



Activity Report  
Caisse Française de Financement Local  
as of September 30, 2014

## 1. Reminder of shareholding structure, economic model and ratings of Caisse Française de Financement Local

### 1.1 – SHAREHOLDING STRUCTURE OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

The capital of Caisse Française de Financement Local is fully owned by Société de Financement Local (Sfil). Sfil is a credit institution approved by the Autorité de contrôle prudentiel et de résolution (ACPR). Since 2013, it plays a key role in the French State's new organization of local government financing and funding of public hospitals in France.

Sfil's shareholders are the French State (75%), Caisse des Dépôts et Consignations (20%) and La Banque Postale (5%). Sfil's shareholders are firmly rooted in the public sphere, thereby reflecting the mission entrusted to it by the French Government.

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

### 1.2 ECONOMIC MODEL OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

#### a. Servicing by Société de Financement Local

The role of Société de Financement Local is to support the activities of Caisse Française de Financement Local as a servicer, as defined by the regulations that apply to *sociétés de crédit foncier*, in particular article L.513-15 of the Monetary and Financial Code. Sfil has three essential missions, as follows.

- Sfil services for Caisse Française de Financement Local, and within this framework, in particular conducts comprehensive operational management for the Company and provides the non-privileged funding and derivatives required by the activity of Caisse Française de Financement Local.
- Sfil also operationally manages the reduction in the sensitivity of the structured loans booked on Caisse Française de Financement Local 's balance sheet.
- Sfil likewise provides services for La Banque Postale and for the joint venture La Banque Postale Collectivités Locales for their lending activities to French public sector entities; these services cover the fields of commercial support, financial control, risk management and back office.

Caisse des Dépôts et Consignations (CDC) makes available to Sfil the resources it needs to finance the operations of Caisse Française de Financement Local booked prior to the date of acquisition. It contributes 35% of the needs created by new business originated by La Banque Postale, versus 65% provided by the latter.

On January 31, 2013, Sfil signed a declaration of support of Caisse Française de Financement Local, which is reproduced in the annual report – General information.

#### 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. These loans are exclusively denominated in euros with a simple 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 to purchase 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, an initial analysis of the customer is carried out simultaneously at the two entities. The loans that do not meet the credit criteria of Caisse Française de Financement Local can not 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 exposures on the French local public sector and public hospitals.

- Before loans originated by La Banque Postale are transferred to Caisse Française de Financement Local, a new analysis of the commitments is conducted, and Caisse Française de Financement Local may refuse a loan prior to the transfer if it does not meet its criteria.  
The sale of loans to Caisse Française de Financement Local is carried out by using a transfer form (*bordereau*) as required by law and that is specific to *sociétés de crédit foncier*.

### c. CRR / CRD IV and Covered Bond Label

Current and future *obligations foncières* issued by Caisse Française de Financement Local respect the new conditions of eligibility for refinancing by the European Central Bank. They comply with the directives concerning UCITS (Undertakings for Collective Investments in Transferable Securities) and CRR / CRD (Capital Requirements) on regulatory equity and thus benefit from a preferential weighting of 10% according to the standard method.

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

In order to meet Label requirements, Caisse Française de Financement Local has committed to respect a high degree of transparency in its investor relations. All detailed information related to the issues and cover pool of Caisse Française de Financement Local can be accessed through the Covered Bond Label site (<https://www.coveredbondlabel.com/issuer/47/>).

### 1.3 – RATING OF *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. This requires that the quality of the cover pool and the strict management rules in practice conform to the criteria and approaches of the three agencies.

The rating of the covered bonds of Caisse Française de Financement Local reflects the highest level of credit quality.

The rating of the *obligations foncières* issued by Caisse Française de Financement Local did not change in 2014, but it was placed under credit watch negative in the fourth quarter by Fitch. This change in outlook was subsequent to the same change announced by the agency in October 2014 with regard to the French Republic, and then for the rating of French public sector entities, including Sfil, the parent company of Caisse Française de Financement Local.

Fitch, as Standard & Poor's, apply a ceiling to the rating of Caisse Française de Financement Local with regard to the French sovereign rating by reason of the strong link between Caisse Française de Financement Local and the French State and at the same time of the concentration of the cover pool on the French local public sector.

The rating was as follows at the end of November 2014:

- AA+ by S&P\*,
- Aaa by Moody's,
- AA+ by Fitch\*\*.

\* *stable outlook*

\*\* *rating watch negative*

The minimum over-collateralization currently associated with these ratings is, respectively, 8.3%, 4.5% and 5%.

## 2. Highlights of the first nine months of 2014 and post closing events

### 2.1 – THE COVERED BOND MARKET

At the end of September 2014, the volume of the issues in the primary covered bond market totaled EUR 88 billion, up 10% from the first nine months of 2013. In the same period, EUR 117 billion were reimbursed, bringing the net offering to a negative EUR -29 billion. The gross offering remained dominated by German and French issuers, who in September accounted for 19% and 15% of 2014 issuance. In terms of maturity, issues with five-year maturities continued to be predominant (44% of primary flows in 2014). The attraction of ten-year maturities slackened in the third quarter (20% versus 22% at the end of June 2014) to the benefit of seven-year maturities (25%) reflecting the fall in interest rates.

The highlight of the third quarter was announced by the ECB at the beginning of September when it launched a new program to purchase covered bonds. This decision led to a significant decrease in secondary spreads because investors and trading desks anticipated the implementation of this plan in October.

In this environment, Caisse Française de Financement Local launched three issues in the primary market. After its ten-year issue in January (EUR 1 billion) and the addition of EUR 500 million to its 15-year *souche*, it took advantage of the favorable market conditions to launch a five-year jumbo issue (EUR 1.25 billion) in September. In addition to these public sector issues, Caffil was very active in the private placement segment, and in particular with the format of registered covered bonds (RCB), which make it possible to meet investor demand for long and very long maturities.

Altogether, Caffil launched a volume of issues totaling EUR 4.0 billion at the end of the third quarter, thereby meeting its 2014 program.

### 2.2 – 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 September 30, 2014, the number of customers having brought suit was 211 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 proceedings are underway. Since the loans subject to the litigation were recorded on its balance sheet, 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. Such voluntary intervention should enable Caisse Française de Financement Local to defend its interests by taking part in the proceedings.

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 in the fax which had preceded the signing of the loan agreement of the annual rate of charge (TEG) or intermediary data with which to calculate the TEG. 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 healthcare facilities;
- 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 the *Conseil national d'orientation et de suivi* (CNOS) on November 13, 2014. The main features of this framework are the following:

- Eligible customers: local governments and groups of such holding the most sensitive loans;
- Amount of aid: it is defined by several criteria, as the financial situation of the client and the share of eligible contracts in the total debt of this client; the maximum amount of aid will be 45% of the indemnity to be paid by the client to the bank (maximum rate of aid being granted to clients with the worst financial situation);
- Use of the aid received by local governments: it will be paid by equal parts over a period of 14 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, with a committee of orientation and supervision (CNOS) bringing together representatives of the State, local governments and qualified individuals;
- 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 planned arrangements for public hospitals for a total amount of EUR 18 million. All of these contributions have been recorded in the Company's accounts.

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.

It should be recalled that to prepare its financial statements for 2013, Caisse Française de Financement Local had worked on the hypothesis that the legislation designed to help solve the problem of structured loans, which the French government had proposed, in particular the legislation to secure structured loan agreements with public sector entities, would be passed and put into effect in 2014. The same was true for the preparation of the half-year accounts as of June 30, 2014. With the passing of legislation to secure structured loan agreements with public sector entities on July 30, 2014, the residual legal risks were considerably reduced and their financial impact when the financial statements were drawn up was thought to be minimal.

### 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 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 month of the gap between the weighted average life of eligible assets, considered up to their minimum amount required to satisfy the OC ratio of 5%, 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 euro zone as of November 4, 2014. The group made up of Caisse Française de Financement Local and its parent company Sfil (Sfil Group) is included among the banks directly supervised by the ECB.

Before assuming its oversight obligations, the ECB launched 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 euro zone 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 commitments, restructured loans 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, of 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.

In this way, the prudential adjustments determined by the ECB subsequent to its review of the quality of the assets and applied to regulatory capital requirements (pillar 2) are minimal; the additional provisions, for a total of EUR 48 million after taxes, concern the two principal portfolios examined: French local governments (for approximately 2/3 of the total) and Italian local governments. These prudential adjustments have an impact of approximately -3% on regulatory equity and of -0.97% on the common equity Tier I (CET1) ratio.

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 CET1 ratio remains robust at 13.17%. The high level of the CET1 ratio results from the good level of capitalization combined with a very low rate of risk weighting in 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.

### 3. Changes in main balance sheet items

EUR billions - value after currency swaps	12/31/2012	12/31/2013	9/30/2014	Change Sep. 2014 / Dec. 2013
<b>Cover pool</b>	<b>69.2</b>	<b>63.7</b>	<b>63.0</b>	<b>(1.0)%</b>
Loans	51.7	53.2	51.7	(2.7)%
Securities	15.1	9.0	10.9	21.1%
Cash in central bank	2.4	1.5	0.4	(74.1)%
<b>Assets assigned in guarantee to Banque de France</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Privileged debt</b>	<b>59.7</b>	<b>55.3</b>	<b>55.3</b>	<b>(0.2)%</b>
<i>Obligations foncières</i> *	56.2	52.8	52.8	(0.1)%
Cash collateral received	3.5	2.5	2.5	(1.7)%
<b>Non-privileged debt</b>	<b>7.6</b>	<b>6.8</b>	<b>6.4</b>	<b>(6.6)%</b>
Parent company	7.6	6.8	6.4	(6.6)%
Banque de France	-	-	-	-
<b>Equity IFRS (excluding unrealized gains and losses)</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>(2.7)%</b>

\*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. As of September 30, 2014, the cover pool totaled EUR 63.0 billion, excluding accrued interest not yet due. As of December 31, 2013, the total was EUR 63.7 billion; the decrease was therefore EUR 0.7 billion (-1.1%).

As of September 30, 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 55.3 billion, including cash collateral received, which is stable in comparison with December 2013.

The debt contracted with the parent company totaled EUR 6.4 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 September 30, 2014, corresponded to a decrease in assets in the amount of EUR 0.7 billion. This change is explained by the following items.

(EUR billions)	9/30/2014	
<b>1- Amortization of portfolio of loans and securities</b>		<b>-3.3</b>
<b>2- Acquisition of loans to La Banque Postale</b>		<b>1.2</b>
Loans to the French public sector (vanilla loans in euros)	1.2	
<b>3- Reduction of loan sensitivity</b>		<b>0.4</b>
Sensitive structured loans removed	-0.4	
Refinancing loans (vanilla loans in euros)	0.4	
New loans (vanilla loans in euros)	0.4	
<b>4- Other changes</b>		<b>1.0</b>
French government securities with short maturity	2.1	
Change in Banque de France cash deposit	-1.1	
Other loans to the French public sector	0.0	
Early reimbursements	0.0	
Divestments	-0.1	
Impairment and currency adjustment	0.1	
<b>Net change in the cover pool</b>		<b>-0.7</b>

The natural amortization of the portfolio of loans and securities represented EUR 3.3 billion during in the first three quarters of 2014.

Since the beginning of 2014, Caisse Française de Financement Local has acquired a total amount of EUR 1.2 billion in loans to the French public sector originated by La Banque Postale.

The operations conducted within the framework of the reduction of loan sensitivity since the beginning of 2014 made it possible to decrease outstanding loans considered as sensitive by EUR 0.4 billion by substituting fixed rate loans in their place. They were accompanied by new fixed rate loans in the amount of EUR 0.4 billion. After accounting for the amortization of the loans considered as sensitive in the amount of EUR 0.2 billion, outstanding loans considered as sensitive diminished by EUR 0.6 billion in 2014.

The other changes in assets (EUR 1.0 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 SEPTEMBER 30, 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	9/30/2014
Loans and bonds to the public sector	57.8	58.6
Funds available on the Banque de France account	1.5	0.4
Replacement assets	4.4	4.0
<b>Total</b>	<b>63.7</b>	<b>63.0</b>

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.

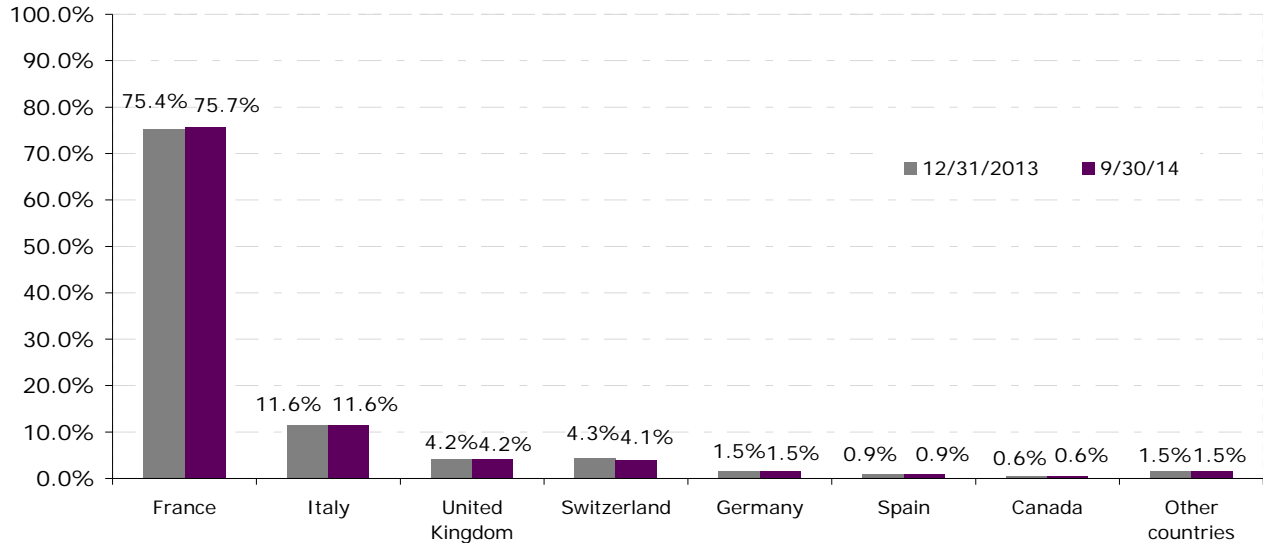


**a. Public sector loans and securities (excluding replacement assets and cash investments)**

**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 correspond to granular and geographically diversified exposures on foreign public sector entities. They were originated by the subsidiaries of the Dexia Group and are managed in a run-off mode.

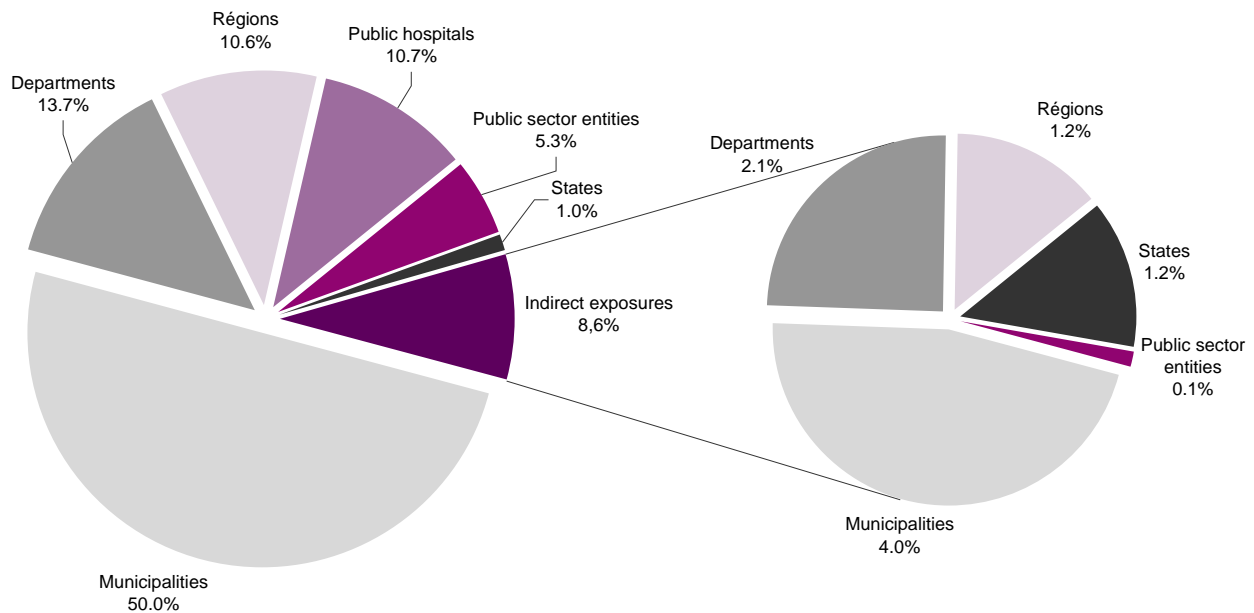
The relative proportion of the total assets can be broken down as follows:



Exposures to Other countries as of September 30 are broken down by country in the section Bonds and public sector loans, 2014, presented at the end of this 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

EUR millions	Ratings **	12/31/2013	9/30/2014	in % of the cover pool
France*	AA/Aa1/AA+	147	162	0.3%
United Kingdom	AAA/Aa1/AA+	555	500	0.8%
Italy	BBB/Baa2/BBB+	580	581	0.9%
<b>TOTAL</b>		<b>1,282</b>	<b>1,243</b>	<b>2.0%</b>

\*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

Caisse Française de Financement Local has stable and limited exposure to sovereign countries. Most of these exposures are concentrated on countries that benefit from very good ratings as of September 30, 2014, and serve to 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 September 30, 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 with a Step 2 rating. They represented 7.6% of the *obligations foncières* and registered covered bonds of Caisse Française de Financement Local.

Replacement assets	Country	Issuer	EUR millions	
			12/31/2013	9/30/2014
<b>Step 1 credit rating</b>				
Loans to sponsor bank	France	Société de Financement Local	4,363	3,984
<b>Step 2 credit rating</b>				
Bank account balances	Other	Other	18	9
<b>TOTAL</b>			<b>4,381</b>	<b>3,993</b>

#### c. Assets removed from the cover pool

Because of its status as a *société de crédit foncier*, 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 also 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, if necessary, by the cash thus obtained.

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

In 2014, Caisse Française de Financement Local mobilized or pledged no assets with the Banque de France or a bank counterparty.

## d. Structured loans

### 1. Definition

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<sup>1</sup>. 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 the commercialization of which is excluded by the charter, either because of their structure (i.e. leverage > 5, etc.), the underlying index(es) (i.e. 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.

According to this definition, outstanding structured loans on the balance sheet of Caisse Française de Financement Local at the end of September 2014 represented EUR 12.3 billion (versus EUR 13.6 billion at the end of 2013).

### 2. Sensitive structured loans

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 7.0 billion at the end of September 2014 compared with EUR 7.6 billion at the end of 2013.

The EUR 0.6 billion decrease in these outstanding loans was due for EUR 0.4 billion to proactive efforts to reduce the sensitivity of the outstanding amount and for EUR 0.2 billion to the contractual amortization of these loans.

EUR billions	Amount 12/31/2013	Amount 9/30/2014	% cover pool	Number of clients
<b>Total cover pool</b>	<b>63.7</b>	<b>63.0</b>		
<b>French public sector loans</b>	<b>42.9</b>	<b>42.0</b>	<b>66.7%</b>	<b>17,754</b>
Sensitive loans not in the charter	3.7	3.5	5.5%	388
Sensitive loans (3E/4E/5E)	3.9	3.5	5.5%	406
Other structured loans	6.0	5.3	8.4%	1,359
Vanilla loans	29.3	29.7	47.2%	15,601

The most sensitive structured loans (loans not in the charter) represented 5.5% of the cover pool and 388 customers.

These loans concern the following customer categories:

Sensitive loans not in the charter	Amounts EUR billions	Number of clients
Municipalities with fewer than 10,000 inhabitants	0.3	77
Municipalities with more than 10,000 inhabitants and groups of municipalities	1.8	224
Regions and departments	0.8	24
Public hospitals	0.5	48
Other clients	0.1	15
<b>TOTAL</b>	<b>3.5</b>	<b>388</b>

<sup>1</sup> [http://www.interieur.gouv.fr/content/download/3021/30417/file/Charte\\_de\\_bonne\\_conduite\\_entre\\_les\\_etablissements\\_bancaires\\_et\\_les\\_collectivites\\_territoriales.pdf](http://www.interieur.gouv.fr/content/download/3021/30417/file/Charte_de_bonne_conduite_entre_les_etablissements_bancaires_et_les_collectivites_territoriales.pdf)

### 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. 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 at market price.

The support fund recently created by the French State may, under certain conditions, finance the payment of a portion of the early reimbursement indemnity.

## 5. Debt benefiting from the legal privilege as of September 30, 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	9/30/2014
Cash collateral received	2.5	2.5
<i>Obligations foncières</i> and registered covered bonds	52.8	52.8
<b>Total</b>	<b>55.3</b>	<b>55.3</b>

### 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 2.5 billion at the end of September 2014.

### 5.2 – ISSUES IN 2014

The issuance policy of Caisse Française de Financement Local is manifested by a strong presence in the euro market, as it builds a consistent curve and prompts the good performance of its benchmarks in the secondary market, and by active diversification in several selected markets.

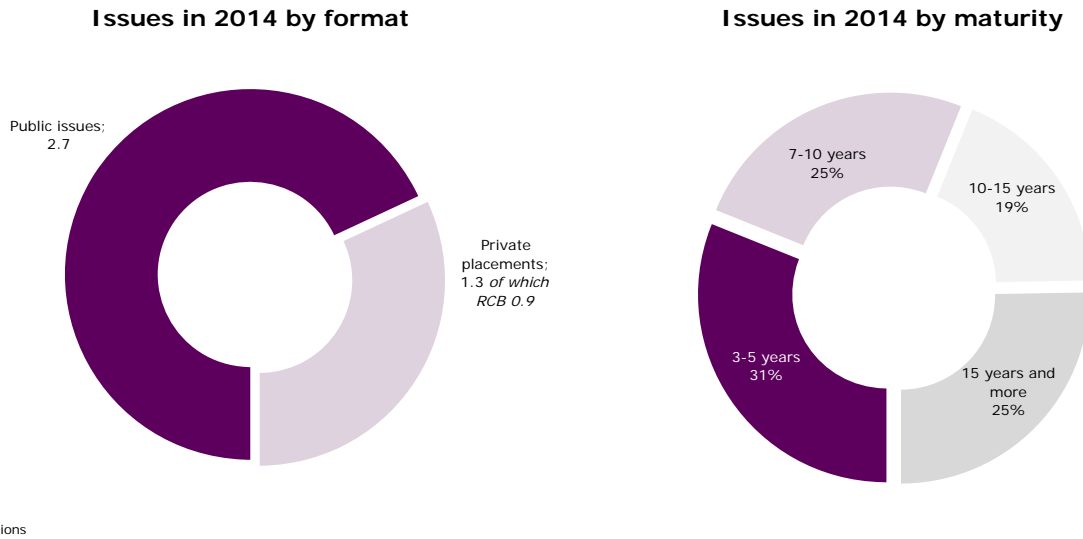
Private placements during the year partially took the form of registered covered bonds, a variety of private placement designed for German investors. This issuance format makes it possible to meet the specific needs of certain investors rapidly and flexibly.

#### a. New issues in 2014

Caisse Française de Financement Local launched three public issues in 2014. At the beginning of January, it opened the 2014 primary market for covered bonds by launching a ten year benchmark issue in the amount of EUR 1 billion. Then at the beginning of the second quarter, it added EUR 0.5 billion to the 2028 *souche* (first issued in September 2013), bringing it to a total of EUR 1.0 billion. Lastly, at the beginning of September, it issued a jumbo five-year benchmark in the amount of EUR 1.25 billion in an extremely favorable market in terms of spread and investor interest.

In addition to these public issues, Caisse Française de Financement Local benefited from dynamic investor demand for maturities of more than 15 years to engage in private placements in the amount of EUR 1.3 billion, with average maturity of more than 18 years.

The breakdown of new production between public sector issues and private placements is presented below, together with their maturities.

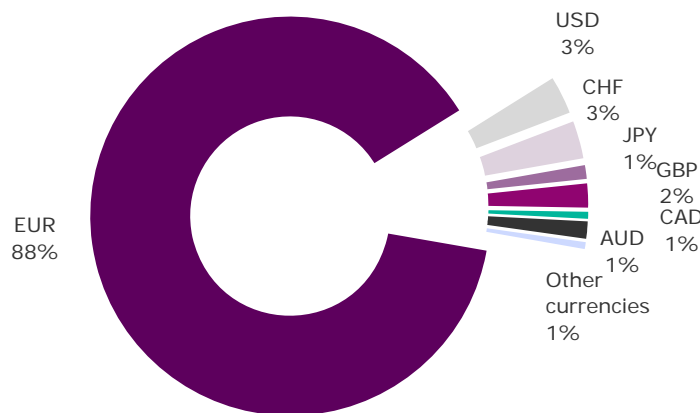


**b. Outstanding debt as of September 2014**

Outstanding *obligations foncières* and registered covered bonds totaled EUR 52.8 billion in swapped value at the end of September 2014, including the new *obligations foncières* for EUR 4.0 billion and the amortization of issues arriving at maturity for EUR 3.2 billion. The buyback of *obligations foncières* during the year made it possible to smooth out the amortization profile of Caisse Française de Financement Local's privileged debt.

EUR billions - Swapped value	2013	2014
<b>Beginning of the year</b>	<b>56.2</b>	<b>52.8</b>
Issues	3.1	4.0
Amortizations	-6.1	-3.2
Buyback	-0.4	-0.8
<b>End of the year</b>	<b>52.8</b>	<b>52.8</b>

As of September 30, 2014, issues can be broken down by currency as follows.

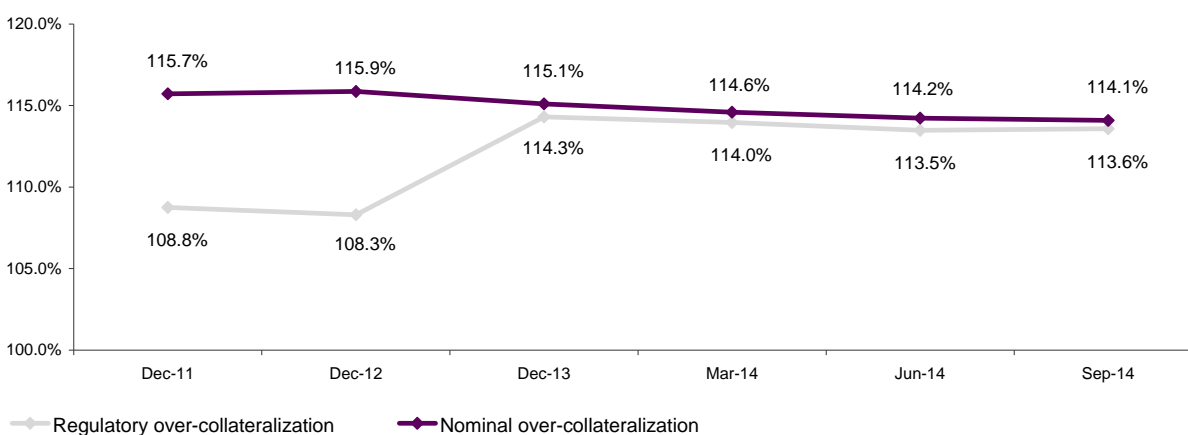


## 6. Changes in the over-collateralization ratio in 2014

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.

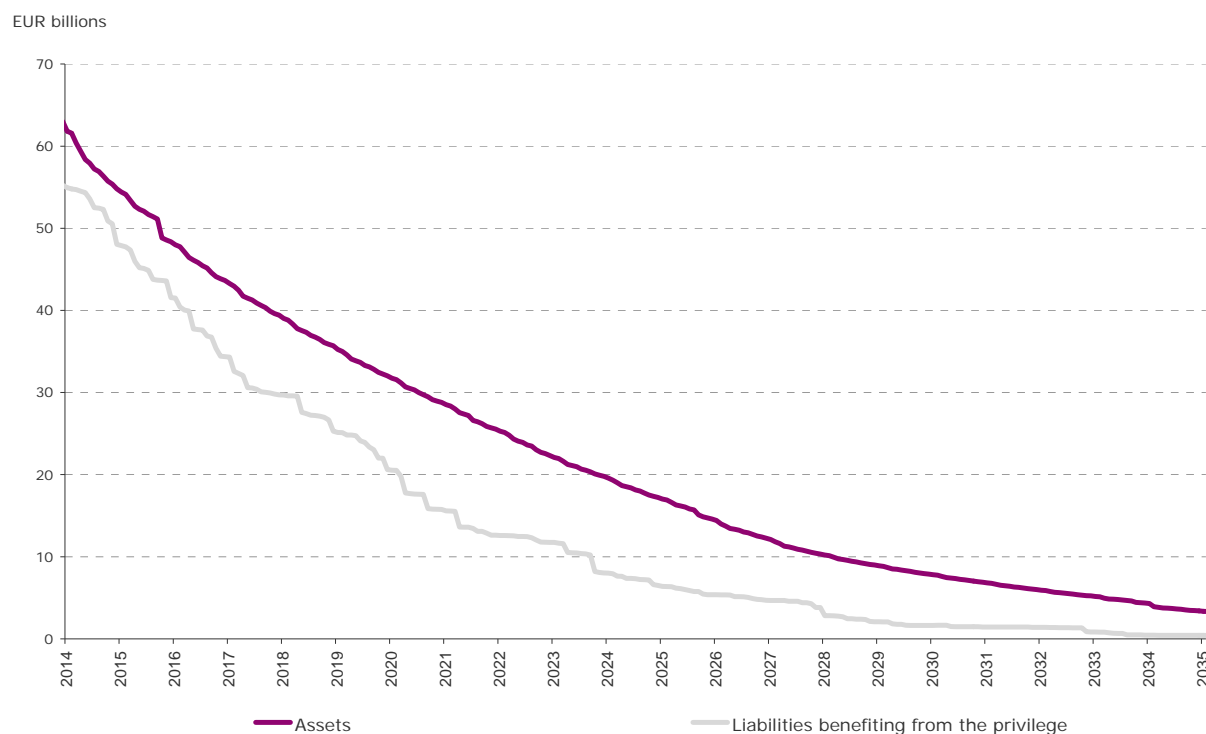
In practice, the over-collateralization ratio is regularly higher than 105%. To maintain an adequate level of credit rating, a level of over-collateralization of more than 5% may be required. This requirement depends on the method applied by each of the rating agencies and on the new assets and liabilities 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.



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 were 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 September 30, 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 September 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.

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 2014, Caisse Française de Financement Local did not contract any loans from the Banque de France, except for the amount required to test the procedure to access such funding, regularly applied for very small sums. 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	9/30/2014
Parent company	6.8	6.4
Banque de France	-	-
<b>Total</b>	<b>6.8</b>	<b>6.4</b>

The decrease in debt not benefiting from the legal privilege was primarily the result of the change in the level of over-collateralization compared with December 31, 2013.

## 8. Risk management

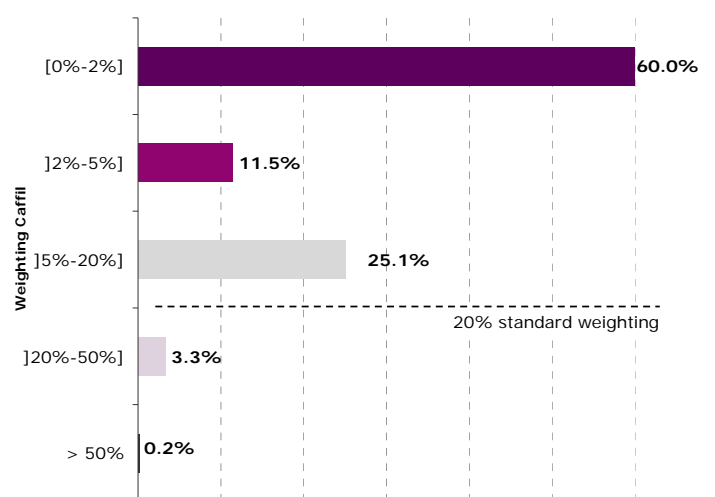
### 8.1 – CREDIT RISK

#### 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 September 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 and loss given default of the counterparty.

#### Risk weighting of Caisse Française de Financement Local's portfolio as of September 30, 2014



This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio, since only 3.5% of the portfolio has a weighting of more than 20%. The average weighting of the cover pool risk is 6.5%, 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 21% as of September 30, 2014, compared to a Basel II solvency ratio of 28% as of December 2013.



## b. Concentration by customer

As of September 30, 2014, the 20 largest exposures (excluding replacement assets and cash accounts) represented 17.5% of the cover pool, versus 14.4% as of December 31, 2013. The increase exclusively results from the acquisition of French sovereign short term securities within the framework of its active cash management. The largest exposure (excluding French sovereign) accounted for only 1.5% of the cover pool and the twentieth exposure 0.4%.

## c. Non-performing loans, litigious loans, provisions

**Since Caisse Française de Financement Local did not publish financial statements as of September 30, 2014, the following remarks concern, as a reminder, the accounts as of June 30, 2014.**

*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 (PD) and loss given default (LGD). 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 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 of sensitive loans) are presented below.*

Non-performing loans & litigious loans (number of clients)	12/31/2013		6/30/2014	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
Beginning of the year	33	25	47	53
New	23	28	41	4
Outgoing	9	-	5	10
<b>End of the year</b>	<b>47</b>	<b>53</b>	<b>83</b>	<b>47</b>

*No litigious situation was resolved in 2013, given the length of the procedures involved (cf. 5.3.d – Structured loans). In the first half of 2014, a file was resolved following the payment of the sums due and nine litigious files were reclassified as non-performing.*

*Non-performing and litigious loans at the end of June 2014 totaled EUR 395 million, approximately 0.6% of the total cover pool (EUR 62 billion). These commitments can be broken down as follows.*

- *EUR 326 million of commitments qualified as non-performing, corresponding to loans to customers with total unpaid loans of EUR 24.2 million;*
- *EUR 69 million of commitments qualified as litigious, corresponding to unpaid interest on structured loans that are subject to litigation.*

Non-performing loans & litigious loans EUR millions	12/31/2013		6/30/2014	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
<b>FRANCE</b>				
Etat	0	-	0	-
Regions	-	-	1	-
Departments	2	17	2	17
Group of municipalities	46	20	53	25
Municipalities	87	27	186	25
Public sector entities	52	1	84	2
<b>Total</b>	<b>188</b>	<b>66</b>	<b>326</b>	<b>69</b>

As in 2012 and 2013, Caisse Française de Financement Local bolstered its provisions in the first half of 2014 in the amount of EUR 44 million, of which EUR 28 million in Cost of risk (compared with EUR 28 million also for each full year 2012 and 2013).

The total amount of provisions at the end of June is presented in the following graph.

EUR millions	12/31/2013	6/30/2014
Specific impairment	14	41
Collective impairment	70	87
<b>Total</b>	<b>84</b>	<b>128</b>

Specific provisions for non-performing loans increased by EUR +27 million in the first half. The main reason for this rise was due to the mandatory provisions for interest on non-performing loans (EUR 16 million), the outstanding amount of which was higher.

The review of the portfolio and its risks entailed an adjustment of collective impairment in the amount of EUR 17 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, and in particular the law aiming to provide a solid legal base for structured loan agreements in effect with public sector entities. When this law took effect on July 30, 2014, residual legal risks were appreciably reduced and their financial impact at the closing date was considered to be very low.

#### d. Bank counterparty risk

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 4.0 billion (cf. 4.2.b);
- bank account balances in euros and other currencies, representing EUR 9 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.

As of September 30, 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 2.5 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 0.2 billion.

All derivative exposures as of September 30, 2014, are listed below.

EUR billions	ST notional amounts	LT notional amounts	% LT notional amounts	Mark to Market		Collateral received	Number of counterparties
				-	+		
SFIL	0.7	19.3	19.5%	(3.2)	-	-	1
Other counterparties	51.0	80.0	80.5%	(4.2)	2.7	2.5	29
<b>Total</b>	<b>51.6</b>	<b>99.3</b>	<b>100.0%</b>	<b>(7.4)</b>	<b>2.7</b>	<b>2.5</b>	<b>30</b>

The swaps negotiated with external counterparties represented 80.5% of outstanding long-term swaps and those signed with Société de Financement Local 19.5%. Long-term swaps signed with the five largest counterparties represented a total of 33.5% of notional amounts.

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

## 8.2 – OTHER BALANCE SHEET RISKS

### a. Interest rate risk

The management of the interest rate risk involves two steps.

- 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. A residual fixed rate gap remains on certain fixed rate assets that are hedged by macro-swaps (in particular, small loans to customers). This gap is monitored within very strict limits.
- In the second step, Euribor lending and borrowing flows are swapped against Eonia over a sliding period of two years in order to protect income from the basis risk generated by differences in Euribor periods (1, 3, 6 or 12 months) and from the fixing risk due to differences in refixing dates of reference indexes in the assets and the liabilities.

A residual gap remains after the first and second levels of hedging and is also monitored within strict limits.

The strategies employed to hedge interest rate and foreign exchange risk are reflected in the notional outstanding swaps analyzed in the table below between external counterparties and the internal counterparty (Sfil) as of September 30, 2014.

Breakdown of outstanding swaps	Notional * (EUR billions)	Sfil (%)	Other counterparties (%)
<b>Euribor against Eonia</b>			
Macro-hedges	51.6	1.3%	98.7%
<b>Total short-term swaps</b>	<b>51.6</b>	<b>1.3%</b>	<b>98.7%</b>
<b>Fixed rate swaps against Euribor</b>			
Micro-hedges on <i>obligations foncières</i>	46.6	10.5%	89.5%
Micro-hedges on loans and debt securities	23.4	10.6%	89.4%
Macro-hedges on loans	19.4	37.1%	62.9%
<b>Subtotal</b>	<b>89.4</b>	<b>16.3%</b>	<b>83.7%</b>
<b>Currency swaps</b>			
Micro-hedges on <i>obligations foncières</i>	6.2	44.0%	56.0%
Micro-hedges on loans	2.7	53.5%	46.5%
Micro-hedges on debt securities	1.1	57.7%	42.3%
<b>Subtotal</b>	<b>9.9</b>	<b>48.1%</b>	<b>51.9%</b>
<b>Total long-term swaps</b>	<b>99.3</b>	<b>19.5%</b>	<b>80.5%</b>

\* Absolute value

In addition, any debt contracted with its shareholder to finance over-collateralization is directly borrowed with a monetary index, and does not have to be swapped, or with an Euribor index and thus finances assets that also have an Euribor index. If such is the case, debt vis-à-vis the Banque de France, which is short-term and at a fixed rate, is not hedged, but finances assets that also have a fixed rate.

The objective targeted by this interest rate risk management is to convert the assets and liabilities on the balance sheet into floating rates, so that they move together in a parallel manner following the trend in interest rates, while maintaining the margin unchanged.

The sensitivity limits for the fixed rate gap and the monetary gap mentioned above are defined as the change in the gaps' net present value (NPV) under the impact of a parallel 1% (100 basis points) shift in the yield curve. The aggregate of these two limits for the fixed rate gap and the monetary gap is set at 3% of equity, and this figure is reviewed every year. This general sensitivity limit is EUR 40.0 million, including EUR 9.0 million for the monetary gap and EUR 31.0 million for the fixed rate gap.

In practice, the sensitivity is maintained significantly below this limit, as can be seen in the following table.

		Average	Maximum	Minimum	Limit
Fixed Rate	4Q 2013	12.2	16.5	3.2	31.0
	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
Monetary	4Q 2013	(0.3)	2.9	(4.7)	9.0
	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
Total	4Q 2013	11.9	19.5	(1.5)	40.0
	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

## b. Foreign exchange risk

Caisse Française de Financement Local has no foreign exchange risk. Assets and liabilities initially in non-euro currencies are swapped into euros when they are recorded on the balance sheet and until their final due date.

## c. Transformation risk

### 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)".

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

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. Thus, the fluctuations of cash surpluses deposited in a sight account at the Banque de France, and of cash collateral received (short-term debt benefiting from the privilege) lead to significant variations in the duration of the assets.

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 real sensitivity is maintained below this limit, as can be seen in the following table.

Duration in years	12/31/2012	12/31/2013	3/31/2014	6/30/2014	9/30/2014
Cover pool	7.31	6.99	7.24	7.21	<b>7.05</b>
Privileged liabilities	4.94	4.91	5.17	5.26	<b>5.12</b>
<b>Gap in asset-liability duration</b>	<b>2.37</b>	<b>2.08</b>	<b>2.07</b>	<b>1.95</b>	<b>1.93</b>
<i>Duration gap limit</i>	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)	12/31/2012	12/31/2013	3/31/2014	6/30/2014	9/30/2014
Cover pool	8.38	8.23	8.34	8.17	<b>7.86</b>
Privileged liabilities	5.25	5.36	5.58	5.65	<b>5.43</b>
<b>Gap in asset-liability weighted average life</b>	<b>3.13</b>	<b>2.87</b>	<b>2.76</b>	<b>2.52</b>	<b>2.43</b>

## 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 coverage ratio of 5% and the resources benefiting from the privilege. This limit must be respected as of December 31, 2015. Caisse Française de Financement Local will be able to respect the new limit. Calculation and reporting rules for this new indicator will be clarified soon by the regulator (ACPR).

### 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 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 report). This debt is contracted with Société de Financement Local through financing agreements between Caisse Française de Financement Local and its new parent company.
- pledges of assets through repurchase agreements with other banks or 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.

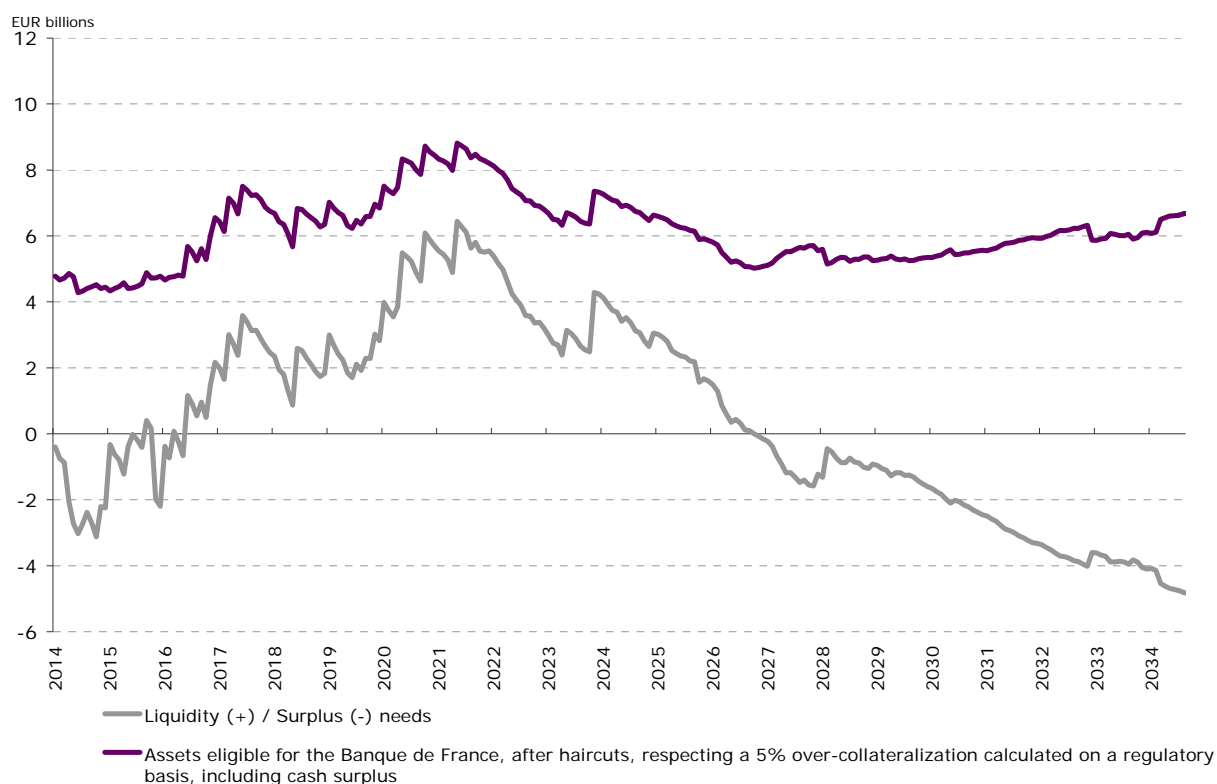
Since it is a credit institution, Caisse Française de Financement Local can post these eligible assets:

- 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).

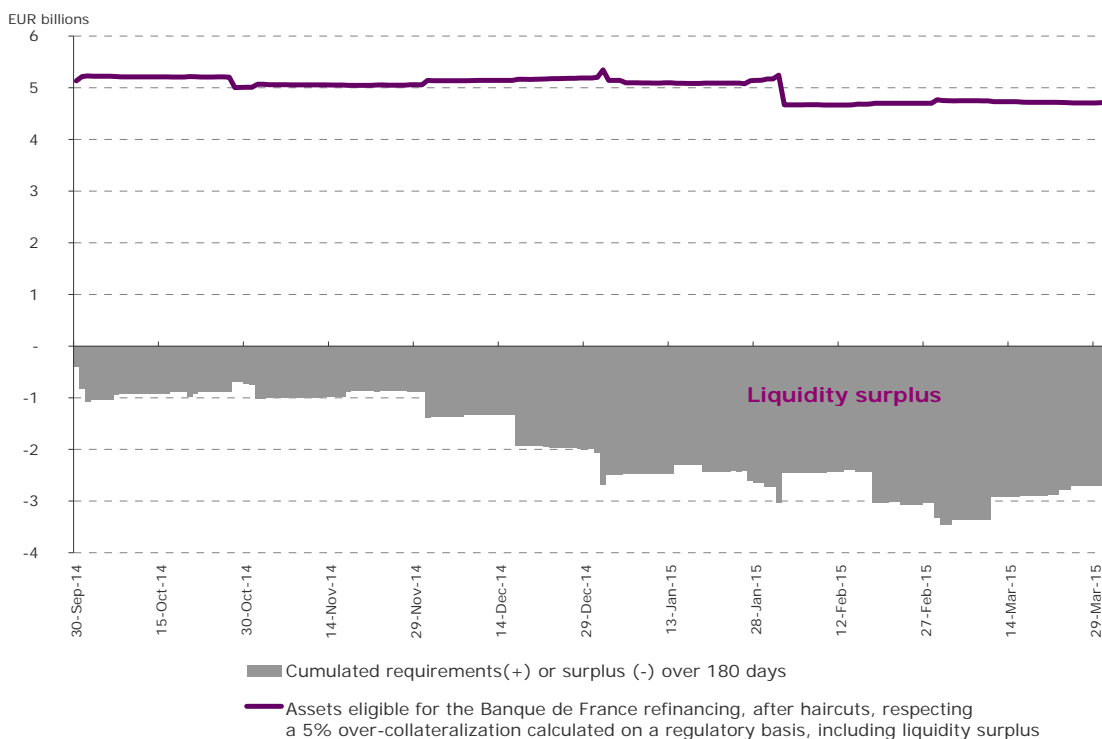
The maximum cumulated liquidity that Caisse Française de Financement Local might need in the future, in a run-off situation, is less than the financing already occasionally negotiated in the past. This need is less than Caisse Française de Financement Local's capacity to obtain refinancing from the Banque de France, measured by the amount of eligible assets after haircuts that would be available respecting its over-collateralization commitments.

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;
- 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 September 2014, no liquidity need is expected in the next 180 days. The variations that appear on the graph correspond to cash flows from the amortization of *obligations foncières*, cash collateral and non privileged debt, and of assets.

### 8.3. MANAGEMENT OF OTHER RISKS

#### a. Legal risks

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

#### b. Operating risks and permanent control

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 operating risks and permanent control are described in the section entitled as followed – Supplemental information – Statement of the Chairman of the Supervisory Board in the 2013 Annual Report (available at this Internet site).

#### c. Security and means of payment

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

## 9. Outlook for 2014

Caisse Française de Financement Local completed its entire annual bond issuance program in the first nine months of 2014. It has the cash required to carry out current operations in the last quarter: quarterly acquisition, from La Banque Postale, of loans to local governments and French public hospitals, and granting of new loans to customers concerned by operations to reduce the sensitivity of structured loans.

## Bonds and public sector loans as of September 30, 2014

EUR millions	9/30/2014				12/31/2013	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
<b>France</b>						
State		2,120	162		2,282	147
Banque de France	389				389	1,471
Regions	1,669	114	285		2,068	2,160
Departments	6,078		318		6,396	6,156
Municipalities	15,335	101	679		16,115	16,626
Groups of municipalities	9,060	107	163		9,330	9,601
Public sector entities :						
- health	6,077				6,077	6,168
- social housing	1,698				1,698	1,795
- others	944		7		951	998
Credits institutions	3,993				3,993	4,381
<b>Subtotal</b>	<b>45,243</b>	<b>2,442</b>	<b>1,614</b>	<b>-</b>	<b>49,299</b>	<b>49,503</b>
<b>Germany</b>						
Länder		510		342	852	854
<b>Subtotal</b>		<b>510</b>		<b>342</b>	<b>852</b>	<b>854</b>
<b>Austria</b>						
Länder	197				197	199
<b>Subtotal</b>	<b>197</b>				<b>197</b>	<b>199</b>
<b>Belgium</b>						
Regions	37		53		90	114
Communities		50			50	50
Public sector entities	70				70	74
<b>Subtotal</b>	<b>107</b>	<b>50</b>	<b>53</b>		<b>210</b>	<b>238</b>
<b>Canada</b>						
Provinces		22			22	22
Communities	192				192	202
Public sector entities	129				129	129
<b>Subtotal</b>	<b>321</b>	<b>22</b>			<b>343</b>	<b>353</b>
<b>Spain</b>						
Regions		232			232	229
Municipalities	260				260	267
<b>Subtotal</b>	<b>260</b>	<b>232</b>			<b>492</b>	<b>496</b>
<b>United States</b>						
Federated States		253			253	253
<b>Subtotal</b>		<b>253</b>			<b>253</b>	<b>253</b>
<b>Finland</b>						
Municipalities	3				3	5
Public sector entities	42				42	42
<b>Subtotal</b>	<b>45</b>				<b>45</b>	<b>47</b>



EUR millions	9/30/2014				12/31/2013	
	Direct exposure		Indirect exposure		Total	Total
PAYS	Loans	Bonds	Loans	Bonds		
<b>Italy</b>						
State		581			581	580
Regions		3,008			3,008	3,051
Provinces		674			674	717
Municipalities	11	2,257			2,268	2,351
<b>Subtotal</b>	<b>11</b>	<b>6,520</b>		<b>-</b>	<b>6,531</b>	<b>6,699</b>
<b>Japan</b>						
Municipalities		25			25	25
<b>Subtotal</b>		<b>25</b>			<b>25</b>	<b>25</b>
<b>Portugal</b>						
Municipalities	53				53	58
Public sector entities	7				7	8
<b>Subtotal</b>	<b>60</b>				<b>60</b>	<b>66</b>
<b>United Kingdom</b>						
State				500	500	555
Counties			398		398	398
Districts			28		28	28
Municipalities			1,368		1,368	1,368
Public sector entities			56		56	56
<b>Subtotal</b>			<b>1,850</b>	<b>500</b>	<b>2,350</b>	<b>2,405</b>
<b>Sweden</b>						
Municipalities	23		22		45	55
Public sector entities					-	5
<b>Subtotal</b>	<b>23</b>		<b>22</b>		<b>45</b>	<b>60</b>
<b>Switzerland</b>						
Cantons	951		480		1,431	1,621
Municipalities	771				771	778
Public sector entities	91				91	91
<b>Subtotal</b>	<b>1,813</b>		<b>480</b>		<b>2,293</b>	<b>2,490</b>
<b>Supranational</b>						
International organizations	39				39	43
<b>Subtotal</b>	<b>39</b>				<b>39</b>	<b>43</b>
<b>TOTAL COVER POOL</b>	<b>48,119</b>	<b>10,054</b>	<b>4,019</b>	<b>842</b>	<b>63,034</b>	<b>63,731</b>

Loans and securities are off premium / discount. Exposures denominated in foreign currencies are recorded at their euro swapped value. Loans are presented net of specific provisions, and securities net of unrealized losses after accounting for hedges. In addition, Caisse Française de Financement Local recognizes collective and sector-based provisions.