



Activity Report
Caisse Française de Financement Local
As of March 2014

1. 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. It plays a key role in the French State's new organization of local government financing and funding for public hospitals in France.

Sfil's 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 Caisse des Dépôts et Consignations and an indirect shareholder of La Banque Postale.

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. The three missions of Sfil are the following.

- Sfil is the servicer of Caisse Française de Financement Local, and within this framework, in particular conducts comprehensive operational management for the Company and provides Caisse Française de Financement Local with the non-privileged funding and derivatives its activity requires.
- 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 the joint venture La Banque Postale Collectivités Locales in 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 operations booked prior to the date of sale. It contributes for 35% to the needs created by new business originated by La Banque Postale, versus 65% by La Banque Postale.

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. 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, 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 will 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 assets 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) 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 and meet the new CRR / CRD IV standards.

In addition, Caisse Française de Financement Local supports the Covered Bond Label Initiative, and has received the certification label for all its *obligations foncières* issued on the basis of its cover pool.

To meet Label requirements, Caisse Française de Financement Local has committed to increase the transparency of its communication to investors. All information on Caisse Française de Financement Local issues and its cover pool is now posted on the Covered Bond Label site.

1.3 – RATINGS OF 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 conform to the criteria and approaches of the three agencies.

The credit quality of the covered bonds of Caisse Française de Financement Local is reflected in its three Step 1 ratings.

Standard & Poor's and Fitch consider that there is a ceiling on the rating of Caisse Française de Financement Local with regard to the 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 of the *obligations foncières* issued by Caisse Française de Financement Local did not change during the quarter and was as follows at the beginning of June 2014:

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

These ratings were qualified with a stable outlook.

The minimum over-collateralization currently associated with these ratings is, respectively, 2%, 4.5% and 5% for the three agencies.

2. Highlights of 2014

2.1 – THE COVERED BOND MARKET

In the first quarter of 2014, activity in the EUR benchmark market was sustained, in particular in January and March, with some 50 transactions for EUR 39 billion, up 27% from the first quarter in 2013. After accounting for reimbursements, the market presented a negative net offer of EUR 6 billion, and this amount could increase during the rest of 2014, supported by more than EUR 100 billion of redemption. In terms of geographic distribution, France remained the largest market to issue covered bonds, followed by Germany and Italy. Most issues in the quarter were for five years (45% of the flows). Subscription rates were satisfactory, in spite of the level of interest rates and of spreads. The performance of the spreads in the secondary market for these new issues was limited for core issuers. They were, however, significant for new peripheral issues that could be seen in the last quarter for long maturities (Italy, 10 years).

This development enabled Caisse Française de Financement Local to open the primary market at the beginning of January by launching a ten-year benchmark in the amount of EUR 1 billion. In addition to this public sector issue, Caisse Française de Financement Local benefited from the dynamic investor interest in maturities of more than 15 years to negotiate private placements for an amount of EUR 500 million.

2.2 – LITIGATION AND GOVERNMENTAL MEASURES

Certain customers have sued Dexia Credit Local, Caisse Française de Financement Local and/or Société de Financement Local for sensitive structured loans that were granted by Dexia Credit Local and which are on the balance sheet of Caisse Française de Financement Local. At the end of March 2014, the number of customers who had undertaken legal proceedings totaled 206 versus 205 at the end of 2013.

Three legal decisions concerning the suit brought against Dexia Credit Local by the Département de la Seine-Saint-Denis 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. 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. 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 decisions concerning the Département de la Seine-Saint-Denis were made public in February 2013, three new decisions have been handed down : on March 7, 2014, May 30, 2014 and June 6, 2014, by the Tribunal de Grande Instance of Nanterre, in the suit the municipalities of Saint-Maur-des-Fossés and Saint-Leu-La-Forêt brought against Dexia Credit Local (and Caisse Française de Financement Local, which had decided to intervene 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 79 million. As in the February 2013 decisions, the Tribunal’s decision did not address the core issue (structured interest rates), but it was motivated by the formal absence in 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. The March 7, 2014 decision has been appealed and the most recent decisions may be appealed.

In compliance with the commitments in its press releases dated June 18 and July 16, 2013, the French government set up a system designed to provide a comprehensive, long-lasting solution to the problem of the most sensitive structured loans contracted by local governments. The French government’s plan comprises two main elements:

- 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 in the course of implementation 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 functions as described in the decree of application published in the May 2, 2014, edition of the Journal Officiel:

- Eligible customers: local governments and groups of such holding the most sensitive loans;
- Use of the aid received by local governments: refinancing of a part of the early reimbursement indemnity (option preferred), or in an initial phase and for a limited time, financing a part of the interest on the loan in question;
- Renunciation by the entities that benefit from the fund of current or future litigation on the loans benefiting from the fund;
- Management of the fund ensured by the State, with a committee of orientation and supervision

bringing together representatives of the State, local governments and qualified individuals;

- The funds come half from the banks and half from the State.

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, well as to the arrangements for public hospitals for a total amount of EUR 18 million.

New legislative provisions targeting a legal basis to secure loan agreements in effect with local governments were specified, which take into account the decisions handed down by the Conseil constitutionnel at the end of December 2013. The new text was approved by the Council of Ministers on April 23, 2014, and adopted by the Senate on May 13, 2014. It will be presented to the vote of the National Assembly before the summer.

To close its accounts for 2013, Caisse Française de Financement Local worked on the hypothesis that these measures would be voted and applied in 2014.

2.3 – CHANGES IN THE REGULATION OF COVERED BONDS IN FRANCE

The Minister of Finances conducted a project designed to adapt the regulatory framework of *sociétés de crédit foncier* (SCF) and *sociétés de financement de l'habitat* (SFH) in an attempt 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 level of minimum over-collateralization from 2% to 5%;
- limiting the exposure of an SCF or SFH to its parent company by modifying the modalities by which the cover ratio and the liquidity coefficient are calculated;
- imposing greater congruence between asset/liability maturities with the introduction of an annual cover plan and the maintenance of a weighted average life of eligible assets, considered as the minimum amount required to satisfy the cover ratio of 5%, not exceeding by more than 18 months that 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 eventually the use of securitizations.

These measures, published in the Journal Officiel, take effect as from May 26, 2014.

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

2.4 – PUBLICATIONS IN 2014

As of 2014, Caisse Française de Financement Local publishes annual and half-year financial statements as well as an unaudited activity report for the first and third quarters. This quarterly report does not, therefore, present the financial statements of the first quarter of 2014.

3. Changes in main balance sheet items

EUR billions - value after swaps	12/31/2012	12/31/2013	3/31/2014	Change Mar. 2014 / Dec. 2013
Cover pool	69.2	63.7	61.7	(3.1)%
Loans	51.7	53.2	52.8	(0.8)%
Securities	15.1	9.0	8.9	(1.1)%
Central bank	2.4	1.5	0.1	(93.3)%
Assets assigned in guarantee to Banque de France	-	-	-	-
Privileged debt	59.7	55.3	53.9	(2.7)%
<i>Obligations foncières *</i>	56.2	52.8	51.5	(2.5)%
Cash collateral received	3.5	2.5	2.4	(5.3)%
Non-privileged debt	7.6	6.8	6.4	(6.7)%
Parent company	7.6	6.8	6.4	(6.7)%
Banque de France	-	-	-	-
Equity IFRS (excluding unrealized gains and losses)**	1.5	1.5	1.5	0.0%

*Including registered covered bonds

** Equity as of March 2014 does not include the net income of the quarter

As of March 31, 2014, Caisse Française de Financement Local's cover pool, composed of loans, debt securities and cash (temporary cash surplus) totaled EUR 61.7 billion, excluding accrued interest not yet due. As of December 31, 2013, the total was EUR 63.7 billion; the decrease was therefore EUR 2.0 billion (-3.2%).

As of March 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 53.9 billion, including cash collateral received, down 2.7% from December 2013.

Debt vis-à-vis the parent company totaled EUR 6.4 billion. This amount corresponds to the financing of both structural (commitment of Caisse Française de Financement Local and requirements of the rating agencies) and complementary (including assets waiting to be refinanced by *obligations foncières*) over-collateralization, and does not benefit from the legal privilege.

4. Cover pool

4.1 – CHANGE IN ASSETS IN 2014

The net change in the cover pool as of March 31, 2014, corresponds to a decrease in assets in the amount of EUR 2.0 billion. This change is explained by the following items.

(EUR billions)	Q1 2014	
1- Amortization of portfolio of loans and securities		-1.1
2- Acquisition of loans to La Banque Postale		0.5
Loans to the French public sector (vanilla loans in euros)	0.5	
3- Reduction of loan sensitivity		0.1
Sensitive structured loans removed	-0.1	
Refinancing loans (vanilla loans in euros)	0.1	
New loans (vanilla loans in euros)	0.1	
4- Other changes		-1.5
Change in Banque de France cash deposit	-1.4	
Other loans to the French public sector	0.0	
Early reimbursements	0.0	
Divestments	-0.1	
Impairment and currency adjustment	0.0	
Net change in the cover pool		-2.0

The natural amortization of the portfolio of loans and securities represented EUR 1.1 billion in the

first quarter of 2014.

For EUR 0.5 billion, Caisse Française de Financement Local acquired French local public sector loans originated by La Banque Postale.

The operations conducted within the framework of the reduction of loan sensitivity since the beginning of 2013 made it possible to decrease outstanding loans considered as sensitive by EUR 0.1 billion in the first quarter of 2014 by substituting fixed rate loans in their place. They were accompanied by new fixed rate loans in the amount of EUR 0.1 billion. After accounting for the amortization of the loans considered as sensitive in the first quarter of 2014 in the amount of EUR 0.1 billion, outstanding loans considered as sensitive diminished by EUR 0.2 billion in the first quarter of 2014.

The other changes in assets mainly corresponded to the decrease in the Banque de France account for EUR 1.4 billion.

4.2 – OUTSTANDING ASSETS AS OF MARCH 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.

EUR billions	12/31/2013	3/31/2014
Loans and bonds to the public sector	57.8	57.4
Funds available on the Banque de France account	1.5	0.1
Replacement assets	4.4	4.2
Total	63.7	61.7

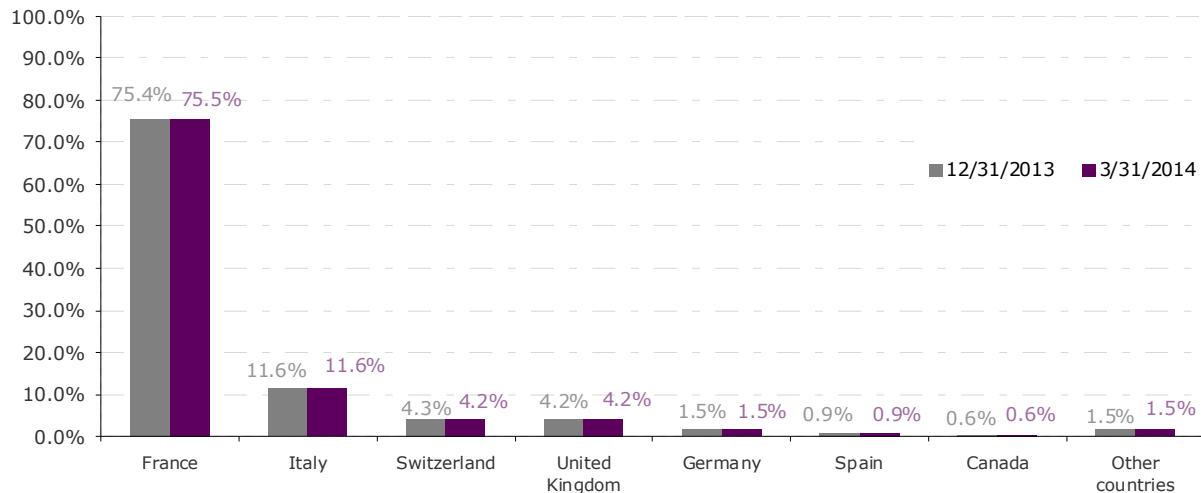
Surplus cash is deposited in an account opened by Caisse Française de Financement Local at the Banque de France.

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

1. Geographic breakdown

French assets are predominant in the cover pool (more than 75%), and 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 extinction.

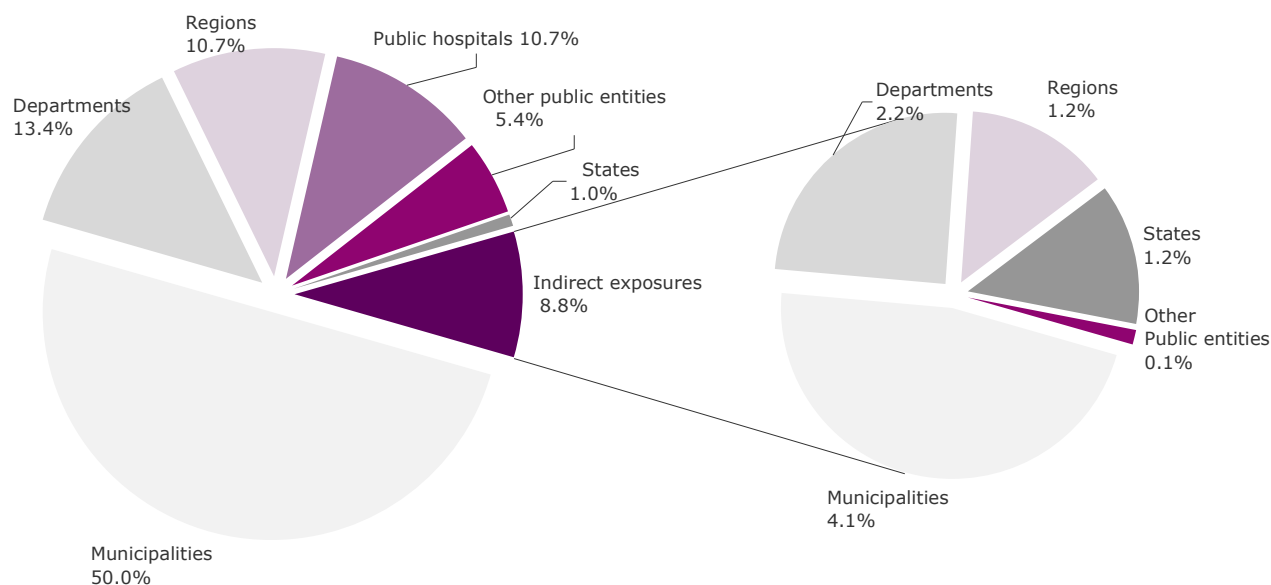
The relative proportion of the total assets can be broken down as follows:



Exposures on Other countries are broken down by country in the section Bonds and public sector loans as of March 31, 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 more than 80% of direct 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 and 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	3/31/2014	in % of the cover pool
France*	AA/Aa1/AA+	147	142	0.2%
United Kingdom	AAA/Aa1/AA+	555	537	0.9%
Italy	BBB/Baa2/BBB+	580	582	0.9%
TOTAL		1,282	1,261	2.0%

*Excluding the Banque de France sight account

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

Caisse Française de Financement Local has limited exposure on sovereign countries. Most of these exposures are concentrated on countries benefiting from very good ratings as of March 31, 2014, and which guaranteed these loans. No new sovereign exposure was acquired in 2014.

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.

As of March 31, 2014, the replacement assets of Caisse Française de Financement Local were comprised of long term loans to Société de Financement Local, then 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 7.8% of the privileged debt (*obligations foncières* and registered covered bonds) of Caisse Française de Financement Local.

Replacement assets	Country	Issuer	EUR millions	
			12/31/2013	3/31/2014
Step 1 credit rating				
Loans to sponsor bank	France	Société de Financement Local	4,363	4,186
Step 2 credit rating				
Bank account balances	Other	Other	18	11
TOTAL			4,381	4,197

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. In steering its cover pool and its level of over-collateralization, Caisse Française de Financement Local may also remove certain assets from the cover pool and assign them in guarantee to the central bank in order to obtain funding through tenders organized by the Banque de France. As of March 31, 2014, Caisse Française de Financement Local mobilized no assets with the Banque de France.

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 Interior¹. This document was signed on December 7, 2009, by several organizations that are representative of 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 March 2014 represented EUR 13.1 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 7.4 billion at the end of March 2014 compared with EUR 7.6 billion at the end of 2013.

The EUR 0.2 billion decrease in these outstanding loans was due for EUR 0.1 billion to concentrated efforts to reduce the sensitivity of the outstanding amount and for EUR 0.1 billion the contractual amortization of these loans.

EUR billions	Amount 12/31/2013	Amount 3/31/2014	% cover pool	Number of clients
Total cover pool	63.7	61.7		
French public sector loans	42.9	42.5	68.9%	18,141
Sensitive loans not in the charter	3.7	3.6	5.9%	395
Sensitive loans (3E/4E/5E)	3.9	3.8	6.1%	433
Other structured loans	6.0	5.7	9.3%	1,359
Vanilla loans	29.3	29.4	47.7%	15,954

¹ http://www.interieur.gouv.fr/content/download/3021/30417/file/Charte_de_bonne_conduite_entre_les_etablissements_bancaires_et_les_collectivites_territoriales.pdf

The most sensitive structured loans (loans not in the charter) represented 5.9% of the cover pool and 395 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	78
Municipalities with more than 10,000 inhabitants and groups of municipalities	1.9	225
Regions and departments	0.8	26
Public hospitals	0.5	51
Other clients	0.1	15
TOTAL	3.6	395

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 to investors in the form of new funding at the market price or refinancing of early reimbursement indemnities at cost.

5. Debt benefiting from the legal privilege as of March 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	3/31/2014
Cash collateral received	2.5	2.4
<i>Obligations foncières</i> and registered covered bonds	52.8	51.5
Total	55.3	53.9

5.1 – CASH COLLATERAL IN 2014

Cash collateral received by Caisse Française de Financement Local totaled EUR 2.4 billion at the end of March 2014, down 5% (EUR 0.1 billion) compared with the situation at the end of December 2013.

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.

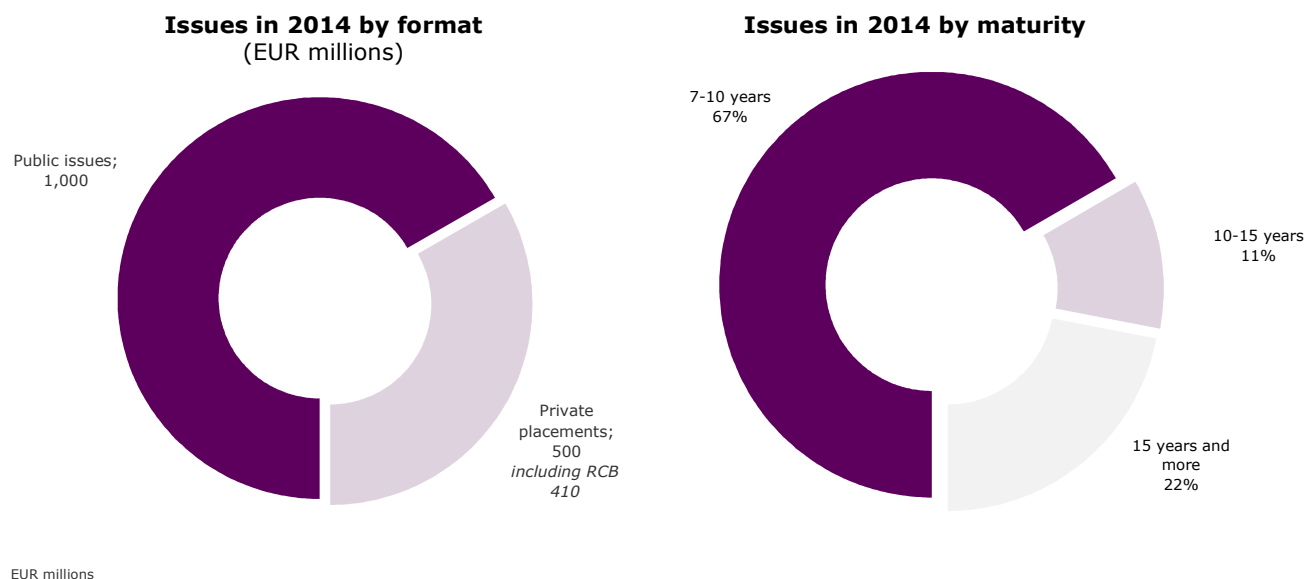
Private placements during the year partially took the form of registered covered bonds, a variety of private placement designed for German investors. This issuance format makes it possible to meet the specific needs of certain investors rapidly and flexibly.

a. New issues in 2014

Caisse Française de Financement Local opened the primary market at the beginning of January by launching a ten-year, EUR 1 billion benchmark. In addition to this public issue, Caisse Française de

Financement Local benefited from the dynamic investor interest in maturities of more than 15 years to negotiate private placements for an amount of EUR 500 million.

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

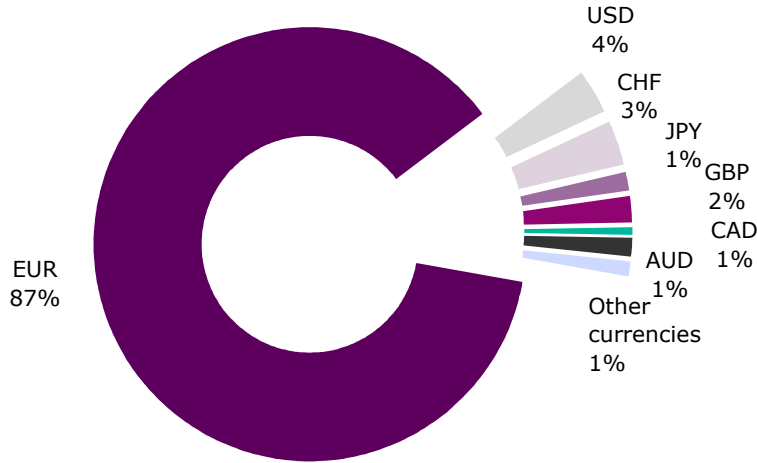


b. Outstanding debt as of March 2014

Outstanding *obligations foncières* and registered covered bonds totaled EUR 51.5 billion in swapped value at the end of March 2014, including the new *obligations foncières* for EUR 1.5 billion and the amortization of issues arriving at maturity for EUR 2.6 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 millions - Swapped value	2013	2014 YTD
Beginning of the year	56,216	52,795
Issues	3,059	1,500
Amortizations	(6,056)	(2,607)
Buyback	(424)	(238)
TOTAL	52,795	51,450

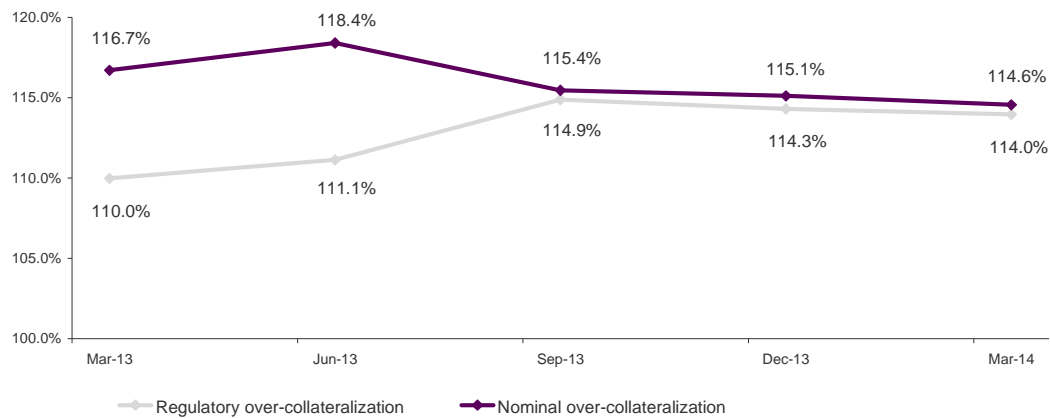
As of March 31, 2014, issues can be broken down by currency as follows.



6. Changes in the over-collateralization ratio in 2014

The over-collateralization 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. The Over-collateralization ratio should be higher than 102% until changes in the regulation of covered bonds in France come into force (cf. Highlights 2.3).

Caisse Française de Financement Local decided to maintain a minimum regulatory over-collateralization ratio of 105%. 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. 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.

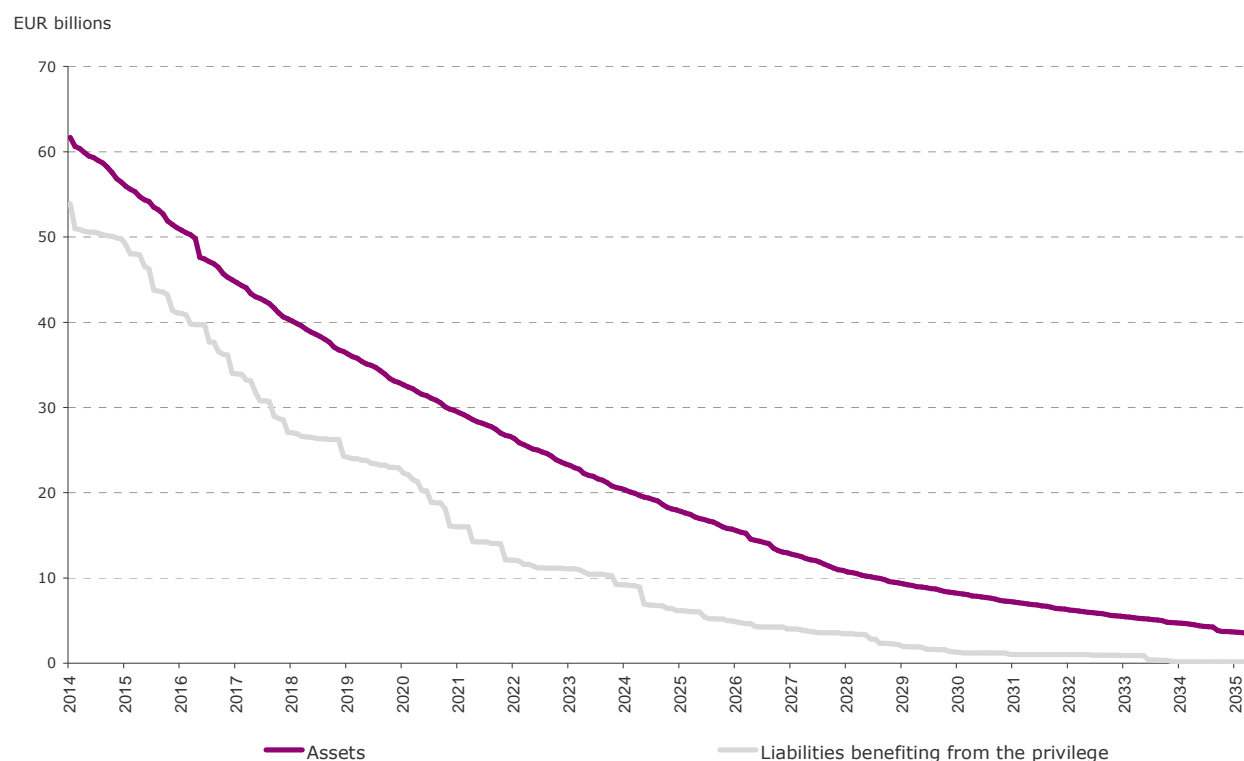


Regulatory over-collateralization is less than nominal over-collateralization because it is calculated on the basis of the rules determined by the Autorité de contrôle prudentiel et de résolution (ACPR). In particular, these rules require different weighting levels according to the assets. The assets 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.

The modalities by which the regulatory cover ratio is calculated are modified by the effective application of the changes in regulations (see Highlights 2.3). These changes will raise too the level of over-collateralization to 5% compared with 2% today. Caisse Française de Financement Local is able to respect this limitation.

The following graph on over-collateralization presents amortization curves of the assets and the issues benefiting from the legal privilege as of March 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*.

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

At the end of March 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.

As of March 2014, Caisse Française de Financement Local had not borrowed any funds from the Banque de France or from any banking institution 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	3/31/14
Parent company	6.8	6.4
Banque de France	-	-
Total	6.8	6.4

The decrease in debt not benefiting from the legal privilege was due to the reduction of the size of the balance sheet compared with December 31, 2013 and to the level of nominal over-collateralization.

8. Risk management

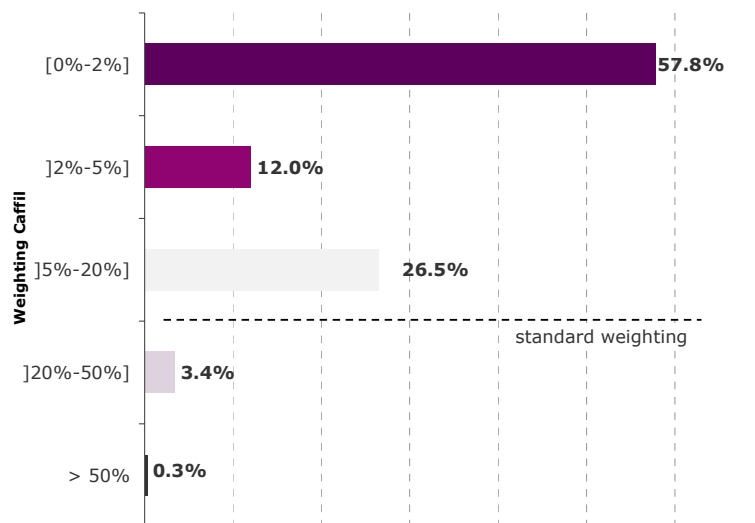
8.1 – CREDIT RISK

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 Group's 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 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 March 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 March 31, 2014



This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio, since only 3.7% of the portfolio has a weighting of more than 20%.

The average weighting of the cover pool risk is 7%, 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 solvency ratio Basel III of 21% as of March 31, 2014 compared to a solvency ratio Basel II of 28% as of December 2013.

b. Concentration by customer

As of March 31, 2014, the 20 largest exposures (excluding replacement assets and cash accounts) represented 14.6% of the cover pool, versus 14.4% as of December 31, 2013.

The largest exposure accounted for only 1.6% of the cover pool and the twentieth exposure less than 0.4%.

c. Non-performing loans, litigious loans, provisions – reminder of the situation as of December 31, 2013

Since Caisse Française de Financement Local did not present its financial statements as of March 31, 2014, the following data published as of December 31, 2013, is herein recalled.

Non-performing and litigious loans at the end of December 2013 totaled EUR 254 million, representing approximately 0.4% of the total cover pool (EUR 63.7 billion). They can be broken down as follows:

- EUR 188 million of loans qualified as non-performing corresponding to customers whose total unpaid commitments had not been repaid in the amount of EUR 10.4 million;
- and EUR 66 million of loans qualified as litigious corresponding to unpaid interest on structured loans subject to a legal dispute.

Specific provisions for non-performing loans totaled EUR 14 million at the end of December 2013. In addition, the collective impairment decided to hedge the credit risk on the whole portfolio was strengthened and rose to EUR 70 million at the end of 2013.

Caisse Française de Financement Local participates in the Asset Quality Review (AQR) conducted by the European Central Bank (ECB) and national regulators. Their job is to analyze the quality of the assets on the balance sheets of European credit institutions prior to the introduction of the Single Supervisory Mechanism by the ECB.

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 4.2 billion (cf. 5.4.b);
- bank account balances in euros and other currencies, representing EUR 11 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 AFB 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 March 31, 2014, Caisse Française de Financement Local was exposed (positive fair value of the swaps) on 14 banking counterparties. Thirteen of these paid collateral for EUR 2.4 billion, offsetting total exposure, and one paid no collateral because of its very good short-term ratings. This counterparty represented an exposure of EUR 44.8 million. All derivative exposures as of March 31, 2014, are listed below.

EUR billions	ST notional amounts	LT notional amounts	%LT notional amounts	Mark to Market		Collateral received	Number of counterparties
				-	+		
SFIL	4.0	18.8	18.9%	(3.0)	-	-	1
Other counterparties	43.6	80.5	81.1%	(3.8)	2.4	2.4	28
Total	47.6	99.3	100.0%	(6.8)	2.4	2.4	29

The swaps negotiated with external counterparties represented 81.1% of outstanding long-term swaps and those signed with Société de Financement Local 18.9%. Long-term swaps signed with the five largest counterparties represented a total of 31.3% of notional amounts.

Short-term swaps (Eonia) were principally contracted with external counterparties (91.6%).

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 re-fixing 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.

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 are fully parts of management of Euribor/Eonia macro-hedging . 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 at the end of the first quarter. This general sensitivity limit is unchanged to 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 real sensitivity is maintained significantly below this limit, as can be seen in the following table.

		Average	Maximum	Minimum	Limit
Fixed Rate	2Q 2013	15.6	16.5	14.4	31.0
	3Q 2013	16.0	19.7	14.1	31.0
	4Q 2013	12.2	16.5	3.2	31.0
	1Q 2014	13.4	13.5	13.1	31.0
Monetary	2Q 2013	(0.1)	1.4	(1.1)	9.0
	3Q 2013	1.5	1.7	1.3	9.0
	4Q 2013	(0.3)	2.9	(4.7)	9.0
	1Q 2014	0.8	1.0	0.5	9.0
Total	2Q 2013	15.5	16.8	14.2	40.0
	3Q 2013	17.5	21.1	15.9	40.0
	4Q 2013	11.9	19.5	(1.5)	40.0
	1Q 2014	14.2	14.5	13.6	40.0

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 March 31, 2014.

Breakdown of outstanding swaps	Notional * (EUR billions)	Sfil (%)	Other counterparties (%)
Euribor against Eonia			
Macro-hedges	47.6	8.4%	91.6%
Total short-term swaps	47.6	8.4%	91.6%
Fixed rate swaps against Euribor			
Micro-hedges on <i>obligations foncières</i>	44.9	8.6%	91.4%
Micro-hedges on loans and debt securities	23.8	10.5%	89.5%
Macro-hedges on loans	19.9	36.8%	63.2%
Subtotal	88.6	15.4%	84.6%
Currency swaps			
Micro-hedges on <i>obligations foncières</i>	6.8	48.8%	51.2%
Micro-hedges on loans	2.8	61.3%	38.7%
Micro-hedges on debt securities	1.1	62.8%	37.2%
Subtotal	10.7	47.5%	52.5%
Total long-term swaps	99.3	18.9%	81.1%

* Absolute value

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

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 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	3/31/2013	6/30/2013	9/30/2013	12/31/2013	3/31/2014
Cover pool	7.31	7.47	7.44	7.11	6.99	7.24
Privileged liabilities	4.94	5.00	4.96	5.02	4.91	5.17
Gap in asset-liability duration	2.37	2.47	2.48	2.09	2.08	2.07
<i>Duration gap limit</i>	3	3	3	3	3	3

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	3/31/2013	6/30/2013	9/30/2013	12/31/2013	3/31/2014
Cover pool	8.38	8.56	8.61	8.32	8.23	8.34
Privileged liabilities	5.25	5.33	5.32	5.45	5.36	5.58
Gap in asset-liability weighted average life	3.13	3.23	3.29	2.87	2.87	2.76

d. Liquidity risk

The liquidity risk can be defined as the risk that Caisse Française de Financement Local may not be able to settle its 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;
- 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).

Since January 31, 2013, this debt is contracted with Société de Financement Local through a financing agreement between Caisse Française de Financement Local and its new parent company.

- pledges of assets 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.

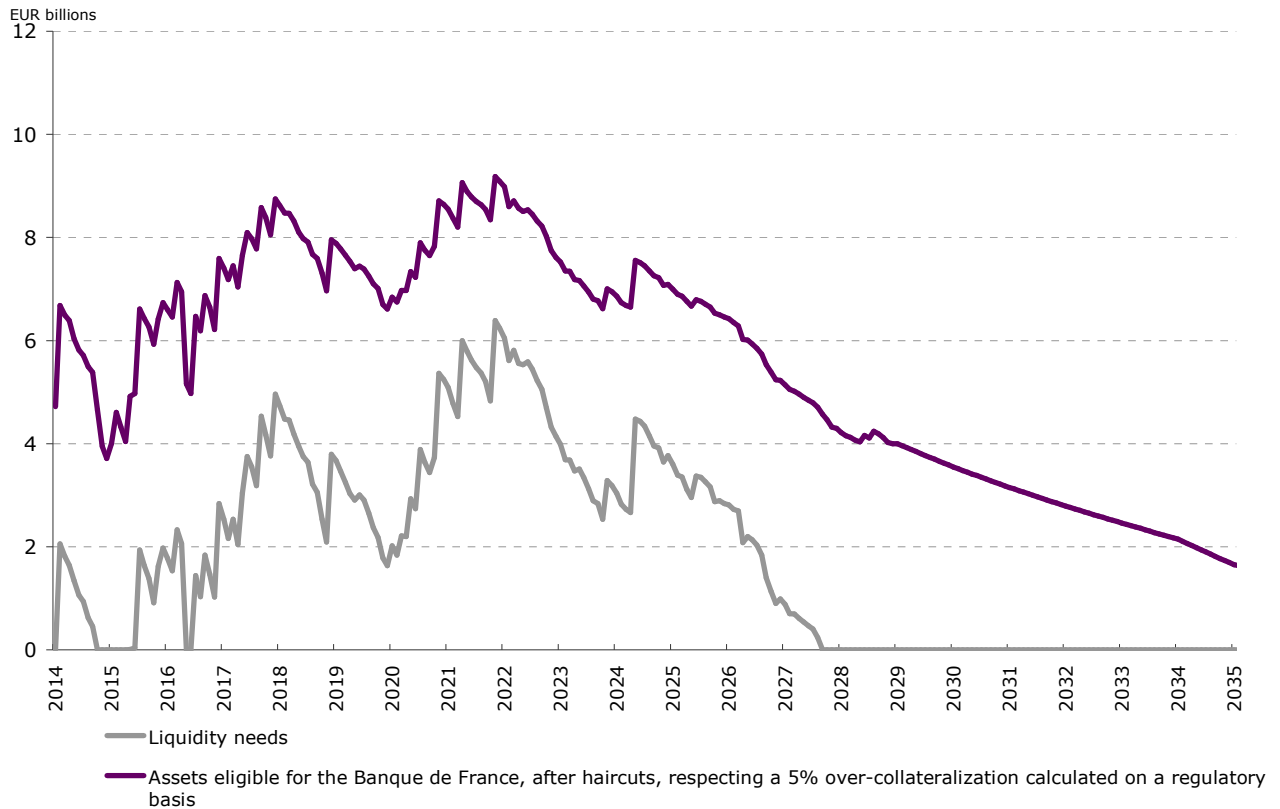
Since it is a credit institution, Caisse Française de Financement Local can post these eligible assets:

- 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).

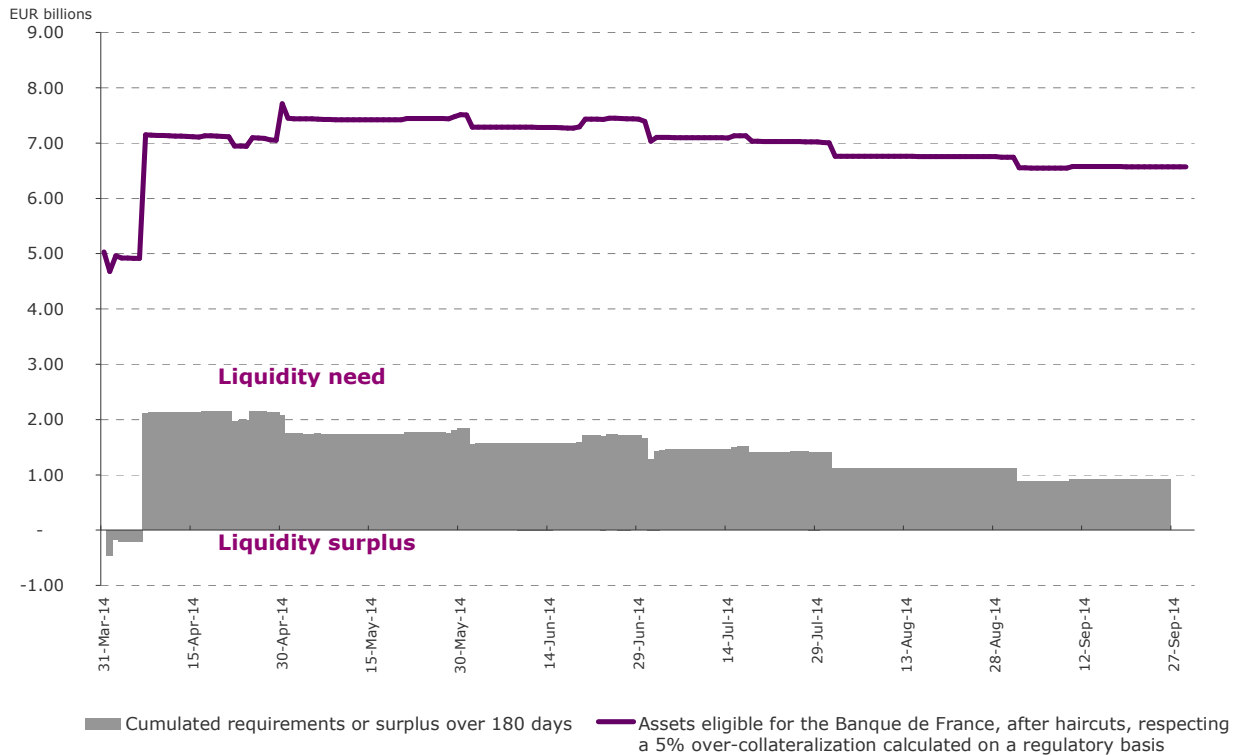
The maximum cumulated liquidity that Caisse Française de Financement Local might need in the future, in a run-off situation, is less than the financing already occasionally negotiated in the past. This need is less than Caisse Française de Financement Local's capacity to obtain refinancing from the Banque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

The forecast of liquidity needs, as defined above, and of available assets 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;
- 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, by assets eligible for refinancing by the Banque de France, or by liquidity agreements signed with credit institutions with the best short-term credit rating. This forecast is published quarterly in the Asset Quality Report and is presented below.



The need for liquidity that appears at a week's distance corresponds to the very conservative hypothesis of total reimbursement of the cash collateral received (EUR 2.4 billion), after deduction of available cash, i.e. EUR 0.1 billion. The other fluctuations correspond to cash flows from the amortization of *obligations foncières* and from assets.

9. Outlook for 2014

The first year of business was a success for the new organization of French public sector financing around Caisse Française de Financement Local. The second year also looks promising for Caisse Française de Financement Local as it pursues its acquisition of loans marketed by La Banque Postale, and implements its strategy to reduce the sensitivity of outstanding structured loans.

The launch in January 2014 of a benchmark issue with a maturity of ten years in the amount of EUR 1 billion, followed by the addition in April 2014 of EUR 500 million to the 15-year issue launched in September 2013, enabled Caisse Française de Financement Local to get its 2014 financing program off to a good start.

Caisse Française de Financement Local plans to issue an amount of *obligations foncières* of up to EUR 4 billion or more for 2014. The general volume of issues will mainly be made up of euro-denominated public sector issues, making it possible to complete the euro benchmark curve of Caisse Française de Financement Local. It is also expected to include a large percentage of long-term private placements in order to respond to specific investor demand.

Bonds and public sector loans as of March 31, 2014

EUR millions	3/31/2014				12/31/2013	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
France						
State			142		142	147
Banque de France	101				101	1,471
Regions	1,722	119	287		2,128	2,160
Departments	6,003		292		6,295	6,156
Municipalities	15,572	102	709		16,383	16,626
Groups of municipalities	9,203	107	231		9,541	9,601
Public sector entities:						
- health	6,132				6,132	6,168
- social housing	1,757				1,757	1,795
- others	965		8		973	998
Credit institutions	4,197				4,197	4,381
Subtotal	45,652	328	1,669	-	47,649	49,503
Germany						
Länder		508		342	850	854
Subtotal		508		342	850	854
Austria						
Länder	198				198	199
Subtotal	198				198	199
Belgium						
Regions	55		59		114	114
Communities		50			50	50
Public sector entities	72				72	74
Subtotal	127	50	59		236	238
Canada						
Provinces		22			22	22
Communities	202				202	202
Public sector entities	129				129	129
Subtotal	331	22			353	353
Spain						
Regions		231			231	229
Municipalities	267				267	267
Subtotal	267	231			498	496
United States						
Federated States		253			253	253
Subtotal		253			253	253
Finland						
Municipalities	5				5	5
Public sector entities	42				42	42
Subtotal	47				47	47

EUR millions	3/31/2014				12/31/2013	
	Direct exposure		Indirect exposure		Total	Total
PAYS	Loans	Bonds	Loans	Bonds		
Italy						
State		582			582	580
Regions		3,049			3,049	3,051
Provinces		711			711	717
Municipalities	12	2,315			2,327	2,351
Subtotal	12	6,657		-	6,669	6,699
Japan						
Municipalities		25			25	25
Subtotal		25			25	25
Portugal						
Municipalities	58				58	58
Public sector entities	8				8	8
Subtotal	66				66	66
United Kingdom						
State				537	537	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	537	2,387	2,405
Sweden						
Municipalities	28		27		55	55
Public sector entities	4				4	5
Subtotal	32		27		59	60
Switzerland						
Cantons	957		554		1,511	1,621
Municipalities	775				775	778
Public sector entities	91				91	91
Subtotal	1,823		554		2,377	2,490
Supranational						
International organizations	41				41	43
Subtotal	41				41	43
TOTAL COVER POOL	48,596	8,074	4,159	879	61,708	63,731

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.