42	31	11 Mar 15		Zurich
CH0023984815	CHF	200,000,000	167	129	9 Feb 16		Zurich
CH0023984815	CHF	180,500,000	151	139	9 Feb 16		Zurich
CH0032508563	CHF	165,000,000	137	100	9 Aug 17		Zurich
CH0032508563	CHF	135,000,000	113	81	9 Aug 17		Zurich
CH0032508563	CHF	100,000,000	83	62	9 Aug 17		Zurich
CH0033023216	CHF	200,000,000	167	121	28 Aug 19		Zurich
CH0105994203	CHF	250,000,000	208	165	2 May 18		Zurich
CH0105994203	CHF	160,000,000	135	109	2 May 18		Zurich
CH0106680777	CHF	143,000,000	119	95	12 Aug 19		Zurich
CH0106680777	CHF	125,000,000	104	95	12 Aug 19		Zurich
CH011862063	CHF	100,000,000	84	70	23 Apr 30		Zurich
FR0010526376	CHF	20,000,000	17	12	15 Oct 27		Unlisted
FR0010555748	CHF	50,000,000	42	30	20 Dec 17		Unlisted
TOTAL	CHF	2,528,500,000	2,108	1,657			
FR0000472474	EUR	53,000,000	53	53	7 Dec 15		Luxembourg
FR0000473357	EUR	74,820,000	75	75	2 Apr 18		Luxembourg
FR0000480329	EUR	300,000,000	300	300	9 Aug 17		Luxembourg
FR0000480329	EUR	100,000,000	100	100	9 Aug 17		Luxembourg
FR0000480329	EUR	50,000,000	50	50	9 Aug 17		Luxembourg
FR0000480329	EUR	14,050,000	14	14	9 Aug 17		Luxembourg
FR0000480329	EUR	94,420,000	94	94	9 Aug 17		Luxembourg
FR0000480329	EUR	41,080,000	41	41	9 Aug 17		Luxembourg
FR0000488132	EUR	750,000,000	747	750	6 Feb 17		Luxembourg - Paris
FR0000488132	EUR	100,000,000	100	100	6 Feb 17		Luxembourg - Paris
FR0000488132	EUR	150,000,000	152	150	6 Feb 17		Luxembourg - Paris
FR0000488132	EUR	150,000,000	152	150	6 Feb 17		Luxembourg - Paris
FR0000488132	EUR	250,000,000	258	250	6 Feb 17		Luxembourg - Paris
FR0000499030	EUR	30,000,000	30	30	23 Feb 15		Luxembourg
FR0010018028	EUR	47,000,000	47	47	9 Oct 15		Luxembourg
FR0010033357	EUR	50,000,000	50	50	20 Nov 18		Luxembourg
FR0010034371	EUR	75,000,000	75	75	15 Dec 19		Luxembourg
FR0010039164	EUR	40,000,000	40	40	19 Feb 18		Luxembourg
FR0010051698	EUR	111,500,000	112	112	20 Feb 19		Luxembourg
FR0010053769	EUR	20,000,000	20	20	26 Feb 16		Luxembourg
FR0010060384	EUR	30,000,000	30	30	5 Mar 20		Luxembourg
FR0010061978	EUR	50,000,000	50	50	15 Mar 16		Luxembourg
FR0010061986	EUR	65,000,000	65	65	15 Mar 19		Luxembourg
FR0010063727	EUR	30,000,000	30	30	15 Mar 21		Luxembourg

* Value determined by the interest rate and currency swaps contracted to hedge the issue of obligations foncières and registered covered bonds.

Obligations foncières ISIN code	Currency	Nominal amount in foreign currency	Balance	Redemption value*	Final due date	Next call date	Stock exchange
			EUR millions				
FR0010068361	EUR	45,000,000	45	45	15 Apr 19		Luxembourg
FR0010068437	EUR	51,500,000	52	52	15 Apr 19		Luxembourg
FR0010070888	EUR	27,000,000	27	27	15 Apr 19		Luxembourg
FR0010071852	EUR	35,000,000	35	35	26 Apr 19		Luxembourg
FR0010081885	EUR	10,000,000	10	10	21 May 16		Luxembourg
FR0010089839	EUR	90,200,000	90	90	24 Jun 24		Luxembourg
FR0010092908	EUR	10,000,000	10	10	7 Jun 19		Luxembourg
FR0010093336	EUR	50,000,000	50	50	22 Jun 24		Luxembourg
FR0010108811	EUR	80,000,000	80	80	1 Sep 19		Luxembourg
FR0010114371	EUR	20,082,322	20	15	24 Sep 24		Luxembourg
FR0010125732	EUR	100,000,000	100	100	11 Oct 19		Luxembourg
FR0010130435	EUR	200,000,000	200	200	2 Dec 19		Luxembourg
FR0010133645	EUR	100,000,000	100	100	14 Jan 15		Luxembourg
FR0010133645	EUR	75,000,000	75	75	14 Jan 15		Luxembourg
FR0010134577	EUR	120,000,000	120	120	3 Dec 24		Luxembourg
FR0010160911	EUR	20,000,000	20	20	28 Jan 25		Luxembourg
FR0010163394	EUR	230,000,000	223	230	10 Feb 25		Luxembourg
FR0010165696	EUR	60,000,000	60	60	17 Feb 20		Luxembourg
FR0010167304	EUR	50,000,000	50	50	7 Mar 20		Luxembourg
FR0010167312	EUR	50,000,000	50	50	2 Mar 20		Unlisted
FR0010170589	EUR	31,000,000	31	31	10 Mar 20		Unlisted
FR0010170597	EUR	30,000,000	30	30	15 Mar 20		Luxembourg
FR0010170696	EUR	20,000,000	20	20	4 Mar 20		Luxembourg
FR0010172031	EUR	50,000,000	50	50	11 Mar 20		Luxembourg
FR0010172106	EUR	30,000,000	30	30	14 Mar 17		Luxembourg
FR0010173716	EUR	100,000,000	100	100	23 Mar 15		Luxembourg
FR0010175844	EUR	140,000,000	140	140	24 Mar 20		Unlisted
FR0010175869	EUR	76,000,000	76	76	30 Mar 20		Unlisted
FR0010178467	EUR	35,000,000	35	35	22 Apr 15		Luxembourg
FR0010185892	EUR	100,000,000	100	100	29 Apr 22		Luxembourg
FR0010186163	EUR	155,000,000	155	155	6 May 20		Luxembourg
FR0010190066	EUR	100,000,000	100	100	6 May 22		Luxembourg
FR0010190181	EUR	25,000,000	25	25	20 May 20		Luxembourg
FR0010190199	EUR	150,000,000	150	150	27 Apr 20		Luxembourg
FR0010190231	EUR	100,000,000	100	100	13 May 22		Luxembourg
FR0010190264	EUR	25,000,000	25	25	20 May 20		Luxembourg
FR0010194506	EUR	100,000,000	100	100	20 May 22		Luxembourg
FR0010194522	EUR	60,000,000	60	60	19 May 20		Luxembourg
FR0010199984	EUR	10,000,000	10	10	8 Jun 20		Luxembourg
FR0010208587	EUR	10,000,000	10	10	24 Jun 20		Luxembourg
FR0010209940	EUR	15,000,000	15	15	29 Jun 20		Luxembourg
FR0010210005	EUR	10,000,000	10	10	6 Jul 20		Luxembourg
FR0010212977	EUR	22,000,000	22	22	8 Aug 25		Luxembourg
FR0010224402	EUR	50,000,000	50	50	8 Sep 20		Luxembourg
FR0010224410	EUR	50,000,000	50	50	8 Sep 20		Luxembourg
FR0010231357	EUR	1,000,000,000	999	1,000	15 Sep 15		Luxembourg
FR0010231357	EUR	500,000,000	499	500	15 Sep 15		Luxembourg
FR0010231357	EUR	500,000,000	497	500	15 Sep 15		Luxembourg
FR0010231357	EUR	327,900,000	326	328	15 Sep 15		Luxembourg
FR0010231357	EUR	65,000,000	64	65	15 Sep 15		Luxembourg
FR0010235366	EUR	30,000,000	30	30	17 Jan 15	17 Jan 15	Luxembourg
FR0010237081	EUR	55,000,000	55	55	3 Oct 20		Luxembourg
FR0010245738	EUR	30,000,000	30	30	26 Oct 22		Unlisted
FR0010248609	EUR	100,000,000	100	100	15 Nov 15		Luxembourg
FR0010248658	EUR	100,000,000	100	100	20 Dec 15		Luxembourg
FR0010249565	EUR	14,537,747	15	15	14 Nov 25	16 Nov 15	Luxembourg
FR0010261412	EUR	277,500,000	278	278	15 Dec 20		Luxembourg
FR0010261412	EUR	155,500,000	156	156	15 Dec 20		Luxembourg
FR0010261412	EUR	100,000,000	100	100	15 Dec 20		Luxembourg
FR0010261412	EUR	98,500,000	99	99	15 Dec 20		Luxembourg
FR0010261412	EUR	35,000,000	35	35	15 Dec 20		Luxembourg
FR0010261412	EUR	20,000,000	20	20	15 Dec 20		Luxembourg
FR0010261412	EUR	30,000,000	29	30	15 Dec 20		Luxembourg
FR0010261529	EUR	50,000,000	50	50	4 Jan 26		Luxembourg

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			EUR millions				
FR0010265488	EUR	100,000,000	100	100	5 Jan 26	5 Jan 16	Luxembourg
FR0010279109	EUR	40,342,495	40	40	24 Jan 34		Luxembourg
FR0010289322	EUR	21,500,000	22	22	16 Feb 26		Unlisted
FR0010289397	EUR	15,000,000	15	15	16 Feb 26		Luxembourg
FR0010301796	EUR	15,000,000	15	15	23 Mar 16		Luxembourg
FR0010306373	EUR	4,900,000	5	5	31 Mar 16		Luxembourg
FR0010306456	EUR	10,000,000	10	10	7 Apr 25		Unlisted
FR0010306472	EUR	10,000,000	10	10	6 Apr 20		Unlisted
FR0010306480	EUR	20,000,000	20	20	6 Apr 20		Unlisted
FR0010306498	EUR	10,000,000	10	10	7 Apr 25		Unlisted
FR0010306506	EUR	5,000,000	5	5	7 Apr 26		Unlisted
FR0010306514	EUR	5,000,000	5	5	6 Apr 27		Unlisted
FR0010306522	EUR	5,000,000	5	5	5 Apr 30		Unlisted
FR0010306605	EUR	50,000,000	50	50	19 Apr 18		Luxembourg
FR0010318410	EUR	50,000,000	50	50	24 Apr 26		Unlisted
FR0010322792	EUR	65,000,000	65	65	5 May 36		Luxembourg
FR0010333534	EUR	60,000,000	60	60	9 Jun 16		Luxembourg
FR0010342378	EUR	10,000,000	10	10	21 Jun 21		Luxembourg
FR0010342519	EUR	10,000,000	10	10	12 Jul 18		Luxembourg
FR0010347815	EUR	50,000,000	50	50	7 Oct 15		Unlisted
FR0010359943	EUR	100,000,000	100	100	16 Aug 18		Luxembourg
FR0010363325	EUR	200,000,000	200	200	22 Aug 22		Luxembourg
FR0010363325	EUR	31,000,000	31	31	22 Aug 22		Luxembourg
FR0010363473	EUR	50,000,000	50	50	23 Sep 15		Unlisted
FR0010369231	EUR	50,000,000	50	50	11 May 16		Unlisted
FR0010369330	EUR	50,000,000	50	50	27 Sep 18		Luxembourg
FR0010369546	EUR	50,000,000	50	50	3 Oct 21		Luxembourg
FR0010369645	EUR	30,000,000	30	30	20 Sep 18		Unlisted
FR0010379073	EUR	50,000,000	50	50	10 Oct 21		Luxembourg
FR0010379081	EUR	50,000,000	50	50	27 Feb 15		Unlisted
FR0010385930	EUR	50,000,000	50	50	27 Oct 21		Unlisted
FR0010386078	EUR	50,000,000	50	50	7 Nov 16		Luxembourg
FR0010386086	EUR	5,000,000	5	5	7 Nov 16		Luxembourg
FR0010391110	EUR	12,000,000	12	12	21 Nov 18		Luxembourg
FR0010398115	EUR	948,700,000	948	949	24 Nov 16		Luxembourg
FR0010398115	EUR	30,000,000	29	30	24 Nov 16		Luxembourg
FR0010398115	EUR	25,000,000	24	25	24 Nov 16		Luxembourg
FR0010412577	EUR	10,000,000	10	10	29 Dec 21		Luxembourg
FR0010428003	EUR	20,500,000	21	21	15 Feb 22		Luxembourg
FR0010428185	EUR	1,000,000,000	998	1,000	7 Feb 19		Luxembourg
FR0010428185	EUR	150,000,000	148	150	7 Feb 19		Luxembourg
FR0010428185	EUR	150,000,000	148	150	7 Feb 19		Luxembourg
FR0010428185	EUR	20,000,000	19	20	7 Feb 19		Luxembourg
FR0010428185	EUR	125,000,000	122	125	7 Feb 19		Luxembourg
FR0010428185	EUR	150,000,000	149	150	7 Feb 19		Luxembourg
FR0010428185	EUR	25,000,000	25	25	7 Feb 19		Luxembourg
FR0010428185	EUR	200,000,000	201	200	7 Feb 19		Luxembourg
FR0010492025	EUR	1,128,506,000	1,127	1,129	3 Jul 17		Luxembourg
FR0010492025	EUR	150,000,000	149	150	3 Jul 17		Luxembourg
FR0010492025	EUR	20,000,000	20	20	3 Jul 17		Luxembourg
FR0010492025	EUR	30,000,000	30	30	3 Jul 17		Luxembourg
FR0010500413	EUR	50,000,000	50	50	17 Jan 17		Unlisted
FR0010501825	EUR	200,000,000	200	200	20 Jul 22		Luxembourg
FR0010504761	EUR	45,000,000	45	45	2 Aug 32		Luxembourg
FR0010505008	EUR	50,000,000	50	50	27 Apr 16		Unlisted
FR0010524488	EUR	50,000,000	50	50	27 Feb 17		Unlisted
FR0010526962	EUR	50,000,000	50	50	13 Feb 15		Unlisted
FR0010539734	EUR	1,362,162,000	1,359	1,362	13 Nov 17		Luxembourg
FR0010584581	EUR	10,000,000	10	10	21 Feb 18		Luxembourg
FR0010594374	EUR	47,500,000	48	48	8 Aug 25		Luxembourg
FR0010611491	EUR	1,000,000,000	1,000	1,000	27 Apr 15		Luxembourg
FR0010614644	EUR	50,000,000	50	50	16 May 23		Luxembourg
FR0010631762	EUR	153,000,000	153	153	26 Jun 23		Luxembourg
FR0010760769	EUR	10,500,000	11	11	22 May 29	22 May 19	Luxembourg

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Obligations foncières ISIN code	Currency	Nominal amount in foreign currency	Balance	Redemption value*	Final due date	Next call date	Stock exchange
			EUR millions				
FR0010762039	EUR	1,500,000,000	1,499	1,500	2 Jun 21		Luxembourg
FR0010762039	EUR	150,000,000	156	150	2 Jun 21		Luxembourg
FR0010766923	EUR	10,000,000	10	10	7 Mar 26		Luxembourg
FR0010775486	EUR	2,000,000,000	1,999	2,000	8 Jul 24		Luxembourg
FR0010781591	EUR	15,000,000	15	15	16 Feb 26		Unlisted
FR0010801068	EUR	1,000,000,000	1,000	1,000	16 Sep 16		Luxembourg
FR0010801068	EUR	750,000,000	750	750	16 Sep 16		Luxembourg
FR0010801068	EUR	250,000,000	251	250	16 Sep 16		Luxembourg
FR0010806752	EUR	25,000,000	25	25	29 Mar 19		Luxembourg
FR0010810424	EUR	50,000,000	50	50	7 Oct 19		Luxembourg
FR0010821074	EUR	10,000,000	10	10	12 Nov 18		Luxembourg
FR0010840108	EUR	150,000,000	150	150	23 Dec 24		Luxembourg
FR0010850982	EUR	1,000,000,000	999	1,000	26 Jan 22		Luxembourg
FR0010850982	EUR	500,000,000	514	500	26 Jan 22		Luxembourg
FR0010850982	EUR	200,000,000	198	200	26 Jan 22		Luxembourg
FR0010850982	EUR	200,000,000	194	200	26 Jan 22		Luxembourg
FR0010857797	EUR	100,000,000	100	100	16 Feb 18		Luxembourg
FR0010859777	EUR	1,000,000,000	998	1,000	26 Feb 18		Luxembourg
FR0010859777	EUR	300,000,000	298	300	26 Feb 18		Luxembourg
FR0010878264	EUR	15,000,000	15	15	26 Mar 19		Luxembourg
FR0010888420	EUR	1,000,000,000	999	1,000	20 Jul 15		Luxembourg
FR0010888420	EUR	200,000,000	200	200	20 Jul 15		Luxembourg
FR0010898338	EUR	300,000,000	300	300	21 May 20		Luxembourg
FR0010912824	EUR	200,000,000	200	200	21 Jun 20		Luxembourg
FR0010921601	EUR	50,000,000	50	50	20 Jul 15		Luxembourg
FR0010923920	EUR	10,000,000	10	10	23 Jul 25		Luxembourg
FR0010925073	EUR	24,000,000	24	24	27 Jul 29		Luxembourg
FR0010945956	EUR	1,250,000,000	1,250	1,250	25 Jan 16		Luxembourg - Paris
FR0010945964	EUR	705,848,000	702	706	24 Sep 20		Luxembourg - Paris
FR0010945964	EUR	300,000,000	286	300	24 Sep 20		Luxembourg - Paris
FR0010945964	EUR	200,000,000	191	200	24 Sep 20		Luxembourg - Paris
FR0010963859	EUR	11,000,000	11	11	2 Dec 25		Luxembourg
FR0010998039	EUR	1,000,000,000	994	1,000	26 Jan 21		Luxembourg - Paris
FR0010998039	EUR	300,000,000	297	300	26 Jan 21		Luxembourg - Paris
FR0010998039	EUR	150,000,000	148	150	26 Jan 21		Luxembourg - Paris
FR0010998039	EUR	300,000,000	300	300	26 Jan 21		Luxembourg - Paris
FR0010998039	EUR	250,000,000	251	250	26 Jan 21		Luxembourg - Paris
FR0011006907	EUR	67,000,000	67	67	15 Feb 23		Luxembourg
FR0011019462	EUR	12,000,000	12	12	29 Mar 21		Luxembourg
FR0011037977	EUR	10,000,000	10	10	19 Apr 16		Luxembourg
FR0011049782	EUR	1,000,000,000	999	1,000	18 May 16		Luxembourg - Paris
FR0011053222	EUR	450,000,000	450	450	1 Feb 16		Luxembourg
FR0011072826	EUR	250,000,000	249	250	1 Jul 23		Luxembourg
FR0011536093	EUR	1,000,000,000	997	1,000	16 Jul 20		Luxembourg - Paris
FR0011546886	EUR	50,000,000	46	50	2 Aug 33		Luxembourg
FR0011547744	EUR	50,000,000	50	50	5 Aug 24		Luxembourg
FR0011548791	EUR	455,000,000	452	455	7 Aug 25		Luxembourg
FR0011548866	EUR	165,000,000	163	165	7 Aug 33		Luxembourg
FR0011549997	EUR	380,000,000	378	380	9 Aug 28		Luxembourg
FR0011580588	EUR	500,000,000	498	500	2 Oct 28		Luxembourg - Paris
FR0011580588	EUR	500,000,000	524	500	2 Oct 28		Luxembourg - Paris
FR0011686401	EUR	1,000,000,000	991	1,000	17 Jan 24		Luxembourg - Paris
FR0011701044	EUR	40,000,000	40	40	27 Jan 34	27 Jan 29	Luxembourg
FR0011737956	EUR	50,000,000	50	50	14 Feb 49	14 Feb 29	Luxembourg
FR0011907963	EUR	114,000,000	113	114	16 May 34	16 May 28	Luxembourg
FR0011916220	EUR	110,000,000	110	110	22 May 36		Luxembourg
FR0012159507	EUR	1,250,000,000	1,246	1,250	16 Sep 19		Luxembourg - Paris
FR0012169910	EUR	100,000,000	100	100	20 Mar 26		Luxembourg
TOTAL	EUR	40,707,048,563	40,645	40,702			
FR0000470775	GBP	189,000,000	243	300	22 Nov 17		Unlisted
FR0000486581	GBP	125,000,000	160	205	16 Jul 26		Luxembourg
FR0000487738	GBP	215,000,000	276	345	14 Dec 16		Unlisted
FR0010306803	GBP	100,000,000	129	143	19 Apr 16		Luxembourg
TOTAL	GBP	629,000,000	808	993			

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			EUR millions				
FR0000471195	HKD	200,000,000	21	26	5 Dec 17		Luxembourg
TOTAL	HKD	200,000,000	21	26			
FR0000486821	JPY	3,000,000,000	21	28	8 Aug 16		Luxembourg
FR0010199802	JPY	10,000,000,000	69	74	14 Jun 17		Unlisted
FR0010225433	JPY	10,000,000,000	69	74	1 Sep 20		Unlisted
FR0010279240	JPY	1,000,000,000	7	7	30 Jan 26		Unlisted
FR0010333526	JPY	600,000,000	4	4	1 Jun 21	1 Jun 15	Unlisted
FR0010347930	JPY	5,000,000,000	34	34	20 Jul 21		Unlisted
FR0010412742	JPY	5,000,000,000	34	32	18 Jan 17		Unlisted
FR0010468652	JPY	50,000,000,000	345	308	9 May 17		Luxembourg
FR0010526475	JPY	5,000,000,000	34	31	18 Oct 17		Unlisted
FR0010629592	JPY	5,000,000,000	34	31	25 Jun 18		Unlisted
TOTAL	JPY	94,600,000,000	652	623			
FR0011006642	NOK	500,000,000	55	64	18 Feb 21		Luxembourg
FR0011056654	NOK	500,000,000	55	64	7 Jun 21		Luxembourg
TOTAL	NOK	1,000,000,000	110	128			
FR0010306548	PLN	35,952,474	8	9	12 Apr 25		Unlisted
TOTAL	PLN	35,952,474	8	9			
FR0010636423	SEK	1,000,000,000	106	106	29 Jun 15		Luxembourg
FR0010640557	SEK	333,000,000	35	35	8 Jul 15		Luxembourg
TOTAL	SEK	1,333,000,000	141	142			
FR0000470239	USD	20,000,000	16	20	12 Sep 17		Luxembourg
FR0010096982	USD	139,200,000	115	115	1 Jul 19		Luxembourg
FR0010363507	USD	100,000,000	82	79	25 Mar 15		Unlisted
FR0010437368	USD	888,670,000	733	682	16 Feb 17		Luxembourg
FR0010568758	USD	300,000,000	247	204	31 Dec 15		Unlisted
FR0010571109	USD	200,000,000	165	135	18 Dec 17		Unlisted
FR0010572552	USD	250,000,000	206	168	22 Jan 18		Luxembourg
FR0010953836	USD	36,492,978	30	26	26 Oct 40	26 Oct 15	Luxembourg
XS0211544746	USD	75,000,000	62	58	4 Mar 15		Luxembourg
XS0211544746	USD	50,000,000	41	42	4 Mar 15		Luxembourg
TOTAL	USD	2,059,362,978	1,697	1,529			
TOTAL OBLIGATIONS FONCIÈRES			47,249	46,782			

Registered covered bonds	Currency	Nominal amount in foreign currency	Balance	Redemption value*	Final due date	Next call date	Stock exchange
			EUR millions				
RCB 2006-1	EUR	37,735,849	38	38	15 Aug 24		Unlisted
RCB 2006-4	EUR	21,951,220	22	22	15 Aug 33		Unlisted
RCB 2006-5	EUR	21,428,571	21	21	15 Nov 33		Unlisted
RCB 2006-6 EXO	EUR	37,735,849	38	38	15 Feb 24		Unlisted
RCB 2006-7	EUR	15,000,000	15	15	15 May 25		Unlisted
RCB 2006-10 EXO	EUR	23,684,211	24	24	15 Feb 33		Unlisted
RCB 2006-11 EXO	EUR	22,500,000	23	23	16 May 33		Unlisted
RCB 2006-12 EXO	EUR	37,735,849	38	38	15 May 24		Unlisted
RCB 2006-13	EUR	37,735,849	38	38	15 Nov 24		Unlisted
RCB 2006-14 EXO	EUR	15,000,000	15	15	17 Feb 25		Unlisted
RCB 2006-15	EUR	15,000,000	15	15	15 Aug 25		Unlisted
RCB 2006-16	EUR	15,000,000	15	15	17 Nov 25		Unlisted
RCB 2006-17	EUR	21,000,000	21	21	21 Oct 41	21 Oct 16	Unlisted
RCB 2006-18	EUR	10,000,000	10	10	24 Oct 16		Unlisted
RCB 2006-19	EUR	100,000,000	100	100	6 Nov 23		Unlisted
RCB 2006-20	EUR	30,000,000	30	30	6 Nov 24		Unlisted
RCB 2006-21	EUR	15,000,000	15	15	26 Nov 29		Unlisted
RCB 2006-22	EUR	15,000,000	15	15	26 Nov 29		Unlisted
RCB 2006-23	EUR	15,000,000	15	15	22 Nov 21		Unlisted
RCB 24	EUR	10,000,000	10	10	17 Jan 24		Unlisted
RCB 25	EUR	50,000,000	50	50	17 Jan 24		Unlisted
RCB 26	EUR	15,000,000	15	15	22 Jan 27		Unlisted
RCB 27	EUR	50,000,000	50	50	15 Feb 27		Unlisted
RCB 28	EUR	50,000,000	50	50	15 Feb 27		Unlisted
RCB 29	EUR	50,000,000	50	50	26 Feb 27		Unlisted
RCB 30	EUR	50,000,000	50	50	26 Feb 27		Unlisted

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Registered covered bonds	Currency	Nominal amount in foreign currency	Balance	Redemption value*	Final due date	Next call date	Stock exchange
			EUR millions				
RCB 31	EUR	20,000,000	20	20	28 Feb 17		Unlisted
RCB 32	EUR	10,000,000	10	10	17 Mar 42	17 Mar 17	Unlisted
RCB 33	EUR	10,000,000	10	10	17 Mar 42	17 Mar 17	Unlisted
RCB 34	EUR	20,000,000	20	20	16 Apr 17		Unlisted
RCB 35	EUR	10,000,000	10	10	23 Apr 27		Unlisted
RCB 36	EUR	20,000,000	20	20	24 Apr 17		Unlisted
RCB 37	EUR	15,000,000	15	15	9 May 42	9 May 17	Unlisted
RCB 38	EUR	15,000,000	15	15	9 May 42	9 May 17	Unlisted
RCB 39	EUR	20,000,000	20	20	25 May 27		Unlisted
RCB 40	EUR	15,000,000	15	15	4 Jun 27		Unlisted
RCB 41	EUR	10,000,000	10	10	12 Jun 17		Unlisted
RCB 42	EUR	10,000,000	10	10	12 Jun 17		Unlisted
RCB 43	EUR	2,000,000	2	2	12 Jun 17		Unlisted
RCB 44	EUR	50,000,000	50	50	11 Jun 27		Unlisted
RCB 45	EUR	50,000,000	50	50	11 Jun 27		Unlisted
RCB 46	EUR	20,000,000	20	20	28 Nov 17		Unlisted
RCB 47	EUR	10,000,000	10	10	28 Nov 17		Unlisted
RCB 48	EUR	10,000,000	10	10	26 Jun 17		Unlisted
RCB 49	EUR	10,000,000	10	10	26 Jun 17		Unlisted
RCB 50	EUR	10,000,000	10	10	9 Jul 27		Unlisted
RCB 51	EUR	75,000,000	75	75	14 Aug 26		Unlisted
RCB 52	EUR	10,000,000	10	10	23 Oct 47	23 Oct 17	Unlisted
RCB 53	EUR	1,000,000	1	1	23 Oct 47	23 Oct 17	Unlisted
RCB 54	EUR	1,500,000	2	2	23 Oct 47	23 Oct 17	Unlisted
RCB 55	EUR	1,500,000	2	2	23 Oct 47	23 Oct 17	Unlisted
RCB 56	EUR	1,000,000	1	1	23 Oct 47	23 Oct 17	Unlisted
RCB 57	EUR	20,000,000	20	20	19 Nov 47	16 Nov 17	Unlisted
RCB 58	EUR	10,000,000	10	10	19 Nov 47	16 Nov 17	Unlisted
RCB 59	EUR	1,000,000	1	1	19 Nov 47	16 Nov 17	Unlisted
RCB 60	EUR	25,000,000	25	25	7 Dec 47	7 Dec 17	Unlisted
RCB 61	EUR	25,000,000	25	25	7 Dec 47	7 Dec 17	Unlisted
RCB 62	EUR	11,000,000	11	11	14 Jan 48	14 Jan 18	Unlisted
RCB 63	EUR	5,000,000	5	5	14 Jan 48	14 Jan 18	Unlisted
RCB 64	EUR	2,000,000	2	2	14 Jan 48	14 Jan 18	Unlisted
RCB 65	EUR	2,000,000	2	2	14 Jan 48	14 Jan 18	Unlisted
RCB 66 tranche 1	EUR	15,000,000	15	15	24 Jan 48	24 Jan 18	Unlisted
RCB 66 tranche 2	EUR	5,000,000	5	5	24 Jan 48	24 Jan 18	Unlisted
RCB 67	EUR	10,000,000	10	10	24 Jan 48	24 Jan 18	Unlisted
RCB 68	EUR	10,000,000	10	10	7 Feb 48	7 Feb 18	Unlisted
RCB 69 ZC	EUR	6,673,721	7	7	15 May 28		Unlisted
RCB 70	EUR	10,000,000	10	10	20 May 48	20 May 18	Unlisted
RCB 71	EUR	10,000,000	10	10	20 May 48	20 May 18	Unlisted
RCB 72	EUR	10,000,000	10	10	16 Jun 23		Unlisted
RCB 73	EUR	50,000,000	50	50	23 Jun 20		Unlisted
RCB 74	EUR	20,000,000	20	20	19 Jun 48	19 Jun 18	Unlisted
RCB 75	EUR	50,000,000	50	50	30 Jul 18		Unlisted
RCB 76	EUR	25,000,000	25	25	6 Aug 25		Unlisted
RCB 78	EUR	10,000,000	10	10	11 Dec 23		Unlisted
RCB 79	EUR	20,000,000	20	20	11 Dec 23		Unlisted
RCB 80	EUR	15,000,000	15	15	20 Dec 24		Unlisted
RCB 81	EUR	5,000,000	5	5	25 Feb 29	25 Feb 19	Unlisted
RCB 82	EUR	1,000,000	1	1	25 Feb 29	25 Feb 19	Unlisted
RCB 83	EUR	14,000,000	14	14	25 Feb 29	25 Feb 19	Unlisted
RCB 84	EUR	2,000,000	2	2	5 Mar 27	5 Mar 18	Unlisted
RCB 85	EUR	10,000,000	10	10	5 Mar 27	5 Mar 18	Unlisted
RCB 86	EUR	8,000,000	8	8	5 Mar 27	5 Mar 18	Unlisted
RCB 87	EUR	20,000,000	20	20	5 Mar 19		Unlisted
RCB 88	EUR	10,000,000	10	10	5 Mar 19		Unlisted
RCB 89	EUR	20,000,000	20	20	17 Mar 26	17 Mar 19	Unlisted
RCB 90	EUR	65,200,000	65	65	1 Apr 24		Unlisted
RCB 91	EUR	5,000,000	5	5	8 Apr 22		Unlisted
RCB 92	EUR	5,000,000	5	5	8 Apr 22		Unlisted
RCB 93	EUR	5,000,000	5	5	8 Apr 22		Unlisted
RCB 94	EUR	5,000,000	5	5	8 Apr 22		Unlisted

* Value determined by the interest rate and currency swaps contracted to hedge the issue of obligations foncières and registered covered bonds.

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Registered covered bonds	Currency	Nominal amount in foreign currency	Balance	Redemption value*	Final due date	Next call date	Stock exchange
			EUR millions				
RCB 95	EUR	5,000,000	5	5	8 Apr 22		Unlisted
RCB 96	EUR	5,000,000	5	5	8 Apr 22		Unlisted
RCB 97	EUR	50,000,000	50	50	22 Apr 26		Unlisted
RCB 98	EUR	10,000,000	10	10	22 Apr 26		Unlisted
RCB 99	EUR	50,000,000	50	50	6 May 22		Unlisted
RCB 100	EUR	50,000,000	50	50	5 May 23		Unlisted
RCB 101	EUR	25,000,000	25	25	5 May 23		Unlisted
RCB 102	EUR	10,000,000	10	10	5 May 23		Unlisted
RCB 103	EUR	50,000,000	50	50	19 May 26		Unlisted
RCB 104	EUR	50,000,000	50	50	19 May 25		Unlisted
RCB 105	EUR	20,000,000	20	20	19 May 26		Unlisted
RCB 106	EUR	20,000,000	20	20	19 May 25		Unlisted
RCB 107	EUR	10,000,000	10	10	19 May 26		Unlisted
RCB 108	EUR	50,000,000	50	50	28 May 27		Unlisted
RCB 109	EUR	25,000,000	25	25	28 May 27		Unlisted
RCB 110	EUR	50,000,000	50	50	26 May 28		Unlisted
RCB 111	EUR	50,000,000	50	50	9 Jun 23		Unlisted
RCB 112	EUR	25,000,000	25	25	9 Jun 23		Unlisted
RCB 113	EUR	15,000,000	15	15	9 Jun 23		Unlisted
RCB 114	EUR	50,000,000	50	50	24 Jun 19		Unlisted
RCB 115	EUR	10,000,000	10	10	24 Jun 19		Unlisted
RCB 116	EUR	50,000,000	50	50	8 Jul 26		Unlisted
RCB 117	EUR	25,000,000	25	25	8 Jul 26		Unlisted
RCB 118	EUR	10,000,000	10	10	8 Jul 26		Unlisted
RCB 119	EUR	50,000,000	50	50	10 Jul 28		Unlisted
RCB 120	EUR	25,000,000	25	25	10 Jul 28		Unlisted
RCB 121	EUR	10,000,000	10	10	10 Jul 28		Unlisted
RCB 122	EUR	20,000,000	20	20	10 Jul 28		Unlisted
RCB 123	EUR	10,000,000	10	10	21 Jul 25		Unlisted
RCB 124	EUR	15,000,000	15	15	21 Jul 25		Unlisted
RCB 125	EUR	50,000,000	50	50	22 Jul 27		Unlisted
RCB 126	EUR	10,000,000	10	10	22 Jul 27		Unlisted
RCB 127	EUR	20,000,000	20	20	20 Jul 29		Unlisted
RCB 128	EUR	15,000,000	15	15	29 Jul 27		Unlisted
RCB 129	EUR	10,000,000	10	10	29 Jul 27		Unlisted
RCB 130	EUR	10,000,000	10	10	31 Jul 23		Unlisted
RCB 131	EUR	15,000,000	15	15	30 Jul 26		Unlisted
RCB 132	EUR	10,000,000	10	10	30 Jul 27		Unlisted
RCB 133	EUR	10,000,000	10	10	12 Aug 24		Unlisted
RCB 134	EUR	50,000,000	50	50	12 Aug 27		Unlisted
RCB 135	EUR	50,000,000	50	50	14 Aug 28		Unlisted
RCB 136	EUR	25,000,000	25	25	14 Aug 28		Unlisted
RCB 137	EUR	15,000,000	15	15	14 Aug 28		Unlisted
RCB 138	EUR	10,000,000	10	10	14 Aug 28		Unlisted
RCB 139	EUR	15,000,000	15	15	14 Aug 24		Unlisted
RCB 140	EUR	10,000,000	10	10	23 Sep 26		Unlisted
RCB 141	EUR	50,000,000	50	50	27 Aug 29		Unlisted
RCB 142	EUR	25,000,000	25	25	27 Aug 29		Unlisted
RCB 143	EUR	50,000,000	50	50	31 Aug 29		Unlisted
RCB 144	EUR	50,000,000	50	50	31 Aug 29		Unlisted
RCB 145	EUR	50,000,000	50	50	31 Aug 29		Unlisted
RCB 146	EUR	5,500,000	6	6	30 Aug 24		Unlisted
RCB 147	EUR	14,500,000	15	15	7 Sep 29		Unlisted
RCB 148	EUR	15,000,000	15	15	14 Sep 21		Unlisted
RCB 149	EUR	50,000,000	50	50	14 Sep 27		Unlisted
RCB 150	EUR	15,000,000	15	15	14 Sep 27		Unlisted
RCB 151	EUR	10,000,000	10	10	14 Sep 27		Unlisted
RCB 152	EUR	5,000,000	5	5	14 Sep 27		Unlisted
RCB 153	EUR	20,000,000	20	20	16 Sep 24		Unlisted
RCB 154	EUR	10,000,000	10	10	17 Sep 29		Unlisted
RCB 155	EUR	5,000,000	5	5	17 Sep 29		Unlisted
RCB 156	EUR	20,000,000	20	20	24 Sep 31		Unlisted
RCB 157	EUR	20,000,000	20	20	26 Sep 33		Unlisted
RCB 158	EUR	10,000,000	10	10	9 Oct 24		Unlisted

* Value determined by the interest rate and currency swaps contracted to hedge the issue of obligations foncières and registered covered bonds.

Registered covered bonds	Currency	Nominal amount in foreign currency	Balance	Redemption value*	Final due date	Next call date	Stock exchange
			EUR millions				
RCB 159	EUR	5,000,000	5	5	9 Oct 24		Unlisted
RCB 160	EUR	10,000,000	10	10	22 Oct 24		Unlisted
RCB 161	EUR	20,000,000	20	20	25 Oct 21		Unlisted
RCB 162	EUR	8,000,000	8	8	26 Oct 29		Unlisted
RCB 163	EUR	15,000,000	15	15	21 Dec 28		Unlisted
RCB 164	EUR	10,000,000	10	10	24 May 17		Unlisted
RCB 165	EUR	30,000,000	30	30	21 Jan 30		Unlisted
RCB 166	EUR	100,000,000	100	100	28 Jan 30		Unlisted
RCB 167	EUR	15,000,000	15	15	28 Jan 30		Unlisted
RCB 168	EUR	50,000,000	50	50	28 Jan 30		Unlisted
RCB 169	EUR	25,000,000	25	25	28 Jan 30		Unlisted
RCB 170	EUR	110,000,000	108	110	18 Feb 28		Unlisted
RCB 171	EUR	10,000,000	10	10	27 Dec 33	27 Dec 23	Unlisted
RCB 172	EUR	10,000,000	10	10	26 Feb 30		Unlisted
RCB 173	EUR	5,000,000	5	5	26 Feb 30		Unlisted
RCB 174	EUR	30,000,000	30	30	26 Feb 30		Unlisted
RCB 175	EUR	15,000,000	15	15	26 Feb 30		Unlisted
RCB 176	EUR	20,000,000	20	20	1 Apr 30		Unlisted
RCB 177	EUR	20,000,000	20	20	1 Apr 30		Unlisted
RCB 178	EUR	7,000,000	7	7	3 May 29		Unlisted
RCB 179	EUR	3,000,000	3	3	3 May 29		Unlisted
RCB 180	EUR	5,000,000	5	5	4 Jun 40	4 Jun 20	Unlisted
RCB 181	EUR	10,000,000	10	10	11 Jun 25		Unlisted
RCB 182	EUR	1,000,000	1	1	11 Jun 25		Unlisted
RCB 183	EUR	1,000,000	1	1	11 Jun 25		Unlisted
RCB 184	EUR	10,000,000	10	10	16 Sep 32		Unlisted
RCB 185	EUR	10,000,000	10	10	20 Mar 29		Unlisted
RCB 186	EUR	10,000,000	10	10	28 Feb 21		Unlisted
RCB 187	EUR	40,000,000	40	40	28 Feb 31		Unlisted
RCB 188	EUR	4,000,000	4	4	28 Feb 31		Unlisted
RCB 189	EUR	3,000,000	3	3	28 Feb 31		Unlisted
RCB 190	EUR	27,500,000	28	28	28 Feb 31		Unlisted
RCB 191	EUR	1,000,000	1	1	28 Feb 31		Unlisted
RCB 192	EUR	23,000,000	23	23	28 Feb 31		Unlisted
RCB 193	EUR	28,000,000	28	28	28 Feb 31		Unlisted
RCB 194	EUR	20,000,000	20	20	28 Feb 31		Unlisted
RCB 195	EUR	2,000,000	2	2	28 Feb 31		Unlisted
RCB 196	EUR	500,000	1	1	28 Feb 31		Unlisted
RCB 197	EUR	1,000,000	1	1	28 Feb 31		Unlisted
RCB 198	EUR	10,000,000	10	10	29 Mar 21		Unlisted
RCB 199	EUR	5,000,000	5	5	17 Mar 31		Unlisted
RCB 200	EUR	5,000,000	5	5	17 Mar 31		Unlisted
RCB 201	EUR	10,000,000	10	10	31 Mar 21		Unlisted
RCB 202	EUR	5,000,000	5	5	7 Apr 26		Unlisted
RCB 203	EUR	5,000,000	5	5	7 Apr 26		Unlisted
RCB 204	EUR	5,000,000	5	5	7 Apr 31		Unlisted
RCB 205	EUR	5,000,000	5	5	7 Apr 31		Unlisted
RCB 206	EUR	500,000	0	1	7 Apr 31		Unlisted
RCB 207	EUR	5,000,000	5	5	7 Apr 31	7 Apr 21	Unlisted
RCB 208	EUR	5,000,000	5	5	20 May 30		Unlisted
RCB 2013-1	EUR	7,000,000	7	7	12 Aug 33		Unlisted
RCB 2013-2	EUR	3,000,000	3	3	12 Aug 33		Unlisted
RCB 2013-3	EUR	40,000,000	40	40	23 Aug 33		Unlisted
RCB 2013-4 ADO AP	EUR	30,000,000	30	30	23 Aug 33		Unlisted
RCB 2013-5	EUR	30,000,000	30	30	23 Aug 33		Unlisted
RCB 2013-6	EUR	10,000,000	10	10	6 Sep 33		Unlisted
RCB 2013-7	EUR	100,000,000	100	100	30 Aug 33		Unlisted
RCB 2013-8	EUR	5,000,000	5	5	30 Aug 33		Unlisted
RCB 2013-9	EUR	5,000,000	5	5	30 Aug 33		Unlisted
RCB 2013-10	EUR	5,000,000	5	5	30 Aug 33		Unlisted
RCB 2013-11	EUR	2,000,000	2	2	30 Aug 33		Unlisted
RCB 2013-12	EUR	1,000,000	1	1	30 Aug 33		Unlisted
RCB 2013-13	EUR	500,000	1	1	30 Aug 33		Unlisted
RCB 2013-14	EUR	20,000,000	20	20	26 Sep 25		Unlisted

* Value determined by the interest rate and currency swaps contracted to hedge the issue of obligations foncières and registered covered bonds.

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Registered covered bonds	Currency	Nominal amount in foreign currency	Balance	Redemption value*	Final due date	Next call date	Stock exchange
			EUR millions				
RCB 2013-15	EUR	75,000,000	75	75	26 Sep 25		Unlisted
RCB 2013-16	EUR	5,000,000	5	5	26 Sep 25		Unlisted
RCB 2013-17	EUR	3,000,000	3	3	1 Oct 25		Unlisted
RCB 2013-18	EUR	40,000,000	40	40	1 Oct 25		Unlisted
RCB 2013-19	EUR	1,000,000	1	1	1 Oct 25		Unlisted
RCB 2013-20 ADO AP	EUR	40,000,000	40	40	1 Oct 25		Unlisted
RCB 2013-21	EUR	1,000,000	1	1	1 Oct 25		Unlisted
RCB 2013-22	EUR	2,000,000	2	2	1 Oct 25		Unlisted
RCB 2013-23	EUR	10,000,000	10	10	1 Oct 25		Unlisted
RCB 2013-24	EUR	9,000,000	9	9	1 Oct 25		Unlisted
RCB 2013-25	EUR	10,000,000	10	10	1 Oct 25		Unlisted
RCB 2013-26	EUR	2,000,000	2	2	1 Oct 25		Unlisted
RCB 2013-27	EUR	2,000,000	2	2	1 Oct 25		Unlisted
RCB 2014-1	EUR	3,000,000	3	3	9 Jan 26		Unlisted
RCB 2014-2	EUR	34,000,000	34	34	9 Jan 26		Unlisted
RCB 2014-3	EUR	1,000,000	1	1	9 Jan 26		Unlisted
RCB 2014-4	EUR	4,000,000	4	4	9 Jan 26		Unlisted
RCB 2014-5	EUR	30,000,000	30	30	9 Jan 26		Unlisted
RCB 2014-6	EUR	5,000,000	5	5	9 Jan 26		Unlisted
RCB 2014-7	EUR	4,000,000	4	4	9 Jan 26		Unlisted
RCB 2014-8	EUR	1,000,000	1	1	9 Jan 26		Unlisted
RCB 2014-9	EUR	15,000,000	15	15	9 Jan 26		Unlisted
RCB 2014-10	EUR	10,000,000	10	10	9 Jan 26		Unlisted
RCB 2014-11	EUR	10,000,000	10	10	9 Jan 26		Unlisted
RCB 2014-12	EUR	3,000,000	3	3	9 Jan 26		Unlisted
RCB 2014-13	EUR	25,000,000	25	25	23 Jan 34		Unlisted
RCB 2014-14 ADO AP	EUR	25,000,000	25	25	24 Jan 34		Unlisted
RCB 2014-15 ZC	EUR	25,000,000	25	25	3 Feb 49	3 Feb 34	Unlisted
RCB 2014-16 ZC	EUR	3,000,000	3	3	3 Feb 49	3 Feb 34	Unlisted
RCB 2014-17 ZC	EUR	22,000,000	22	22	3 Feb 49	3 Feb 34	Unlisted
RCB 2014-18	EUR	5,000,000	5	5	14 Feb 34		Unlisted
RCB 2014-19	EUR	10,000,000	10	10	22 Feb 44	20 Feb 30	Unlisted
RCB 2014-20	EUR	25,000,000	25	25	28 Feb 29		Unlisted
RCB 2014-21	EUR	26,000,000	26	26	17 Mar 36		Unlisted
RCB 2014-22	EUR	26,000,000	26	26	17 Mar 37		Unlisted
RCB 2014-23	EUR	26,000,000	26	26	17 Mar 38		Unlisted
RCB 2014-24	EUR	26,000,000	26	26	17 Mar 39		Unlisted
RCB 2014-25	EUR	20,000,000	20	20	14 Mar 34		Unlisted
RCB 2014-26	EUR	22,000,000	22	22	29 Mar 29		Unlisted
RCB 2014-27	EUR	3,000,000	3	3	29 Mar 29		Unlisted
RCB 2014-28	EUR	1,000,000	1	1	29 Mar 29		Unlisted
RCB 2014-29 ZC	EUR	20,000,000	20	20	2 May 44	2 May 34	Unlisted
RCB 2014-30 ZC	EUR	30,000,000	30	30	2 May 44	2 May 34	Unlisted
RCB 2014-31	EUR	10,000,000	10	10	11 Apr 29		Unlisted
RCB 2014-32	EUR	5,000,000	5	5	11 Apr 29		Unlisted
RCB 2014-33	EUR	20,000,000	20	20	2 May 34		Unlisted
RCB 2014-34	EUR	15,000,000	15	15	9 May 34		Unlisted
RCB 2014-35	EUR	15,000,000	15	15	9 May 34		Unlisted
RCB 2014-36	EUR	7,000,000	7	7	9 May 34		Unlisted
RCB 2014-37	EUR	3,000,000	3	3	9 May 34		Unlisted
RCB 2014-38 ADO AP	EUR	45,000,000	45	45	25 Nov 36		Unlisted
RCB 2014-39	EUR	50,000,000	50	50	16 May 44	16 May 29	Unlisted
RCB 2014-40	EUR	40,000,000	40	40	24 May 40		Unlisted
RCB 2014-41	EUR	40,000,000	40	40	25 Apr 39		Unlisted
RCB 2014-42	EUR	25,000,000	25	25	20 May 26		Unlisted
RCB 2014-43	EUR	60,000,000	60	60	22 May 34		Unlisted
RCB 2014-44 MW	EUR	5,000,000	5	5	3 Aug 26		Unlisted
RCB 2014-45	EUR	27,000,000	55	27	11 Sep 34		Unlisted
RCB 2014-46	EUR	27,000,000	54	27	18 Sep 34		Unlisted
TOTAL	EUR	5,434,381,119	5,485	5,434			
TOTAL REGISTERED COVERED BONDS			5,485	5,434			
TOTAL ISSUED BONDS			52,735	52,216			

* Value determined by the interest rate and currency swaps contracted to hedge the issue of obligations foncières and registered covered bonds.

List of bonds
negotiated by Caisse Française de Financement Local
in the fourth quarter of 2014 and issued in January 2015
(*obligations foncières*, registered covered bonds)

Registered covered bonds	Currency	Nominal amount in foreign currency	Balance	Redemption value*	Final due date	Next call date	Stock exchange
EUR millions							
RCB 2015-1	EUR	100,000,000	100	100	8 Jan 35		Unlisted
	EUR	100,000,000	100	100			
TOTAL REGISTERED COVERED BONDS			100	100			
TOTAL BONDS			100	100			

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* Value determined by the interest rate and currency swaps contracted to hedge the issue of obligations foncières and registered covered bonds.

Report on internal control by the Chairman of the Supervisory Board

prepared in accordance
with article L.225-68 of the Code of Commerce

The report presents:

- the conditions of preparation and organization of the deliberations of the Supervisory Board, by examining in detail the role and composition of the Board and its governance (including its situation in terms of balanced representation of men and women as members);
- the principles of internal control and risk management applied by the Company, by examining especially the procedures that are used to prepare and process accounting and financial information for the annual financial statements.

To prepare this report, as a credit institution, Caisse Française de Financement Local refers to:

- 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 the Autorité de contrôle prudentiel et de résolution (hereafter “*arrêté* of November 3, 2014”), which replaces CRBF standard 97-02 and which defines the missions, principles and organization of internal control;
- the reference framework published by the French Financial Markets Authority (AMF).

This report of the Chairman of the Supervisory Board of Caisse Française de Financement Local was prepared by the Executive Board, which gathered the necessary information from internal audit and all the operating departments of Société de Financement Local (Sfil) in charge of the management of the operations of Caisse Française de Financement Local, and from support functions concerned, in particular the risks and permanent control division and the finance division of Sfil. This report presents and describes all the principles and procedures applied during the year 2014 at Caisse Française de Financement Local and Sfil, its parent company.

1. Conditions of preparation and organization of the Supervisory Board’s governance

Caisse Française de Financement Local operates within the framework of the organization of financing for local governments and public healthcare facilities in France set up by the French State. Its mission is to refinance public sector commitments by issuing *obligations foncières* and raising other funds benefiting from the same privilege.

1.1 – SUPERVISORY BOARD

The Supervisory Board exercises permanent control of the Company’s management by the Executive Board. The members of the Board are appointed by the Annual Shareholders’ Meeting on the basis of their expertise and the contribution they can make to the Company, and their term of office is six years. In 2014, Marc Robert resigned and was not replaced. There are now six members. The Supervisory Board meets at least every three months; the two auditors and the Specific Controller of the *société de*

crédit foncier also attend the meetings. In advance of the meeting, the Chairman of the Supervisory Board and the Chairman of the Executive Board send the Board members an agenda and a file with reports or documents relating to the subjects to be discussed. The Board met six times in 2014. The rate of assiduity was 92%.

The agenda respects a regular format: minutes, business review of the previous quarter and of current trends including issuance conditions, the presentation of the financial statements, and the development of projects to purchase assets from La Banque Postale. Specific topics are added at different times of the year: the report on internal control and the report on risk assessment and surveillance in application of articles 258 and following of the *arrêté* of November 3, 2014; information to be published relating to the quality of assets as well as the level and sensitivity of the interest rate position in application of article 13 of CRBF standard 99-10.

The information and documents provided to the members enable the Board to have a full, clear and accurate view of the Company’s position, profitability and development. During Supervisory Board meetings, the Executive Board develops the points on the agenda by comments and synthetic presentations. The Board advises on strategic choices, makes recommendations and, if necessary, requests specific analyses, which are examined in subsequent meetings. The Board pays special attention to issuance programs as well as to acquisitions of public sector assets from La Banque Postale by Caisse Française de Financement Local.

It closely monitors the performance of Caisse Française de Financement Local’s *obligations foncières* in the primary and secondary markets. The Supervisory Board considers that, independently of market conditions, the optimization of Caisse Française de Financement Local’s issuance conditions is linked to investors’ perception of the excellent quality of the Company’s assets beyond the ratings by Standard and Poor’s, Moody’s and Fitch, and its very low risk profile with regard to customer and market counterparties, interest rates and liquidity. The Supervisory Board pays particular attention to the reports submitted by the Executive Board on these subjects, and to the transparency of communication to investors. In addition, the Supervisory Board is kept informed of measures required by regulators as well as the responses provided by the Company’s management.

In 2014, in addition to the questions related to the management of the Company that are under its responsibility, the Supervisory Board paid particular attention in its governance to the issuance strategy, to issue ratings, to litigation follow up and strategy to reduce the sensitivity of structured loans while awaiting the effective implementation of the support fund for local governments and public hospitals, to the purchase of public sector loans from La Banque Postale, to the assistance rendered by its servicer and parent company, to risks especially with the review of the quality of the assets (AQR) and the stress tests of the European Central Bank, to changes in the framework and management of interest rate risks. During the year, the project to expand business to export credit

refinancing, and the transfer of headquarters from La Défense to Issy-les-Moulineaux were also presented to the Supervisory Board.

The Board called a general shareholders' meeting for May 22, 2014, which approved the 2013 financial statements and regulated agreements.

Note should be taken that the Board will undertake a first evaluation of its governance in 2015, in accordance with the recommendations of the AFEP/MEDEF code.

In keeping with regulatory provisions, since Sfil is the parent company of Caisse Française de Financement Local, the Financial Statements Committee and the Risks and Internal Control Committee, created by the break-up of the Audit and Risks Committee at the end of 2014, deal with topics that concern Caisse Française de Financement Local. The documents presenting these issues are generally included in the files of the Supervisory Board.

In addition, since the Monetary and Financial Code allows an entity to refer to the Nomination and Compensation Committees of its parent company to define its nomination and compensation policy, the Supervisory Board of Caisse Française de Financement Local decided not to create a specific committee at the level of Caisse Française de Financement Local and to rely on that of Sfil.

Information concerning compensation and other advantages granted to members of the management bodies is presented in the section of the management report entitled "Compensation of members of management bodies". None of the managers of Caisse Française de Financement Local receive compensation for the work they do for Caisse Française de Financement Local.

The Board has taken note of the legal requirements⁽¹⁾ concerning the balanced representation of men and women on the Board and has committed to implement the law's provisions.

1.2 - CAISSE FRANÇAISE DE FINANCEMENT LOCAL'S PARTICULAR OPERATING STRUCTURE

Caisse Française de Financement Local is a legally independent company with its own Supervisory Board and Executive Board. However, in order to preserve the privilege enjoyed by holders of *obligations foncières* and other privileged debt securities, the law stipulates that a *société de crédit foncier* is not allowed to employ staff directly and must entrust the management of all its operations to a credit institution with which it signs an agreement (article L.513-15 of the Monetary and Financial Code). This is because employees would have a priority that would supersede any other claim in the event of bankruptcy or liquidation, whereas the management agreement, which benefits from the privilege granted by the law on *sociétés de crédit foncier*, is *pari passu* with the holders of *obligations foncières* and other privileged debt securities. Caisse Française de Financement Local entrusted the management of its operations to Sfil, its shareholder on January 31, 2013. There are divisions, departments and units at Sfil that handle transactions conducted in the name of Caisse Française de Financement Local. The management of Caisse Française de Financement Local is, therefore, subject to the procedures and controls usually applicable to Sfil, in addition to the procedures and controls specific to the legal standards and rules that govern the management of Caisse Française de Financement Local.

(1) Law 2011-103 of January 27, 2011

In terms of governance, and in areas that concern it, Caisse Française de Financement Local applies the practices of its parent company. The latter has decided to refer to the AFEP/MEDEF code of governance, specifying that certain of its provisions will be applied progressively or not at all when their application is not possible or advisable (specificity of the shareholding structure, obligations linked to applicable legal provisions, etc.). Given the organization of the Sfil Group and the legal status of Caisse Française de Financement Local, which entrusts its operational management to Sfil, the situation of the Board is currently not consistent with the AFEP/MEDEF code with regard to the following points: the length of the term of the members is set at six years, a period that is longer than the time recommended, the presence of independent members of the Board, and the current representation of men and women on the Board.

2. Internal control

2.1 - ORGANIZATION OF INTERNAL CONTROL

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

As credit institutions, Caisse Française de Financement Local and Sfil, which manages Caisse Française de Financement Local's operations, are 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 pursuant to its management agreement. Consequently, internal control at Sfil also meets the regulatory obligations of Caisse Française de Financement Local in this regard. Likewise, 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 their 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 *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;
- surveillance 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 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 the sensitivity of loans) targeting performance, profitability and the protection of its holdings.

Specifically, the responsibilities assigned to internal control in effect at Sfil on behalf of Caisse Française de Financement Local aim to:

- verify the efficiency of the risk control system.
The internal control system aims to guarantee the Executive Committee of Sfil that the risks taken by the Company are in line with the policy defined by the Supervisory Board and the Executive Board and at an agreed-upon level of risk;
- ensure that the financial and accounting data produced is reliable and relevant.
The main objective of the financial information is to give a true and fair view of the position of Caisse Française de Financement Local in a regular, complete and transparent manner;
- monitor compliance with internal and external ethical rules and practices. The diligent operation of Caisse Française de Financement Local implies strict respect of legislative and regulatory obligations, in particular with regard to corporate governance and compliance;
- monitor the effectiveness and operational efficiency of 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 each employee and the corresponding chain of command 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 operating risks and permanent control division, which reports to the risk 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 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 analyze the conclusions in their respective control missions.

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 under the aegis of the supervisory and management bodies of Sfil and Caisse Française de Financement Local.

Executive Board of Caisse Française de Financement Local

The Executive Board of Caisse Française de Financement Local is the front-ranking guarantor of the efficient operation of the Company's internal control procedures. In light of the structure of Caisse Française de Financement Local and of the management agreement which binds it to its parent company, the Executive Board relies on the organization of internal control in effect at Sfil.

In keeping with the powers with which they have been invested, and as responsible managers in the sense of ACPR, the Chief Executive Officer of Sfil and the deputy Chief Executive Officer guarantee the efficient operation of the bank's internal control system. They allocate the resources required to carry out the missions of the different divisions in charge of control, verify that the objectives are attained and that the internal control system is adapted to the needs of Sfil and Caisse Française de Financement Local. To this end, they regularly receive activity reports and the results of the controls carried out in terms of permanent control, compliance and periodic control. These reports are also presented and discussed at meetings of Sfil's Executive Committee, and the issues raised engender action and decisions in order to ensure continuous improvement in internal control.

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 applied 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.

The 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 warns 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). It is then approved by the Executive Board and presented to the Supervisory Board of Caisse Française de Financement Local, which is asked to give its opinion. 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 required proposing measures to the Executive Committee of Sfil and the Executive Board of Caisse Française de Financement Local to ensure they are respected.

A quarterly risks review is presented to the Risks and Internal Control Committee every quarter by the head of risks at Sfil, who is also in charge of risks at Caisse Française

de Financement Local. 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. Items concerning Caisse Française de Financement Local are also presented by the Executive Board to the Supervisory Board of Caisse Française de Financement Local.

Committees

The Risks division relies on several committees, the missions and composition of which have been approved by the Executive Committee, the Risks Committee, and the Risks and Internal Control Committee of Société de Financement Local. These committees have a vocation that may be cross-divisional – Risks Committee, Committee on the Validation of Methods and Models, New Products Committee – or specialized on credit risks, market risks and operational risks as described below.

The Risks Committee defines the risk profile of Sfil and Caisse Française de Financement Local, 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 the Validation of Methods and Models (Market Validation Committee, Credit Cross-divisional 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 all 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 for Caisse Française de Financement Local, 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.

All operations conducted by Caisse Française de Financement Local are subject to control by different committees set up by Sfil. This control takes into account the particular rules and limits applicable to Caisse Française de Financement Local.

Permanent control excluding compliance

Permanent control excluding compliance at Caisse Française de Financement Local is the responsibility of the head of operational risks and permanent control at Sfil.

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 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.

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 main business processes in the bank. Choices 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 for the risks to be covered, its efficiency and the pertinence of the related measurement indicators;
- the review of incidents recorded;
- the recommendations of internal audit available 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 which justifies the results of the control. All the results are reviewed by a permanent control oversight 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 end of 2014.

Reporting activities of permanent control excluding compliance

The Executive and Supervisory Boards of Caisse Française de Financement Local and the Board of Directors of Sfil 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 Sfil's Executive Committee, among whom the Chairman of the Executive Board of Caisse Française de Financement Local. The committee meets quarterly. It examines the results of permanent controls 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, this 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 of internal control processes;

- 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, modifications 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, and to the Executive Board of Caisse Française de Financement Local on February 26, 2015.

Compliance

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

Compliance is autonomous, independent of all operating units and particularly of any commercial activity. Compliance 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) at Sfil and Caisse Française de Financement Local. The General Secretary is assisted by two Compliance managers. 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. It oversees the consistency and efficiency of control procedures at Sfil and Caisse Française de Financement Local to manage the risk of non-compliance. It acts in conformity with the compliance practices of the Sfil 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 risk control tools (mapping the risks of non-compliance and an annual control plan).

Mapping the risks of non-compliance attempts to present an aggregate view of the risk of non-compliance and to ensure oversight. 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.

A priori, Caisse Française de Financement Local is not generally exposed to the risk of money laundering with regard to its assets, for which its counterparties are public sector entities. Concerning investors in the liabilities, precautions are taken with bank counterparties who act as dealers in the placement of Caisse Française de Financement Local issues. As intermediaries between Caisse Française de Financement Local and investors, they commit, in the documentation of the EMTN program or other programs, if such are launched, and issue-by-issue in private placements or in stand-alone

issues, to obtain and record reliable information on the identity of subscribers, in compliance with the requirements of the anti-money laundering directive, or in compliance with equally strict requirements for those not governed by the European directive. These counterparties commit to alert their respective oversight authorities if they learn or suspect that subscribers are engaged in money laundering or the financing of terrorist activities.

In addition to the deployment of the compliance system, Compliance also monitors regulatory developments that may impact the Sfil Group in terms of compliance. Within this framework, this team participates actively in the operational application of European Market Infrastructure Regulations, and follows regulatory changes of the Dodd Frank Act and the Foreign Account Tax Compliance Act in dedicated project structures.

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

Periodic control

Sfil ensures the periodic control of Caisse Française de Financement Local, including internal audit and inspection.

Organization and governance of periodic control

Periodic control, in the sense of the *arrêté* of November 3, 2014, is exercised by internal audit⁽²⁾ and inspection⁽³⁾. The scope of this function covers all the activities, operating processes and systems of Sfil 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 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.

More specifically, the General Auditor of Sfil exercises a particular function concerning Caisse Française de Financement Local, as spelled out in article 5.8 of the management agreement between Caisse Française de Financement Local and Sfil. Sfil's internal audit division audits all of the transactions and procedures of Caisse Française de Financement Local. It provides periodic control in Caisse Française de Financement Local's internal control and ensures that all the risks incurred by Caisse Française

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

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

de Financement Local are covered by the identification of these risks and the periodic evaluation of the internal control environment, the planning and accomplishment of internal audit missions, the coordination of regulatory authorities' audits, the follow-up on recommendations or by investigations (preventive measures, sensitivity to and detection of fraud). The general auditor has direct access to the Chairman of the Supervisory Board of Caisse Française de Financement Local.

As of December 31, 2014, the internal audit and inspection division counted nine people (plus one trainee), among which six auditors and audit managers. The General Auditor 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 operating divisions.

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⁽⁴⁾. 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 on the identification of Sfil's objectives, then on a study of risks that are critical to the success of such goals. This approach makes it possible to develop the mapping of major risks in order to identify the specific problems of Sfil and Caisse Française de Financement Local to draw up a multi-year audit plan.

In 2014, an annual assessment of risks was carried out in the second half and it gave rise to a map of the major risks of Sfil and Caisse Française de Financement Local. 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. The Executive Board was informed of the mapping of the major risks of Sfil and Caisse Française de Financement Local, and of the 2015 and multi-year audit and inspection plan on January 22, 2015.

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 brochure 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. In 2014, the audit plan was 83% completed, exceeding the initial objective of 80%, since fewer funds were available than initially budgeted. In addition to the recommendations made, the conclusions of each of these missions were presented to the Executive Committee of Sfil for discussion and decision, as well as to the Risks and Internal Control Committee on January 21, 2015, and to the Executive Board of Caisse Française de Financement Local on January 22, 2015.

The follow-up on recommendations made after the missions organized by internal audit and inspection, regulatory authorities or the Company auditors, as is the case, is carried out in a continuous and automated process to monitor the deployment of action plans resulting from these 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 preceded the change in the shareholding structure at the beginning of 2013, 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. The conclusions of the audit mission to monitor the recommendations of Caisse Française de Financement Local, within the framework of the 2014 audit plan for Sfil and Caisse Française de Financement Local, were presented to the Executive Board on June 12 2014, and January 22, 2015.

Internal audit and inspection 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 Financial Statement Committee and the Risks and Internal Control Committee (formerly a single Audit and Risks Committee), internal audit and inspection ensure the organization of all

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

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 the minutes that are drawn up at each of the meetings in close cooperation with the Chairman of the committee. Lastly, it took 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 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 from time to time, 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. Besides, the plan against fraud of Sfil was set up in cooperation with other functions in charge of internal control of Sfil, and presented to the Risks and Internal Control Committee on January 21, 2015 and to the Executive Board on January 22, 2015.

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, the charter of inspection activities and the audit plan are submitted for validation on a yearly basis to the Risks and Internal Control Committee (previously the Audit and Risks Committee). The 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 and regulatory authorities and of the progress made in related action plans. Regular reports of activity are also presented for study. In addition, the annual report on internal control at Sfil and Caisse Française de Financement Local (articles 258 and following of the *arrêté* of November 3, 2014) is presented every year for review. A synthesis of these different reports is presented to Sfil's Board of Directors and to the Executive Board and the Supervisory Board of Caisse Française de Financement Local.

Specific Controller

The Specific Controller of Caisse Française de Financement Local is a French professionally certified auditor named by the Company's Supervisory Board upon approval of the Autorité de contrôle prudentiel et de résolution (ACPR). The Specific Controller carries out controls pursuant to articles

L.513-23 and L.513-24 and articles R.513-15 and R.513-16 of the Monetary and Financial Code as well as CRBF standard 99-10. He is responsible for ensuring that the Company respects its exclusive corporate purpose and prudential standards. He conducts appropriate audits in cooperation with the Statutory Auditors and is completely independent vis-à-vis the Company's officers. He is also liable for the negative consequences of any error or negligence committed in the exercise of his functions. The Specific Controller has access to all information, from management, internal control units and internal audit. In addition, operating services and internal control units have been instructed to provide specified information in order to allow the Specific Controller to monitor the over-collateralization ratio, the nature of assets, interest rate risk management, the gap in the average life of assets and privileged liabilities, coverage of cash needs over 180 days, and the coverage plan of privileged liabilities by the assets. For every Caisse Française de Financement Local issue contract or on the basis of a quarterly issuance program, he affirms compliance with legal and regulatory standards concerning the over-collateralization ratio of the privileged liabilities by the assets, once the issue has been settled. The Specific Controller certifies the documents that the Company sends to the ACPR to meet legal and regulatory requirements for *sociétés de crédit foncier*. At the request of the Banque de France, the Specific Controller annually issues a certificate in support of the statement submitted by Caisse Française de Financement Local concerning the composition of the cover pool. He submits an annual report on his activity to the Supervisory Board of Caisse Française de Financement Local, and a copy is forwarded to the Autorité de contrôle prudentiel et de résolution (ACPR).

b. Preparation of accounting and financial information

Financial statements

A company's annual financial statements, in addition to all the financial data produced by the accounting department should give a true and fair view of its assets, financial position and results. For credit institutions, the *arrêté* of November 3, 2014, on internal control, 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 practices in the Sfil Group and also applies to both Sfil and Caisse Française de Financement Local.

In 2014, the improvements introduced aimed to bolster 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, and besides work done without automated processes, Sfil identifies the improvements that could be taken into account to replace or improve management tools in an effort to reduce this type of work. The approach serves to reduce operational risks associated with manual entries.

Role and organization of accounting

Accounting data is produced at Caisse Française de Financement Local by the accounting department of

Sfil, within the framework of the management agreement between the two companies. Accounting at Sfil reports to the Chief Financial Officer (CFO), who oversees financial steering functions, including the oversight of balance sheets, management control and financial communication, the organization of systems and quality, and accounting. Accounting plays a central role in the piloting of Sfil and in 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 of Caisse Française de Financement Local. It also ensures together with the Risks division, that regulatory and prudential standards are respected.

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. This division manages the organization of information systems and quality. It is in charge of accounting and regulatory tools as well as ALM, 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 operating divisions. This system makes it possible to ensure continuous improvement in terms of quality, process efficiency and the reliability of financial information.

Preparation of the financial statements

In the preparation of the financial statements, the accounting system of Caisse Française de Financement Local is in large measure automatically supplied by upstream management systems that manage transactions with customers and market counterparties as well as operating expenses. 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. Nevertheless, 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 data 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 average 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 out areas that need attention and improvement for the processes to be used in future financial statements.

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 from 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. These analyses are synthesized in a quarterly report that is submitted to the Chairman of the Executive Board of Caisse Française de Financement Local.

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 and standardized 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 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.

Approval of the financial statements

The financial statements, balance sheet, income statement and notes are subject to particular scrutiny during the preparatory phase and in their final form by a delegated member of Caisse Française de Financement Local's Executive Board. The Executive Board of Caisse Française de Financement Local approves the yearly and half-yearly financial statements at a meeting attended by the two Statutory Auditors and the accounting department. The principal issues in the period's management report are also examined on this occasion. These annual and half-year financial statements are subject to an audit and a review (respectively) by the Statutory Auditors. Since 2014, there are no more quarterly financial statements, although quarterly activity reports are prepared and published.

The annual financial report is prepared by Caisse Française de Financement Local's Executive Board in liaison with units of Sfil, in particular, Accounting, Back Office, Risk Control and the General Secretary. The Company's Statutory Auditors verify the information it contains. All these documents are presented to Caisse Française de Financement Local's Supervisory Board, and then to the Annual General Meeting of Shareholders'.

The Supervisory Board is also informed of its Chairman's report on internal control, which is presented at the annual shareholders' meeting. The calling of shareholders' meetings and the right to attend such meetings are described in articles 28 and 29 of the Company's by-laws.

Publication of the financial statements of Caisse Française de Financement Local

This accounting and financial information is made public in several ways.

In addition to the regulatory publication in the BALO, in 2014, the half-year and annual financial statements, together with the corresponding management reports, are posted on the Internet site www.caissefrancaisedefinancementlocal.fr. Half-year and annual financial statements are posted on the site of a financial information wire (HUGIN) registered with the French Financial Markets Authority (AMF) as concerns regulatory information. Moreover, unaudited activity reports are drawn up to describe the situation as of March 31 and September 30. They are available to the public on the Internet site www.caissefrancaisedefinancementlocal.fr.

Some of this information is also available, with differences in presentation, in the report on the quality of the assets that is submitted to regulatory authorities and posted on the Internet site of Caisse Française de Financement Local, in compliance with CRBF instruction 2011-I-07.

Role of Statutory Auditors

Caisse Française de Financement Local is audited by two auditing firms working together.

The Statutory Auditors are consulted throughout the process of preparation of 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 nature, period and extent of their controls of the principal areas of risk. 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 that is 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.

They employ due diligence to obtain reasonable assurance that the financial statements are free of any material misstatement.

Management reporting

The financial statements (balance sheet, off-balance sheet, income statement, cash flow statement and notes) that Caisse Française de Financement Local communicates to its shareholder and to the general public are completed by quarterly activity reports and used, in particular, when Caisse Française de Financement Local 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. Their accuracy

is therefore guaranteed by the internal control system of the divisions concerned.

Caisse Française de Financement Local's sole business is the refinancing of public sector debt. These assets are primarily financed by the issue of *obligations foncières*.

Caisse Française de Financement Local works only from 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. 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.

c. Identification of main risks and their specific internal control procedures

Banking activity generates four principal types of risk: credit risk, market risk, structural risk (interest rate, foreign exchange and liquidity) and operational risk.

Monitoring all these types of risk is the joint responsibility of dedicated committees and the Risks division, with the help of tools it has developed, in compliance with regulatory and prudential constraints and within the framework of the limits set by the Sfil Group.

Because the Company is an issuer of *obligations foncières*, the risks authorized for Caisse Française de Financement Local are strictly selected and limited. When the Company was created, a distinction was made between risks that are compatible and risks that are not compatible with the legal and regulatory framework of *sociétés de crédit foncier* and with the specific nature of Caisse Française de Financement Local's by-laws and its license granted by the Comité des établissements de crédit et des entreprises d'investissement (CECEI), now merged into the Autorité de contrôle prudentiel et de résolution (ACPR).

The criteria of the rating agencies define restrictions or limits for risks compatible with the Company's activity.

The general approach decided by the Executive Board of Caisse Française de Financement Local and applied in every unit of Sfil in charge of the operations concerned involves monitoring:

- that risks not compatible with the activity of Caisse Française de Financement Local are not taken by the Company or are eliminated from the start;
- that risks compatible with the activity are maintained exactly within authorized limits;
- that controls are defined by the Risks division and realized at the level of the front and middle offices of Sfil, that they are reported to the Executive Board of Caisse Française de Financement Local, that any anomalies discovered during such controls are reported to the Supervisory Board and, finally, that these results are transmitted to the Specific Controller and that the data is made available for his review.

Risks compatible with the activity of Caisse Française de Financement Local are subject to the supervision and management of limits. Such oversight and the resources made available by Sfil to manage these risks in practice, on a daily basis as well as in exceptional circumstances, are developed below.

Credit risk

Credit risk represents the potential loss that may affect Caisse Française de Financement Local 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 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.

The Risks division relies on several specialized committees, described below.

The Credit Committee approves new commitments⁽⁵⁾ by Sfil and Caisse Française de Financement Local (loans and swaps) and the rescheduled loan agreements on the balance sheet of Caisse Française de Financement Local. It sets credit limits when certain predefined thresholds are exceeded. Each file 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.

Moreover, within the framework of the purchase of assets by Caisse Française de Financement Local, the control of eligibility is organized at two successive levels.

- The team in charge of coordination of Caisse Française de Financement Local within Sfil pilots the process of asset acquisition and associated controls of eligibility prepared by the different divisions of Sfil; the definitive portfolio is validated by the Executive Board.
- The customer back-office division carries out permanent controls daily on outstanding assets.

These controls are standardized by procedures.

In addition, the Specific Controller makes an in-depth and regular verification a posteriori of the eligibility of the assets.

Market risk

By reason of its nature, Caisse Française de Financement Local does not carry market risks in the regulatory sense of the term. Market risks are subject to continuous supervision by the Market Risks division of Sfil, 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;
- management reporting on analytical results;
- the valuation of balance sheet items (assets, liabilities, AFS reserve);
- monitoring 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 and ALM 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.

Structural risk: interest rate, foreign exchange and liquidity

In Finance, the ALM team is in charge of the implementation of ALM policies defined for Sfil and Caisse Française de Financement Local.

⁽⁵⁾ Not delegated to the Risks division, the Debt Portfolio Management division and the commercial network of La Banque Postale.

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.

Definition of ALM policy

This policy is designed to protect the value of the Group's equity and minimize the volatility of income while maintaining the basic equilibrium of the balance sheet. 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 and regulatory constraints.

At the level of Caisse Française de Financement Local, ALM consists in neutralizing exposure of the value of the Company to the interest rate risk. To this end, Caisse Française de Financement Local uses swaps to micro-hedge appropriate balance sheet items – securities, structured loans, bond issues, etc. Vanilla commercial loans or securities are macro-hedged against interest rates risks, 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 limit restricting the loss to 6% of stockholders' equity for a change in rates by 200 bp, 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 as much as possible liquidity risk in static, dynamic and under stress scenario, while respecting regulatory restrictions (liquidity ratio one month, need for cash at 180 days) and over-collateralization requirements expressed by the regulator and 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.

Committees

ALM policy is organized around three committees. The ALM Committee decides ALM strategy and oversees deployment through the use of management indicators. It works with the ALM Interest Rate and ALM Liquidity Committees to define procedures and operations.

Operational management

In its interest rate 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. The sensitivity to interest rate risk of Caisse Française de Financement Local in 2014 remained well under fixed limits.

ALM manages the liquidity of 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 liquidity trend – eligibility of assets, available reserves, sensitivity of collateral, off-balance-sheet commitment, 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 the privileged liabilities of Caisse Française de Financement Local.

Financing for the assets of Caisse Française de Financement Local is mainly provided by issues of *obligations foncières*, whereas the share of the assets held for over-collateralization is financed by its shareholder.

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.

Operational risks

Operational risk represents the risk of financial or non-financial impact 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 and compliance risks. Caisse Française de Financement Local 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.

Organization and monitoring

Within the framework 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, a module for incident collection.

In addition to the register of losses, the main zones of risk are evaluated by taking existing controls into account in order to define the risk profile of Caisse Française de Financement

Local. 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, and to the Executive Board on February 26, 2015.

For the main risks or risk factors identified, Sfil progressively introduces a set of key indicators which will be monitored quarterly.

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, rules and operating procedures as well as on the indications provided by the ISO standard 27000/17799.

An IT business continuity plan was drawn up in association with all operating teams.

Safety procedures are spelled out. This contingency plan is 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 Risks and Internal Control Committee and at the February 26, 2015, meeting of the Executive Board.

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.

Legal risk

Caisse Française de Financement Local'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 and control of legal documents, the management of litigation, legal, legislative and regulatory watch in its areas of reference, the legal secretariat of 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 this annual financial report.

A review of files on litigation is presented weekly to a specialized committee (Sensitivity Reduction Committee). The Board of Directors of Sfil, the Executive Board and the Chairman of the Supervisory Board of Caisse Française de Financement Local are informed regularly.

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 they be of legislative or regulatory nature, or that it is 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, Caisse Française de Financement Local 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 Supervisory Board

Statutory Auditors' report

prepared in accordance with article L.225-235 of Code of Commerce (Code de commerce) on the report prepared by the Chairman of the Supervisory Board of the company

This is a free translation into English of the Statutory Auditors' report issued in French prepared in accordance with article L.225-235 of Code of Commerce on the report prepared by the Chairman of the Supervisory Board on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information issued in French and is provided solely for the convenience of English-speaking users.

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

To the Shareholders,

In our capacity as Statutory Auditors of Caisse Française de Financement Local and in accordance with article L.225-235 of the Code of Commerce, we hereby report on the report prepared by the Chairman of the Supervisory Board of your company in accordance with article L.225-68 of the Code of Commerce for the year ended December 31, 2014.

It is the Chairman's responsibility to prepare, and submit to the Supervisory Board for approval, a report on the internal control and risk management procedures implemented by the company and containing the other disclosures required by article L.225-68 of the Code of Commerce, particularly in terms of corporate governance.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information, and
- to attest that this report contains the other disclosures required by article L.225-68 of the Code of Commerce, it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Supervisory Board in accordance with article L.225-68 of the Code of Commerce.

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by article L.225-68 of the Code of Commerce.

Courbevoie and Neuilly-sur-Seine, March 31, 2015

The Statutory Auditors

French original signed by:

MAZARS

Virginie Chauvin

Anne Veaute

DELOITTE & ASSOCIÉS

Charlotte Vandeputte

Ordinary Shareholders' Meeting of May 26, 2015

Statutory Auditors' special report on regulated agreements and commitments

Annual General Meeting
Fiscal year ended December 31, 2014

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby present to you our report on regulated agreements and commitments.

The terms of our engagement require us to communicate to you, based on the information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or that we may have discovered through our engagement, without expressing an opinion on their usefulness and appropriateness, nor seeking the existence of other agreements and commitments. It is your responsibility, pursuant to article R.225-58 of the Code of Commerce (Code de commerce), to assess the interest involved in respect of the conclusion of those agreements for the purpose of approving them.

In addition, it is our responsibility to communicate to you the information pursuant to article R.225-58 of the Code of Commerce concerning the execution, during the year just ended, of any authorized agreements or commitments already approved by the Shareholders' Meeting.

We conducted our procedures in accordance with the professional guidelines of the French National Institute of Statutory Auditors (Compagnie Nationale des Commissaires aux Comptes) relating to this engagement. Those procedures consisted in verifying the information provided to us with the relevant source documents.

AGREEMENTS AND COMMITMENTS SUBMITTED TO THE APPROVAL OF THE SHAREHOLDERS' MEETING

Agreements and commitments authorized during the year just ended

In accordance with article L.225-88 of the Code of Commerce, we have been notified of the following agreements

and commitments that were previously authorized by your Supervisory Board.

Agreement between Société de Financement Local (Sfil) and Caisse Française de Financement Local providing for the payment by Caisse Française de Financement Local of EUR 18 million to a government fund for public hospitals.

Interested person:

Philippe Mills, common director of Sfil and Caisse Française de Financement Local since January 31, 2013.

Nature and purpose:

The agreement was signed on May 28, 2014. It provides the payment by Caisse Française de Financement Local, which is holding the sensitive assets, of the EUR 18 million contribution corresponding to the participation requested by the French State to the fund for public hospitals.

Terms:

The agreement was authorized by your Supervisory Board on May 22, 2014. The payment schedule of the EUR 18 million contribution can be spread over a three-year period. As of December 31, 2014, a debt has been recognized for EUR 18 million in the balance sheet with a counterparty in the income statement.

AGREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE SHAREHOLDERS' MEETING

We inform you that there are no agreements and commitments approved in prior years with an impact on the year just ended.

Courbevoie and Neuilly-sur-Seine, March 31, 2015

The Statutory Auditors

French original signed by:

MAZARS

Anne Veaute

Virginie Chauvin

DELOITTE & ASSOCIÉS

Charlotte Vandeputte

Observations of the Supervisory Board

Pursuant to the provisions of article L.225-68 of the Code of Commerce, we hereby state that we have no comment to make on the management report of the Executive Board or on the financial statements for the year ended December 31, 2014.

The Supervisory Board wishes to thank the Executive Board for the initiatives taken and the results achieved during the year ended December 31, 2014.

The Supervisory Board

Resolutions proposed to the Ordinary Shareholders' Meeting of May 26, 2015

First resolution Approval of the financial statements

The Ordinary Shareholders' Meeting, after hearing the reports of the Executive Board, the Chairman of the Supervisory Board and the Statutory Auditors, as well as the observations of the Supervisory Board, approves the financial statements for the year ended December 31, 2014, as presented, with all the transactions that generated these financial statements or are mentioned in the above reports, showing net income of EUR 7,713,941.02.

Second resolution Approval of regulated agreements and commitments

After hearing the Statutory Auditors' special report on regulated agreements and commitments, governed by article L.225-86 of the Code of Commerce, the Ordinary Shareholders' Meeting approves, in the conditions of the article L.225-88 of the same code, the convention which is mentioned there.

Third resolution Discharge to members of the management bodies

By virtue of the adoption of the first two resolutions, the Ordinary Shareholders' Meeting gives full discharge to the members of the management bodies for the performance of their duties during the year ended December 31, 2014.

Fourth resolution Allocation of net result

The Ordinary Shareholders' Meeting resolves to allocate net result for the year as follows:

ALLOCATION OF NET RESULT	(EUR)
Net result for the year	7,713,941.02
Legal reserve (5%)	(385,697.05)
Retained earnings	18,011,364.98
2014 income available for distribution and completely allocated to retained earnings	25,339,608.95

The Ordinary Shareholders' Meeting recalls, pursuant to article 243 bis of the French General Tax Code, that the following dividends were paid in the previous three years:

(EUR)	2011	2012	2013
Net dividend per share	1.16	-	-
Amount per share eligible for rebate (article 158.3-2 of the French General Tax Code)	1.16 ⁽¹⁾	-	-
Total amount eligible for rebate (article 158.3-2 of the French General Tax Code)	15,080,000 ⁽¹⁾	-	-

(1) Rate 40%

Fifth resolution Certification of the financial statements

In application of article L.822-14 of the Code of Commerce, the Ordinary Shareholders' Meeting takes note that the financial statements for the year ended December 31, 2014, were certified by the Statutory Auditors:

- Virginie Chauvin, Partner, and Anne Veaute, Partner, representing the firm Mazars on the one hand,
- Charlotte Vandeputte, Partner, representing the firm Deloitte & Associés, on the other hand.

Sixth resolution Powers

The Ordinary Shareholders' Meeting gives full powers to the bearer of an original, a copy or an excerpt of the minutes of this meeting to carry out all legal formalities, in particular to notify the Clerk of the Tribunal de Commerce de Nanterre of any changes in registration.

General Information

Legal and administrative information

Corporate name

Caisse Française de Financement Local

Registered office

Since December 1, 2014, the Company's registered office is located at:

1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux

Legal structure

Société anonyme à Directoire et Conseil de Surveillance, a joint-stock corporation with an Executive Board and a Supervisory Board.

Official approval

The Company was approved by the Comité des établissements de crédit et des entreprises d'investissement (CECEI) on July 23, 1999, as a *société financière – société de crédit foncier*. This approval became definitive on October 1, 1999. *Ordonnance* 2013-544 of June 27, 2013, modified the legal status of *sociétés de crédit foncier* (article L.513-2 of the Monetary and Financial Code). Since January 1, 2014, *sociétés de crédit foncier* are no longer financial companies (*sociétés financières*), but specialized credit institutions (*établissements de crédit spécialisés*).

Applicable legislation

A corporation under the provisions of articles L.210-1 and following of the Code of Commerce, articles L.511-1 and following of the Monetary and Financial Code and articles L.513-2 and following of the Monetary and Financial Code.

Incorporation date

The company was created on December 29, 1998, for a period of 99 years.

Corporate purpose (article 2 of the by-laws)

The Company's exclusive purpose is:

- to grant or acquire loans to public sector entities as defined in article L.513-4 of the Monetary and Financial Code as well as assets considered as loans as defined in article L.513-5 of the same code;
- to hold assets defined by decree as replacement assets;
- in order to finance the above-mentioned loans, to issue *obligations foncières* benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code and to raise other funds, under issue or subscription contract referring to the privilege.

The Company May also fund the above-mentioned activities by issuing bonds or other sources of financing that do not benefit from the privilege defined in article L.513-11 of the Monetary and Financial Code.

Pursuant to the law of January 2, 1981, facilitating corporate borrowing, the Company May assign all the assets it owns, whatever their nature (whether professional or not).

Company registration and APE business identification code

Caisse Française de Financement Local is registered as a corporate entity under the designation NANTERRE 421 318 064 (Registre du Commerce et des Sociétés). Its APE code is 6492Z.

Availability of information

Legal documents concerning Caisse Française de Financement Local May be consulted at the Company's registered office:

1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux

Fiscal year (article 39 of the by-laws)

The Company's fiscal year begins on January 1 and ends on December 31.

Exceptional events and legal proceedings

See the section on litigation in this annual financial report, pages 10-11.

Allocation of income (article 40 of the by-laws)

Income available for distribution comprises net income for the year minus any prior year losses and any allocations to reserves pursuant to current legislation, plus any retained earnings carried forward from previous years.

From the available surplus, the Ordinary Shareholders' Meeting, voting on a recommendation of the Executive Board, May allocate all or a part of the remaining income to retained earnings.

There are no priority shares or priority dividends.

Annual Shareholders' Meetings

Calling of meetings (article 28 of the by-laws)

Annual shareholders' meetings are called as required by current legislation. They are held at the Company's registered office or any other location specified in the notice of meeting. All shareholders have the right to obtain copies of the documents required to make an informed decision concerning the overall management and control of the Company.

The types of documents concerned and the terms of their availability and dispatch are determined by the applicable legislation and regulations.

Right to attend annual shareholders' meetings

Legal rights apply.

Voting rights (article 32 of the by-laws)

The voting rights attached to the shares are proportional to the percentage of capital the shares represent. Each share conveys one voting right. At annual shareholders' meetings, the number of votes that May be cast by each shareholder corresponds to the number of shares held plus the number of shares for which the shareholder holds proxy.

Capital and shares

Amount of the capital

Share capital currently stands at EUR 1,315,000,000 represented by 13,150,000 nominative shares.

There are no other securities that grant rights to shares in the capital of Caisse Française de Financement Local.

Shareholding structure in the last five years

Date of the Shareholders' Meeting	Date of the capital increase	Amount of the capital increase EUR	Cumulated capital EUR
5/26/10	5/28/10	130,000,000	1,190,000,000
5/26/11	6/7/11	110,000,000	1,300,000,000
5/24/12	5/30/12	15,000,000	1,315,000,000
5/24/13	-	-	1,315,000,000
5/22/14	-	-	1,315,000,000

Breakdown of capital	2010	2011	2012	2013	2014
Dexia Credit Local	99.99%	99.99%	99.99%	-	-
Sfil	-	-	-	99.99%	99.99%
French and/or Belgian individual and/or corporate investors	0.01%	0.01%	0.01%	0.01%	0.01%

Since January 31, 2013, Caisse Française de Financement Local is 99.9%-owned by Société de Financement Local, and 0.01% of its capital is in the hands of private investors (individuals, members of the Supervisory Board, to whom Société de Financement Local has lent shares).

Declaration of financial support

On January 31, 2013, Société de Financement Local formalized a declaration of financial support for its subsidiary Caisse Française de Financement Local.

"Société de Financement Local acquired Caisse Française de Financement Local, previously called Dexia Municipal Agency, a société de crédit foncier, governed by articles L.515-13⁽⁶⁾ and following of the Monetary and Financial Code.

"Société de Financement Local will hold more than 99% of the capital of Caisse Française de Financement Local on a long-term basis.

"Société de Financement Local and the French State, its reference shareholder, will ensure that Caisse Française de Financement Local always be able to pursue its activity in an ongoing manner and honor its financial commitments, in compliance with the requirements of banking regulations currently in effect."

(6) Now article L.513-2 of the Monetary and Financial Code in application of ordonnance 2013-544 of June 27, 2013.

Statement by the person responsible

I, Gilles Gallerne, Chairman of the Executive Board of Caisse Française de Financement Local,

hereby affirm that to the best of my knowledge, the financial statements have been prepared in conformity with applicable accounting standards and present fairly, in all material aspects, the assets and liabilities, financial position and results of Caisse Française de Financement Local, and that the management report presents a fair image of trends in the Company's business, results and financial position, as well as a description of the main risks and uncertainties it faces.

Issy-les-Moulineaux, March 31, 2015

Gilles Gallerne
Chairman of the Executive Board

Management Report

IFRS Financial Statements

French GAAP
Financial Statements

Supplemental Disclosures

Shareholders' Meeting

General Information

Caisse Française de Financement Local
Société anonyme à directoire et conseil de surveillance
A French credit institution with an Executive Board and a Supervisory Board
Capital of EUR 1,315,000,000
R.C.S. NANTERRE 421 318 064

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This annual financial report is available in French and in English at
www.caissefrancaisedefinancementlocal.fr

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