



Activity Report
Caisse Française de Financement Local
as of March 31, 2015

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

1.1 – NATURE AND ACTIVITIES OF THE COMPANY

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

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

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

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

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

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

1.2 – SHAREHOLDING STRUCTURE OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

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

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

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

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

1.3 ECONOMIC MODEL OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

a. Servicing by SFIL

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

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

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

In addition, on January 31, 2013, SFIL signed a declaration of support of Caisse Française de Financement Local, which is reproduced in the 2014 annual financial report – General information.

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

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

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

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

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

- When the loan is originated, the initial analysis of the counterparty is carried out simultaneously at the two entities. The loans that do not meet the credit criteria of Caisse Française de Financement Local cannot be transferred to its balance sheet. Caisse Française de Financement Local's eligibility criteria are strictly monitored by internal management policies and limit eligible counterparties to French local public sector entities and public hospitals.
- Before the loans originated by La Banque Postale are transferred to Caisse Française de Financement Local, a new analysis of the assets is conducted, and Caisse Française de Financement Local may refuse a loan prior to the transfer if the asset no longer meets the criteria.

The sale of loans to Caisse Française de Financement Local is carried out by using a transfer form (*bordereau*) that is specific to *sociétés de crédit foncier*.

1.4 – 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.

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

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

The rating of SFIL is now set at the same level as France for S&P and one notch below France for Moody's and Fitch. These very good ratings have been attributed because the agencies consider SFIL as an entity that is linked to the French government. These take into account a strong probability of the State's extraordinary support if necessary because of the strategic importance of the missions of public service it was entrusted to, commitments of the State and the influence of this one on the governance of SFIL.

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

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

2. Highlights of the first quarter 2015 and post closing events

2.1 – THE COVERED BOND MARKET

In the first quarter of 2015, activity in the primary covered bond market for euro-denominated benchmark transactions remained dynamic with more than 50 transactions for a total of EUR 41 billion versus EUR 39 billion in the first quarter of 2014. The market was sustained by two major technical factors:

- the support provided by a negative net offering in the amount of EUR 5 billion for the quarter ;
- the continuation of the Eurosystem's third covered bonds purchase program (CBPP), and the indirect effects of the announcement and then of the launch of the Public Sector Purchase Program (PSPP), aiming to round out the range of non-conventional monetary policy instruments.

The significant reduction in spreads in the covered bond segment combined forces with the situation of low rates in Europe, the result of the European Central Bank's decision to adapt its monetary policy. Within such a context, investors tend to extend the duration of their assets, and they put 7 to 10 year maturities at the heart of the primary market.

In this dynamic market, Caisse Française de Financement Local accentuated its particular position by successfully launching a 20-year benchmark issue in the amount of EUR 500 million. In addition to this public issue, Caisse Française de Financement Local took advantage of investor demand for maturities of more than 15 years to negotiate private placements for EUR 505 million. The average maturity of the funds raised by Caisse Française de Financement Local in the first quarter was close to 20 years.

2.2 – EVENTS AFFECTING THE RATING OF OBLIGATIONS FONCIERES

The rating of the *obligations foncières* issued by Caisse Française de Financement Local was not altered in 2015. As of March 31, 2015, the ratings were as follows: AA+ by Standard and Poor's, Aaa by Moody's and AA by Fitch.

2.2 – LITIGATION RELATED TO STRUCTURED LOANS

In its portfolio, Caisse Française de Financement Local has structured loans considered as sensitive that were granted to French customers of Dexia Credit Local. Certain of these customers initiated legal proceedings against Dexia Credit Local, Caisse Française de Financement Local and/or SFIL to contest the contractual interest rate.

As of March 31, 2015, the number of customers who had brought suit totaled 203 as compared with 210 at the end of 2014.

Since the first legal decision handed down on February 8, 2013, by the Tribunal de Grande Instance (TGI) of Nanterre concerning the loans granted to the Département de la Seine-Saint-Denis, a limited number of cases have been decided in the initial court hearings. The decisions of the TGI did not address the core issue (validity of consent, failure to provide adequate information, advice and warning, etc.), but were motivated by the formal absence of the annual rate of charge (TEG) or of intermediary data used to calculate the annual rate of charge in the fax that had preceded the signing of the loan agreement. This factor led the TGI to decide to apply the official interest rate (*taux legal*) rather than the contractual rate for the loans in question. For these files, Dexia Credit Local and Caisse Française de Financement Local appealed.

However, since the law that created a legal basis to secure structured loan agreements subscribed by public entities took effect on July 30, 2014, the reasons linked to the annual rate of charge which had prompted these initial decisions can no longer be invoked. In the sole decision of the TGI since the law took effect, the customer was refused his demands across the board.

Moreover, in December 2014, the Département de la Seine-Saint-Denis promised to put an end to these proceedings through a protocol agreement that made it possible to eliminate all sensitivity from its debt.

The creation of the two support funds by the government should lead to a significant reduction in the number of law suits by enabling local governments and public hospitals to finance the cost of disengaging themselves from their structured loans. The French government, which wishes to find a comprehensive and permanent solution to this problem, insisted on the need to put a definitive end to sensitive structured contracts and called on local governments to submit a request for assistance from the support funds as soon as possible. The deadline to apply for such assistance was set at April 30, 2015; at the date of this report, the exact number of local governments eligible to the fund which submitted a file before the due date is not known, but there is no doubt that a large proportion of Caisse Française de Financement Local's clients applied.

The capacity for intervention of these funds was massively increased in the first quarter of 2015 in order to cover the additional cost linked to the appreciation of the Swiss franc so that the early reimbursement penalties for which the concerned customers were still responsible, after assistance from the funds, would not be greater than it would have been without the decision of the Swiss National Bank (SNB) in January 2015. The fund earmarked for local governments now totals EUR 3.0 billion and the one for public hospitals EUR 400 million. Likewise, the ceiling of the assistance made available (initially set at 45% of indemnities due) will be significantly raised for the most fragile local governments.

Caisse Française de Financement Local, which made a voluntary contribution to the local government support fund in the amount of EUR 150 million and to the hospital support fund for EUR 18 million, did not book any provision in its 2014 financial statements for a potential supplemental contribution linked to the increase of the total funds (given the uncertainty as to the very existence of such a contribution, its features and possible amount).

As a reminder, to prepare its 2014 financial statements, Caisse Française de Financement Local took into account the effects of the decision of the SNB and the hypothesis that the solution announced by the government (in particular, strengthening the funds' intervention capacity and pushing up the ceiling for assistance to the most vulnerable local governments) would in fact rapidly be made available so that the support funds would remain at least as attractive as before the SNB decision for local governments holding loans indexed on the EUR/CHF exchange rate.

To prepare its financial statements for 2013, Caisse Française de Financement Local had worked on the hypothesis that the comprehensive arrangements to solve the problem of structured loans proposed by the government and in particular the law that created a legal basis to secure structured loan contracts would be voted and implemented in 2014. The passing of the law specifying a legal basis to secure these loans on July 30, 2014, made it possible to reduce significantly residual legal risks and their financial impact, which was considered to be very minor at that closing date.

3. Changes in main balance sheet items

EUR billions - value after currency swaps	12/31/2013	12/31/2014	3/31/2015	Change Mar. 2015 / Dec. 2014
Cover pool	63.7	62.3	61.6	(1.2)%
Loans	53.2	51.6	50.1	(2.9)%
Securities	9.0	10.2	10.5	2.8%
Cash in central bank	1.5	0.5	1.0	90.0%
Assets assigned in guarantee to Banque de France	-	-	-	-
Privileged debt	55.3	54.6	54.3	(0.4)%
<i>Obligations foncières *</i>	52.8	52.2	52.1	(0.2)%
Cash collateral received	2.5	2.4	2.2	(6.0)%
Non-privileged debt	6.8	6.2	5.8	(7.2)%
Parent company	6.8	6.2	5.8	(7.2)%
Banque de France	-	-	-	-
Equity IFRS (excluding unrealized gains and losses)	1.5	1.5	1.5	0.0%

*Including registered covered bonds

Caisse Française de Financement Local's cover pool is composed of loans and debt securities; it also includes the temporary cash surplus, deposited at the Banque de France or invested in short-term French sovereign securities for a total amount of EUR 3.1 billion at the end of the first quarter 2015 versus EUR 2.1 billion as of the end of 2014.

As of March 31, 2015, the cover pool totaled EUR 61.6 billion, excluding accrued interest not yet due. As of December 31, 2014, the total was EUR 62.3 billion; the decrease was therefore EUR 0.7 billion (-1.2%).

At the quarter end, 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, including cash collateral received, was EUR 54.3 billion, which decreased (0.4%) in comparison with December 2014.

The debt contracted with the parent company totaled EUR 5.8 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 2015

The net change in the cover pool as of March 31, 2015, corresponded to a decrease in assets in the amount of EUR 0.7 billion. This change is explained by the following items.

(EUR billions)	1st quarter 2015	
1- Acquisition of loans to La Banque Postale		1.1
Loans to the French public sector (vanilla loans in euros)	1.1	
2- Reduction of loan sensitivity		0.1
Sensitive structured loans removed	-0.2	
Refinancing loans (vanilla loans in euros)	0.2	
New loans (vanilla loans in euros)	0.1	
3- Amortization of portfolio of loans and securities		-1.5
4- Early reimbursements		-1.4
5- Changes in treasury		1.0
Change in short maturity securities investments (French sovereign)	0.5	
Change in Banque de France cash deposit	0.5	
6- Other changes		0.0
Other loans to the French public sector	0.0	
Divestments	0.0	
Impairment and currency adjustment	0.0	
Net change in the cover pool		-0.7

In 2015, Caisse Française de Financement Local has so far acquired an amount of EUR 1.1 billion in loans to the French public sector originated by La Banque Postale.

The operations conducted in application of the policy of reduction of loan sensitivity since the beginning of 2015 made it possible to decrease outstanding loans considered as sensitive by EUR 0.2 billion by replacing them by fixed rate loans. They were accompanied by new fixed rate loans in the amount of EUR 0.1 billion. After accounting for their amortization, outstanding loans considered as sensitive diminished by EUR 0.3 billion in the first quarter of 2015.

The natural amortization of the portfolio of loans and securities represented EUR 1.5 billion in first quarter of 2015, and early reimbursements EUR 1.4 billion (mostly the reimbursement of a loan granted to SFIL recognized as a replacement asset).

The available cash deposited at the Banque de France or invested in short-term French sovereign securities increased by EUR 1.0 billion.

4.2 – OUTSTANDING ASSETS AS OF MARCH 31, 2015

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	12/31/2014	3/31/2015
Loans and bonds to the public sector	56.3	55.9
Treasury (sight accounts and short term investments)	2.1	3.1
Replacement assets	3.9	2.6
Total	62.3	61.6

Surplus cash is deposited in an account opened by Caisse Française de Financement Local at the Banque de France or invested in short-term French sovereign securities, respectively amounting to EUR 1.0 billion and EUR 2.1 billion as of March 31, 2015.

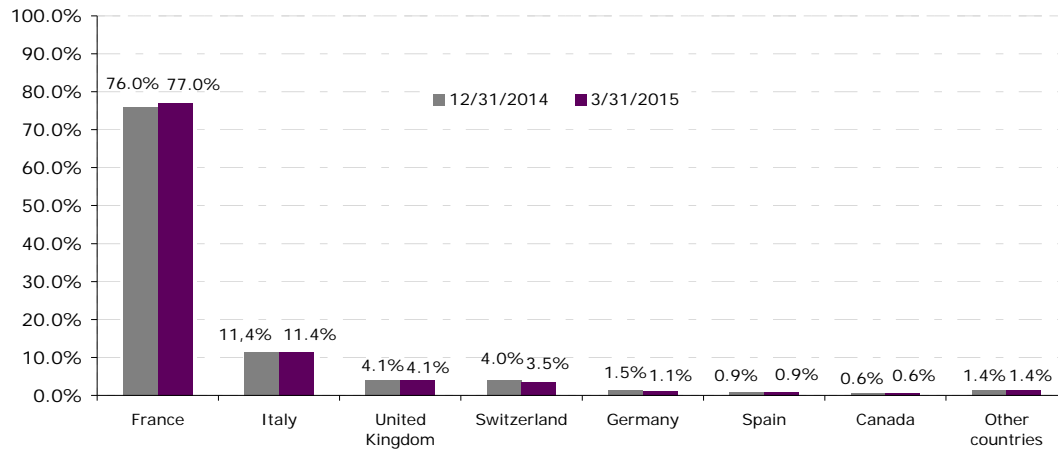
a. Public sector loans and securities (excluding replacement assets and cash investments)

1. Geographic breakdown

French assets are predominant in the cover pool (almost 77%), and their percentage is expected to rise in the future. Loans acquired through La Banque Postale since 2013 accounted for EUR 3.5 billion, representing 6.4% of public sector loans included in the cover pool.

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

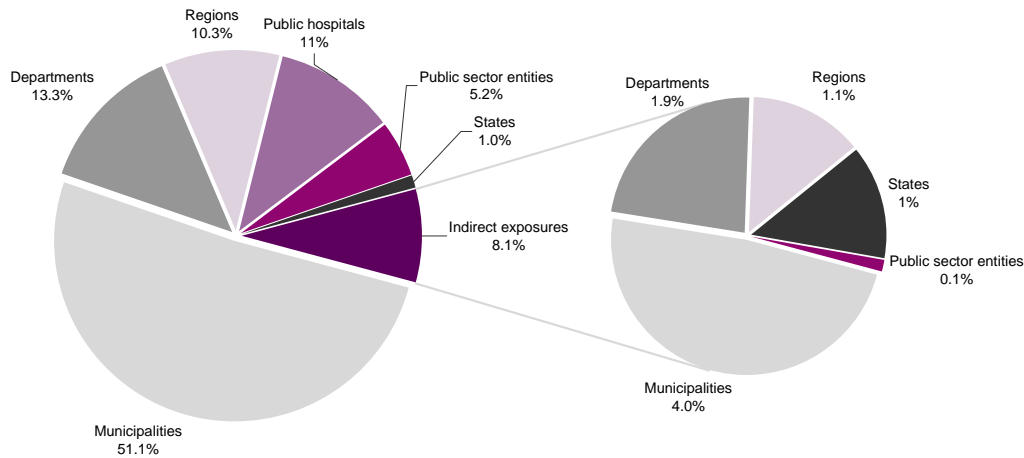
The relative proportion of the total assets can be broken down as follows.



Exposures to Other countries as of March 31, 2015, are broken down by country in the section Bonds and public sector loans, which is presented at the end of this activity 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

There are no securitization units in the cover pool of Caisse Française de Financement Local (since July 2013). Its *obligations foncières* respect the conditions of eligibility for refinancing by the European Central Bank and the new CRR / CRD IV requirements.

4. Exposures on sovereign countries

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

EUR millions	Ratings **	12/31/2014	3/31/2015	in % of the cover pool ***
France*	AA/Aa1/AA+	172	169	0.3%
United Kingdom	AAA/Aa1/AA+	481	462	0.8%
Italy	BBB/Baa2/BBB+	576	584	1.0%
TOTAL		1,229	1,215	2.1%

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

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

*** Excluding cash investments and replacement assets

Most of these exposures are concentrated on countries that benefit from very good ratings as of March 31, 2015, and which guarantee these loans.

b. Replacement assets

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

As of March 31, 2015, the replacement assets of Caisse Française de Financement Local were comprised of long-term loans to SFIL, which benefited from a Step 1 rating (rated AA by S&P, Aa2 by Moody's and AA- by Fitch), as well as bank account balances usually with a Step 2 rating. They represented 4.8% of the *obligations foncières* and registered covered bonds of Caisse Française de Financement Local.

Replacement assets	Country	Issuer	EUR millions	
			12/31/2014	3/31/2015
Step 1 credit rating				
Loans to sponsor bank	France	SFIL	3,912	2,617
Step 2 credit rating				
Bank account balances	Other	Other	14	8
TOTAL			3,926	2,625

c. Assets removed from the cover pool

Because of its status as a credit institution, Caisse Française de Financement Local has access to refinancing operations offered to banks by the Banque de France within the Eurosystem. In steering its cover pool and its over-collateralization or in order to meet the need for temporary liquidity, Caisse Française de Financement Local may thus convert a portion of its assets into cash. The loans or securities assigned in guarantee with the central bank in order to obtain financing on the occasion of tenders organized by the Banque de France are then removed from the cover pool and replaced by the cash thus obtained. The same treatment would be applied to the assets in the cover pool if they were mobilized in interbank repurchase agreements in the event of a need for liquidity.

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

d. 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 represent local governments in France (Association des maires de France, Fédération des maires des villes moyennes, Association des petites villes de France, Association des maires de grandes villes de France and Assemblée des communautés de France) as well as certain banks.

Therefore, structured loans are defined as:

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

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

2. Sensitive structured loans

In the first three months of 2015, outstanding non-structured loans increased by EUR 0.6 billion, and outstanding structured loans (as defined above) declined by EUR 0.5 billion.

EUR billions	12/31/2014	3/31/2015	% cover pool	Number of customers
Sensitive loans not in the charter	3.2	3.2	5.2%	373
Sensitive loans (3E/4E/5E)	3.1	2.8	4.5%	352
Subtotal sensitive loans	6.3	6.0	9.7%	725
Other structured loans	5.2	5.0	8.1%	1,360
Subtotal structured loans	11.5	11.0	17.8%	2,085
Vanilla loans	30.6	31.2	50.6%	15,253
French public sector loans	42.1	42.2	68.5%	17,338
Cover pool	62.3	61.6		

As of March 31, 2015, outstanding structured loans on the balance sheet of Caisse Française de Financement Local represented EUR 11 billion (versus EUR 11.5 billion at the end of 2014).

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. They benefit from support from funds set up by the French government in order to allow customers to convert sensitive loans into fixed rate vanilla loans. These loans represented a total of EUR 6 billion at the end of March 2015 compared with EUR 6.3 billion at the end of 2014. The EUR 0.3 billion decrease in these outstanding loans was due for EUR 0.2 billion to proactive efforts to reduce the sensitivity of the outstanding amount and for EUR 0.1 billion to the contractual amortization of these loans.

The most sensitive structured loans (loans not in the charter) represented 5.2% of the cover pool and 373 customers. In particular, this portfolio included loans indexed on the EUR/CHF exchange rate. These loans concern the following customer categories.

Sensitive loans not in the charter	Amounts EUR billions	Number of customers
Municipalities with fewer than 10,000 inhabitants	0.2	76
Municipalities with more than 10,000 inhabitants and groups of municipalities	1.8	213
Regions and departments	0.6	21
Public hospitals	0.5	48
Other clients	0.1	15
TOTAL	3.2	373

3. Reduction in loan sensitivity

The policy implemented by SFIL since 2013 to reduce the sensitivity of outstanding loans on the balance sheet of its subsidiary Caisse Française de Financement Local was carried out in accordance with the schemas validated by the Supervisory Board. The method used consists in reducing the sensitivity of loans definitively by converting them into fixed rate loans. To this end, Caisse Française de Financement Local may allocate if necessary new liquidity at cost for loans refinancing the early reimbursement indemnities and for new loans granted at market price.

These measures made it possible to eliminate entirely the sensitivity of outstanding loans to 178 since SFIL was created.

The two support funds created by the government and operational since the last quarter of 2014 should accelerate this process of reduction in loan sensitivity in 2015 by helping local governments and public hospitals to finance the cost of disengaging themselves from their structured loans.

The capacity for intervention of these funds was massively increased in the first quarter of 2015 in order to cover the additional cost linked to the appreciation of the Swiss franc so that the early reimbursement penalties for which the concerned customers were still responsible, after assistance from the funds, not be greater than it would have been without the decision of the Swiss National Bank in January 2015. The fund earmarked for local governments now totals EUR 3.0 billion and the one for public hospitals EUR 400 million. Likewise, the ceiling of the assistance made available (initially set at 45% of indemnities due) will be significantly raised for the most fragile governments.

5. Debt benefiting from the legal privilege as of March 31, 2015

As of March 2015, 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	12/31/2014	3/31/2015
Cash collateral received	2.5	2.2
<i>Obligations foncières</i>	52.2	52.1
and registered covered bonds		
Total	54.7	54.3

5.1 – CASH COLLATERAL IN 2015

Cash collateral received by Caisse Française de Financement Local slightly decreased compared with the situation at the end of December 2014. Its level stood at EUR 2.2 billion at the end of March 2015.

5.2 – ISSUES IN 2015

Within the framework of an annual recurrent program totaling EUR 4 billion to EUR 6 billion, the issuance policy of Caisse Française de Financement Local primarily aimed to construct a coherent reference curve in the euro market while ensuring the good performance of its benchmark in the secondary market. The diversification of its funding sources is necessary to attain long maturities that match its needs. This implies an active presence in the market for private placements within the framework of the EMTN program or the issue of registered covered bonds. In the last few years, Caisse Française de Financement Local did not implement its issuance policy in foreign currencies since market conditions were not favorable to such a euro/non-euro arbitrage.

a. New issues in 2015

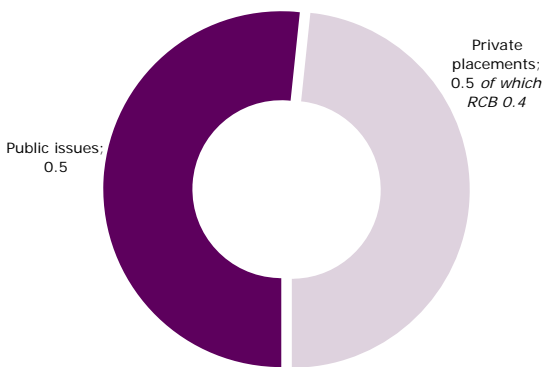
In the first quarter of 2015, Caisse Française de Financement Local reported a volume of issues totaling EUR 1.0 billion with very long maturities by enriching its reference curve with a 20 year point and being very active in the segment of private placements.

In January 2015, Caisse Française de Financement Local sought funding in the public primary market for a EUR 500 million 20 year issue (benchmark size for such a maturity, rare in the covered bond market).

In addition to these public transactions, Caisse Française de Financement Local was very active in the private placement segment and, in particular, in registered covered bonds (RCB). This allowed the bank to satisfy investors' search for long and very long maturities. Altogether, EUR 0.5 billion were raised in this market segment.

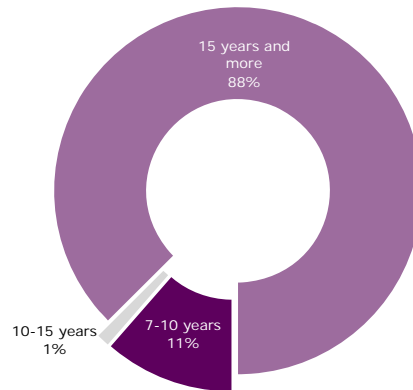
The breakdown of new issues by public/private format and maturity is presented below.

Issues in 2015 by format

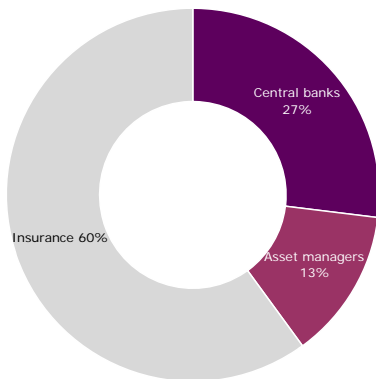


EUR billions

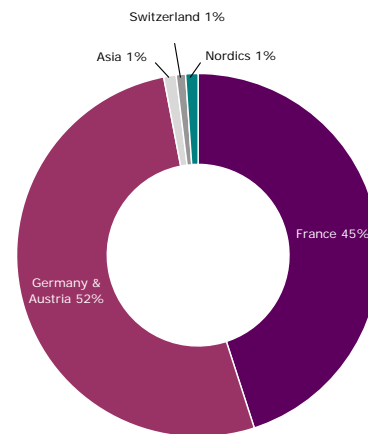
Issues in 2015 by maturity



2015 public issues by investor type



2015 public issues by geographic zone



b. Outstanding debt as of March 2015

Outstanding *obligations foncières* and registered covered bonds totaled EUR 52.1 billion in swapped value at the end of March 2015, including the new *obligations foncières* for EUR 1.0 billion and the amortization of issues arriving at maturity for EUR 1.1 billion.

EUR billions - Swapped value	2014	2015
Beginning of the year	52.8	52.2
Issues	4.0	1.0
Amortizations	-3.7	-1.1
Buyback	-0.9	0.0
End of the year	52.2	52.1

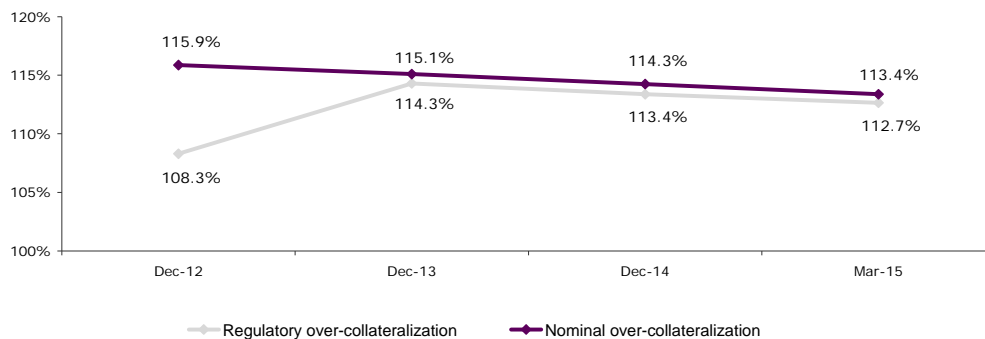
As of March 31, 2015, issues can be broken down by currency as follows.



6. Changes in the over-collateralization ratio in 2015

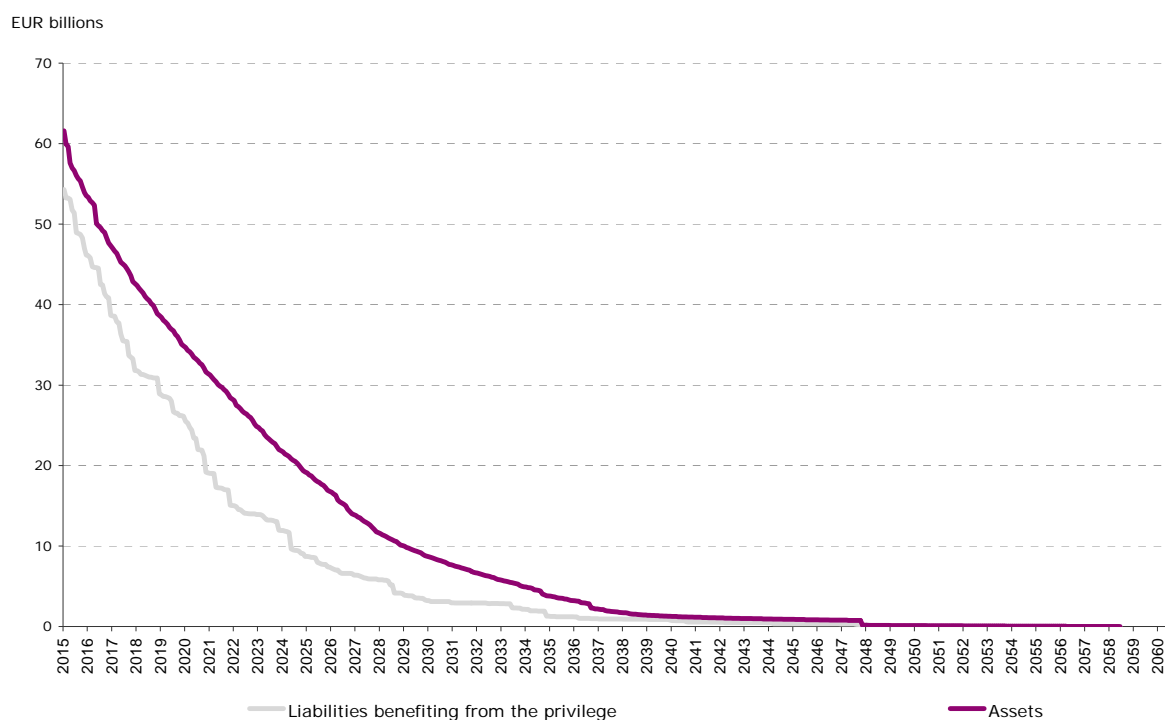
The over-collateralization (OC) ratio, which is calculated on the basis of regulatory standards governing *sociétés de crédit foncier*, is the ratio between the assets and the resources benefiting from the legal privilege. The legal minimum threshold is set at 105% and corresponds to the minimum level 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 would be excluded from the calculation of over-collateralization.

Over-collateralization may also be illustrated by the gap between the amortization curves of the assets and issues benefiting from the privilege. The following graph presents the curves as of March 31, 2015.



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 March 2015, the funds borrowed from SFIL within the framework of the financing agreement were made up of different loans with maturities that could initially run from one day to seven years borrowed with an Euribor or Eonia index.

Temporary financing may also be obtained from the Banque de France. These funds do not benefit from the privilege stipulated in the law on *sociétés de crédit foncier*, but they are guaranteed by loans and securities assigned for this purpose in the account of Caisse Française de Financement Local at the central bank. Caisse Française de Financement Local had already used such financing in the past.

In 2014 and 2015, Caisse Française de Financement Local did not contract any loans from the Banque de France, except for very small sums when it regularly tests the access procedure for such funding. Neither did it contract any loans from credit institutions other than its parent company.

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

EUR billions	12/31/2014	3/31/2015
Parent company	6.2	5.8
Banque de France	-	-
Total	6.2	5.8

The decrease in debt not benefiting from the legal privilege was primarily the result of the change in the level of over-collateralization during the first quarter of 2015.

8. Risk management

8.1 – CREDIT RISK

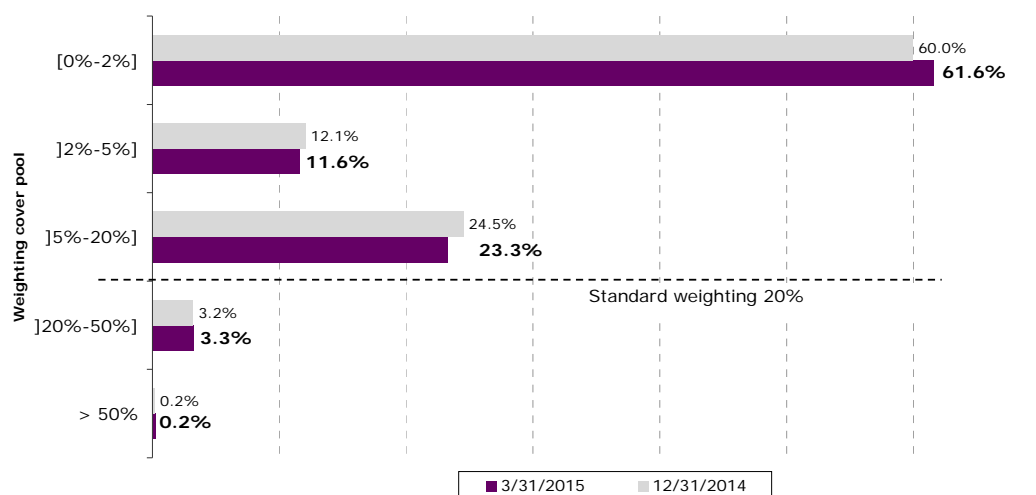
Credit risk represents the potential loss that Caisse Française de Financement Local may incur as the result of the decline in a counterparty's solvency.

a. Breakdown of exposures according to risk weighting

The quality of Caisse Française de Financement Local's portfolio can also be seen in the weighting of its assets within the framework of the calculation of the solvency ratio.

The Company chose the advanced method within the framework of the calculation of the solvency ratio and capital adequacy. Banking regulators authorized the Company and its parent company to use the advanced internal models developed for the calculation and reporting of capital requirements for credit risk. This enables Caisse Française de Financement Local to present an analysis of its exposures as of March 2015, broken down by risk weighting, such as used for the calculation of capital requirements for credit risk. The calculation of such weighting in particular combines the probability of default (PD) and loss given default (LGD) of the counterparty.

Risk weighting of Caisse Française de Financement Local's portfolio as of March 31, 2015



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 6.6%, 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 22.8% as of March 31, 2015, compared to 23.3% as of December 2014. The Common Equity Tier One in Basel III was 22.1% as of March 31, 2015.

b. Concentration by customer

The risk of concentration refers to exposure to a limited number of counterparties. Diversification can make it possible to avoid this problem, and it is a risk management tool to protect from any loss in capital.

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

(EUR millions)	% Cover pool	Top 5	Top 20	Top 100
Sovereign	2%	1,215	1,215	1,215
		100%	100%	100%
French local authorities	70%	2,287	5,254	12,052
		5%	12%	28%
Non-French local authorities	19%	2,961	6,563	10,213
		25%	56%	87%
Total	100%	3,104	8,950	21,038
		5.0%	14.5%	34.2%

As of March 31, 2015, in all categories, the 20 largest exposures (excluding replacement assets and cash investments) represented 14.5% of the global cover pool (against 14.6% compared with December 31, 2014). The largest exposure accounted for only 1.4% 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 March 31, 2015, the following remarks concern, as a reminder, the accounts as of December 31, 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 and loss given default. This model is regularly tested a posteriori.

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

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

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

No litigious situation was resolved in 2013, given the length of the procedures involved (cf. 2.2 – Litigation and governmental measures from the management report of the 2014 annual financial report). In 2014, three files were resolved following the payment of the sums due and eleven litigious files were reclassified as non-performing.

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

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

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

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

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

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

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

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

The provisions were determined by taking into account the comprehensive set of measures decided by the French government to provide a solution to the problem of structured loans. The hypotheses adopted are presented at the end of section 2 of the management report of the 2014 annual financial report.

Net changes in impairment had no impact on Cost of risk for 2014². The impact of impairment was EUR 28 million in both 2012 and 2013.

d. Bank counterparty risk

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

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

- loans to SFIL, the parent company of Caisse Française de Financement Local, which are considered as replacement assets in the amount of EUR 2.6 billion (cf. 4.2.b);
- bank account balances in euros and other currencies, representing EUR 8 million, excluding cash deposited on the Banque de France account;
- its derivative contracts, entered into within the framework of its management of interest rate and foreign exchange risks.

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

At the end of March 2015, Caisse Française de Financement Local was exposed (positive fair value of the swaps) on 12 banking counterparties. Ten of these paid collateral for EUR 2.2 billion, offsetting total exposure, and two paid no collateral because of their very good short-term ratings. These counterparties represented an exposure of less than EUR 0.02 billion. All derivative exposures as of March 31, 2015, 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	20.6	21.1%	(3.5)	-	-	1
Other counterparties	46.5	76.7	78.9%	(6.3)	2.2	2.2	29
Total	47.2	97.3	100.0%	(9.9)	2.2	2.2	30

The swaps negotiated with external counterparties represented 78.9% of outstanding long-term swaps and those signed with SFIL 21.1%. Long-term swaps signed with the five largest counterparties represented a total of 34.8% of notional amounts.

Short-term swaps (Eonia) were principally contracted with external counterparties (98.6%).

8.2 – OTHER BALANCE SHEET RISKS

a. Interest rate risk

1. Definition

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

Three types of interest rate risk can be distinguished:

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

²Cost of risk also included contributions of the Company to support funds for local governments and hospitals for EUR 150 million in 2013 and EUR 18 million in 2014.

These risks are generally hedged using derivative instruments.

2. Hedging strategy

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

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

- In the first stage, all the assets and the liabilities benefiting from the privilege which do not naturally have a floating rate are hedged against Euribor until maturity as soon as they are recorded on the balance sheet. In practice, acquisitions of loan portfolios (in which the unit amount is generally small) are usually macro-hedged whereas loans granted individually or bond issues are micro-hedged. Hedging of assets is more often obtained in using interest rate swaps, but the same effect may be obtained whenever possible by the cancelation of liability swaps.
- In the second step, Euribor lending and borrowing flows (naturally or after hedges) are swapped against Eonia over a sliding period of two years in order to eliminate the basis risk generated by differences in the tenor (Euribor 1, 3, 6 or 12 months) and the fixing risk due to refixing dates of reference indices that differ for the assets and the liabilities.

Non-privileged debt is not concerned by these hedging operations. In fact, debt contracted by Caisse Française de Financement Local with its shareholder to finance over-collateralization is borrowed either directly with a monetary index and does not need to be swapped, or with a Euribor index and thus finances assets also indexed on Euribor. Short-term debt owed the Banque de France with a fixed rate (if any) is not hedged, but also finances fixed rate assets.

3. Limits on interest rate risk

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

Limits on interest rate risk guarantee, with 99% probability, a maximum one year loss of less than EUR 80 million in the event of a change in interest rates of 200 basis point (bp), equivalent to a maximum loss set at EUR 40 million (3% of equity) for a fluctuation in interest rates of 100 bp. This calibration was based on a directional shift in rates corresponding to a 1% probability at one year observed over the period 2005-2013, which was approximately 200 bp.

A set of three limits makes it possible to have a grasp of the slope risk, as well as the directional risk. These limits control the sensitivity of the fixed rate risk and together guarantee the maximum losses mentioned above. The limits are as follows.

Limiting directional risk

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

Directional risk

global sensitivity

EUR millions, end of quarter	Limit	T2 2014	T3 2014	T4 2014	T1 2015
Sensitivity	25.0	-2.0	0.3	0.6	4.9

This measurement of total sensitivity incorporates premiums for acquisition and rescheduling of loans.

Limiting the slope risk

The slope risk benefits from specific limits which are applied to four segments of maturity on the yield curve (short, medium, long and very long).

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

Risk of slope between two distant points on the rate curve

Sum of sensitivities

EUR millions, end of quarter	Limit	T2 2014	T3 2014	T4 2014	T1 2015
Short term	10.0	-2.6	-0.5	-1.6	0.3
Medium term	10.0	2.6	2.4	3.8	5.2
Long term	10.0	4.7	5.3	6.4	6.8
Very long term	10.0	-6.7	-6.8	-8.0	-7.3

- *Limiting the slope risk between two points of maturity close to one another on the curve:* in each segment, the sum in absolute value of the sensitivities of points on the yield curve (grouped in several points of reference) is limited to EUR 20 million per segment. Measurement of sensitivity at the end of each quarter is presented below.

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

EUR millions, end of quarter	Limit	T2 2014	T3 2014	T4 2014	T1 2015
Short term	20.0	5.2	2.3	4.2	1.0
Medium term	20.0	9.5	5.1	6.3	7.8
Long term	20.0	4.8	5.1	4.7	4.1
Very long term	20.0	6.7	6.8	8.0	7.3

4. Outstanding derivatives

The strategies employed to hedge interest rate risk and foreign exchange risk are illustrated by notional outstanding swaps analyzed in the following table, broken down between external counterparties and an internal counterparty (SFIL), as of March 31, 2015.

Breakdown of outstanding swaps	Notional * (EUR billions)	Sfil (%)	Other counterparties (%)
Euribor against Eonia			
Macro-hedges	47.2	1.4%	98.6%
Total short-term swaps	47.2	1.4%	98.6%
Fixed rate swaps against Euribor			
Micro-hedges on <i>obligations foncières</i>	46.4	13.6%	86.4%
Micro-hedges on loans and debt securities	23.4	13.3%	86.7%
Macro-hedges on loans	18.7	36.9%	63.1%
Subtotal	88.5	18.4%	81.6%
Currency swaps			
Micro-hedges on <i>obligations foncières</i>	5.5	46.6%	53.4%
Micro-hedges on loans	2.3	48.2%	51.8%
Micro-hedges on debt securities	1.0	56.9%	43.1%
Subtotal	8.8	48.2%	51.8%
Total long-term swaps	97.3	21.1%	78.9%

* Absolute value

b. Foreign exchange risk

The foreign exchange risk is defined as the risk of volatility in result, be it observed or latent, linked to a change in the exchange rate of currencies vis-à-vis a reference currency. The reference currency of Caisse Française de Financement Local is the euro. The foreign exchange risk reflects a change in the value of assets and liabilities denominated in a currency other than the euro by reason of fluctuations of this same currency vis-à-vis the euro.

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

c. Transformation risk

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

1. Duration gap

The difference in maturity or amortization profile 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.

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

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

Duration in years	3/31/2014	6/30/2014	9/30/2014	12/31/2014	3/31/2015
Cover pool	7.24	7.21	7.05	7.24	7.36
Privileged liabilities	5.17	5.26	5.12	5.40	5.61
Gap in asset-liability duration	2.07	1.95	1.93	1.84	1.75
<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)	3/31/2014	6/30/2014	9/30/2014	12/31/2014	3/31/2015
Cover pool	8.34	8.17	7.86	7.84	7.71
Privileged liabilities	5.58	5.65	5.43	5.71	5.83
Gap in asset-liability weighted average life	2.76	2.52	2.43	2.13	1.88

3. Regulatory limit

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

d. Liquidity risk

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

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

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

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

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

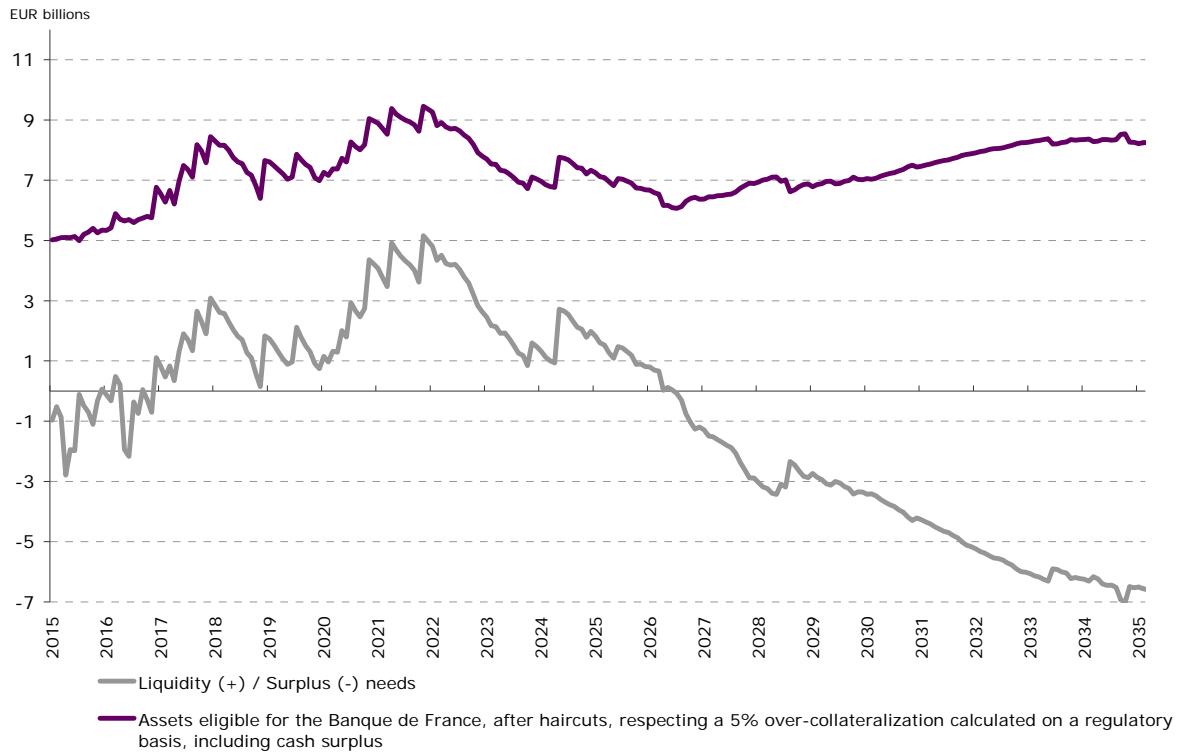
Since it is a credit institution, Caisse Française de Financement Local can post these eligible assets:

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

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

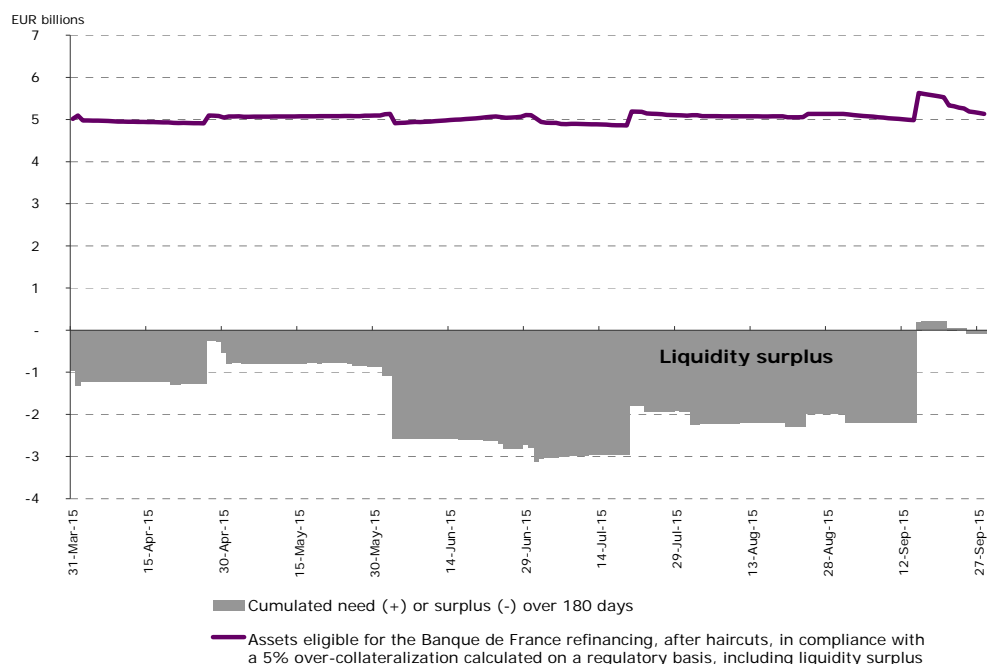
The maximum cumulated liquidity that Caisse Française de Financement Local might need in the future, in a run-off situation and if it was not able to issue new *obligations foncières*, is less than the maximum financing already occasionally obtained from Banque de France in the past. This need is also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

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



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

- the liquidity ratio for one month and the Liquidity Coverage Ratio (LCR) (regulatory reporting to the Autorité de contrôle prudentiel et de résolution);
- the duration gap between the assets and the resources benefiting from the legal privilege (limited to three years), which is published quarterly, and the new regulatory limit on weighted average life gap;
- projected cash needs over the next 180 days: Caisse Française de Financement Local ensures that at any time, its cash needs over a period of 180 days are covered by replacement assets and assets eligible for credit operations with the Banque de France. Cash needs are defined as repayments of *obligations foncières* and RCB, of debt that does 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.



As of March 2015, the liquidity situation for the next 180 days showed a surplus most of the time. The movements observed correspond to cash flows from amortization of *obligations foncières*, cash collateral, non-privileged liabilities and assets. However, a liquidity need arises from September 15, 2015, until September 25, 2015, with a EUR 207 million maximum amount. Covered bonds issued after March 31, 2015, and particularly the benchmark issue of April for an amount of EUR 1.0 billion, will cover these needs. When needed, Caisse Française de Financement Local can make use of funds granted by SFIL, or pledge assets with other banks through repurchase agreements or with the central bank.

8.3. MANAGEMENT OF OTHER RISKS

a. Legal risks

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

Caisse Française de Financement Local is involved in no litigation or suit other than those described in the quarter's highlights (2.3).

b. Operating risks and permanent control

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

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

c. Security and means of payment

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

9. Outlook for 2015

For the year 2015, Caisse Française de Financement Local plans to issue between EUR 4.5 and 5.5 billion of *obligations foncières*, in order to refinance:

- the new loans to the French local public sector, acquired from La Banque Postale or granted directly within operations of sensitivity reduction,
- but also loans to SFIL benefiting from the guarantee of the French State via Coface in the framework of the its

new activity of refinancing large export credits.

Indeed, on May 5, 2015, the European Commission announced that it authorizes the public bank SFIL and its subsidiary Caisse Française de Financement Local to extend their scope of activities to the refinancing of large export credits. The approval from the European Commission was the last step before the operational launch of the new business encouraged and announced by the President of the French Republic in early February 2015.

This new mission entrusted to SFIL by the French State consists in refinancing credits-buyers contracts insured by Coface. SFIL will thus contribute to improve the export competitiveness of companies established in France. The national public scheme will rely on the ability of SFIL and its subsidiary CAFFIL to raise funds on international financial markets for amounts and maturities that fit refinancing needs for large export credits and for a price which is comparable to the best French covered bond issuers. Refinancing will be available for every bank which works closely with exporters established in France for its loans insured by Coface on behalf and with the guarantee of the French State.

The average annual volume of export loans to be refinanced by SFIL is expected to be between EUR 1.5 and 2.5 billion.

SFIL, and its subsidiary Caisse Française de Financement Local, can now start its new mission as a development bank. It will come in addition to the current business of lending to the French local public sector and public hospitals. SFIL and its subsidiary Caisse Française de Financement Local will thus diversify their business without changing their risk profile while strengthening its close link with the French Government.

Bonds and public sector loans as of March 31, 2015

EUR millions	3/31/2015				12/31/2014	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
France						
State		2,120	169		2,289	1,722
Banque de France	986				986	519
Regions	1,622	110	280		2,012	2,030
Departments	6,090		267		6,357	6,400
Municipalities	15,300	100	623		16,023	16,110
Groups of municipalities	9,492	101	203		9,796	9,371
Public sector entities :						
- health	6,073				6,073	6,102
- social housing	1,628				1,628	1,667
- others	920		5		925	931
Credits institutions	2,626				2,626	3,926
Subtotal	44,737	2,431	1,547	-	48,715	48,778
Germany						
Länder		515		102	617	854
Subtotal		515		102	617	854
Austria						
Länder			196		196	197
Subtotal			196		196	197
Belgium						
Regions	36		50		86	87
Communities		50			50	50
Public sector entities	67				67	69
Subtotal	103	50	50		203	206
Canada						
Provinces		22			22	22
Communities	192				192	192
Public sector entities	129				129	129
Subtotal	321	22			343	343
Spain						
Regions		232			232	232
Municipalities	253				253	253
Subtotal	253	232			485	485
United States						
Federated States		253			253	253
Subtotal		253			253	253
Finland						
Municipalities	2				2	2
Public sector entities	-				-	41
Subtotal	2				2	43

EUR millions	3/31/2015				12/31/2014		
	PAYS	Direct exposure		Indirect exposure		Total	Total
Loans		Bonds	Loans	Bonds			
Italy							
State		584			584	576	
Regions		2,965			2,965	2,967	
Provinces		647			647	653	
Municipalities	11	2,190			2,201	2,223	
Subtotal	11	6,386		-	6,397	6,419	
Japan							
Municipalities		25			25	25	
Subtotal		25			25	25	
Portugal							
Municipalities	50				50	51	
Public sector entities	7				7	7	
Subtotal	57				57	58	
United Kingdom							
State				462	462	481	
Counties			398		398	398	
Districts			28		28	28	
Municipalities			1,368		1,368	1,368	
Public sector entities			56		56	56	
Subtotal			1,850	462	2,312	2,331	
Sweden							
Municipalities	23		11		34	34	
Subtotal	23		11		34	34	
Switzerland							
Cantons	706		396		1,102	1,424	
Municipalities	733				733	765	
Public sector entities	90				90	91	
Subtotal	1,529		396		1,925	2,280	
Supranational							
International organizations	38				38	39	
Subtotal	38				38	39	
TOTAL COVER POOL	47,074	9,914	4,050	564	61,602	62,345	

Loans and securities are off premium / discount.

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