



Activity Report  
Caisse Française de Financement Local  
September 30, 2015

.....CAFFIL

# 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 Société de Financement Local, renamed SFIL in April 2015, are key elements in the organization introduced by the French State in 2013 to finance local governments and public hospitals in France. This organization is based on a commercial activity developed by La Banque Postale with refinancing provided by Caisse Française de Financement Local.

In 2015, the French State entrusted SFIL and Caisse Française de Financement Local with a second mission. This concerns the refinancing of large export credits with the guarantee of the State, via Coface (see 1.3.c).

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%). SFIL’s shareholders are thus firmly anchored in the public sphere, reflecting the mission the French State assigned to 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 (ACPR), 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, and large export credits 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:

- to ensure 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);

- to provide Caisse Française de Financement Local with the derivatives and non-privileged funding it needs to carry out its activities.

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 its shareholders:

- Caisse des Dépôts et Consignations (CDC) for all the needs linked to operations booked prior to the date of acquisition (January 31, 2013), and to the new export refinancing activity,
- La Banque Postale (LBP) for all the needs related to loans to French local authorities and public hospitals it originates.

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 allows Caisse Française de Financement Local to preserve the control of its credit risk as it organizes the 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.

As required by law, 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. Refinancing of export credit

Starting in the second half 2015, in the context of the extension of its activities to the refinancing of large export credit, Caisse Française de Financement Local grants loans to banks, mainly to its parent company SFIL, to refinance their export credits. These refinancing loans benefit from an irrevocable and unconditional 100% guarantee provided by Coface acting on behalf of, and with the guarantee of the French State. The new activity will root Caisse Française de Financement Local even more firmly in the French public sector without modifying the risk profile of its cover pool.

The system will function as follows.

- SFIL will contribute to the financial proposal made by one or more banks participating to the banking syndicate granting the buyer credit insured by the French export credit agency Coface on behalf of the State; these banks will then sell to SFIL all or a part of the credit (and the rights attached) and keep the part of the export credit sold that is not insured (usually 5%).
- Caisse Française de Financement Local will grant a loan to SFIL to enable it to refinance the acquired export credit; this refinancing loan will benefit from an irrevocable and unconditional 100% guarantee provided by Coface for and with the guarantee of the French State, referred to as an "enhanced guarantee". Loans granted by Caisse Française de Financement Local to SFIL to refinance the purchased export credit loans will constitute exposures that are totally guaranteed by France, thus eligible for the cover pool of a *société de crédit foncier*. These loans will also comply with the European CRR regulation (article 129, that specifies which assets are authorized for the inclusion in a cover pool to ensure that the covered bonds will benefit from the best prudential treatment).

Loans benefiting from the irrevocable and unconditional 100% guarantee provided by Coface for and with the guarantee of the French State could also be granted by Caisse Française de Financement Local to banks other than SFIL for the refinancing of their export credits.

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

Française de Financement Local will increase progressively and will only become significant after several years.

#### 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 by the three agencies is now set at the same level as that of 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 that the State will provide 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 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 nine months of 2015 and post-closing events

### 2.1 – THE COVERED BOND MARKET

At the end of September 2015, the volume of issues in the primary covered bond euro market totaled EUR 108 billion, up 22% from September 30, 2014. At the same time, EUR 115 billion were reimbursed bringing the net offering to a negative total of EUR 7 billion. The gross offering remained dominated by German and French issuers, who accounted for 19% and 15% of the issues launched at the end of September 2015.

In the third quarter, business in the primary covered bond market was particularly dynamic, and there was a considerable rise compared with the previous year with a total of EUR 45 billion versus EUR 21 billion in the third quarter of 2014. The month of September was especially active with an amount of EUR 23 billion. Despite the ongoing active presence of the Eurosystem, this abundant offering in the primary market led investors to be more selective and demanding with regard to new issue premiums in comparison with the secondary market in which spreads widened throughout the month of September.

In this environment, Caisse Française de Financement Local strengthened its particular positioning by successfully completing its reference curve as of January with a 20-year benchmark issue of EUR 500 million, followed in April by an 8-year jumbo issue (EUR 1 billion) and in September by a 10-year jumbo issue (EUR 1 billion). In addition to these public-sector benchmarks, Caisse Française de Financement Local benefited from investor demand to augment the amount of existing *souches* (*souches* 2019, 2023 and 2035) and to remain very active in the segment of private placements in the amount of EUR 1.8 billion, and in particular in the format of registered covered bonds (RCB), which make it possible to meet investor demand for long and very long maturities.

Altogether, Caisse Française de Financement Local issued a volume of EUR 4.8 billion in the first nine months of 2015, representing almost 80% of the year's program.

### 2.2 – EVENTS AFFECTING THE RATING OF OBLIGATIONS FONCIÈRES

The rating of the *obligations foncières* issued by Caisse Française de Financement Local was not altered in 2015, in spite of the application of major changes in S&P's rating criteria and the downgrading of the rating of France by Moody's. As of September 30, 2015, the ratings were as follows: AA+ by Standard and Poor's, Aaa by Moody's and AA by Fitch.

### 2.3 – 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 September 30, 2015, the number of customers who had brought suit was down significantly to 177 as compared with 210 at the end of 2014.

The law that created a legal basis to secure structured loan agreements subscribed by public entities took effect on July 30, 2014. Since then, a bank can no longer be condemned for reasons linked to the annual rate of charge (TEG) of structured loan agreements, in particular the formal absence of the TEG in the faxes which had preceded the signing of the contract, which had motivated the decision of the Tribunal de grande instance de Nanterre on February 8, 2013, concerning the loans granted to the Département de la Seine-Saint-Denis.

The Département de la Seine-Saint-Denis which had been the cause of this law suit, decided to put an end to the litigation within the framework of a financial agreement that made it possible to eliminate its debt sensitivity.

Three new decisions of the Tribunal de grande instance de Nanterre were handed down since the law creating a legal basis to secure structured loan agreements subscribed by public entities took effect.

According to the terms of the first decision on April 24, 2015, the Tribunal de grande instance de Nanterre rejected all the claims of the city of Carrières-sur-Seine, particularly as regards responsibility.

According to the terms of the second decision on June 26, 2015, the Tribunal de grande instance de Nanterre condemned jointly and severally Dexia Credit Local and Caisse Française de Financement Local, to the benefit of the city of Saint-Cast-le-Guildo, for the failure of Dexia Credit Local to provide adequate information and sufficient warning when a loan was negotiated in 2007, while at the same time condemning this borrower to reimburse Caisse Française de Financement Local for all the unpaid sums and to pay the contractual interest rate for the remaining life of the contract.

According to the terms of a decision on September 25, 2015, the Tribunal de grande instance de Nanterre rejected all the claims of the city of Saint-Dié-des-Vosges, particularly as regards responsibility.

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. According to information published in the press, 676 eligible local governments submitted a request for assistance from the support fund. As of September 2015, forty-three financial agreements have already been signed between Caisse Française de Financement Local and eligible customers.

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 they would have been without the decision of the Swiss National Bank (SNB) in January 2015 to put an end to the floor rate of exchange of its national currency, the Swiss franc (CHF). 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 was significantly raised from 45% to 75% of penalties owed by the most fragile local governments.

Caisse Française de Financement Local 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 38 million, including an additional contribution of EUR 20 billion to the hospital support fund decided in November 2015 in order to participate in the increase in these funds.

To prepare its 2015 half year financial statements, Caisse Française de Financement Local took into account the effects of the decision of the Swiss National Bank (SNB) on January 15, 2015, 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 and hospitals holding loans indexed on the EUR/CHF exchange rate. It had not recorded any provision for a possible additional contribution linked to an increase in these funds, given the uncertainty as to the very existence of such a contribution, its modalities and its potential amount.

### 3. Changes in main balance sheet items

EUR billions - value after currency swaps	12/31/2013	12/31/2014	9/30/2015	Change Sept. 2015 / Dec. 2014
<b>Cover pool</b>	<b>63.7</b>	<b>62.3</b>	<b>59.0</b>	<b>(5.4)%</b>
Loans	53.2	51.6	50.2	(2.7)%
Securities	9.0	10.2	8.0	(21.8)%
Cash in central bank	1.5	0.5	0.8	48.0%
<b>Assets assigned in guarantee to Banque de France</b>	-	-	-	-
<b>Privileged debt</b>	<b>55.3</b>	<b>54.6</b>	<b>52.1</b>	<b>(4.5)%</b>
<i>Obligations foncières</i> *	52.8	52.2	50.7	(2.8)%
Cash collateral received	2.5	2.4	1.4	(41.6)%
<b>Non-privileged debt</b>	<b>6.8</b>	<b>6.2</b>	<b>5.5</b>	<b>(11.6)%</b>
Parent company	6.8	6.2	5.5	(11.6)%
Banque de France	-	-	-	-
<b>Equity IFRS (excluding unrealized gains and losses)</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>(2.4)%</b>

\*Including registered covered bonds

Caisse Française de Financement Local's cover pool is composed of loans and debt securities; it also includes the temporary cash surplus, deposited at the Banque de France or invested in short-term French sovereign securities for a total amount of EUR 0.8 billion at the end of September 2015 versus EUR 2.1 billion as of the end of 2014.

As of September 30, 2015, the cover pool totaled EUR 59.0 billion, excluding accrued interest not yet due. As of December 31, 2014, the total was EUR 62.3 billion; the decrease was therefore EUR 3.3 billion (-5.4%).

At the end of September, 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 52.1 billion, which decreased (-4.6%) in comparison with December 2014.

The debt contracted with the parent company totaled EUR 5.5 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 THE FIRST NINE MONTHS OF 2015

The net change in the cover pool as of September 30, 2015, corresponded to a decrease in assets in the amount of EUR 3.3 billion. This change is explained by the following items.

(EUR billions)	September 30, 2015	
<b>1- Acquisition of loans from La Banque Postale</b>		<b>2.4</b>
Loans to the French public sector (vanilla loans in euros)	2.4	
<b>2- Reduction of loan sensitivity</b>		<b>1.1</b>
Sensitive structured loans removed	-0.8	
Refinancing loans (vanilla loans in euros)	0.8	
New loans (vanilla loans in euros)	1.1	
<b>3- Amortization of portfolio of loans and securities</b>		<b>-4.4</b>
<b>4- Early reimbursements</b>		<b>-1.2</b>
<b>5- Changes in treasury</b>		<b>-1.3</b>
Change in short maturity securities investments (French sovereign)	-1.6	
Change in Banque de France cash deposit	0.3	
<b>6- Other changes</b>		<b>0.1</b>
Other loans to the French public sector	0.1	
Divestments	0.0	
Impairment and currency adjustment	0.0	
<b>Net change in the cover pool</b>		<b>-3.3</b>

In 2015, Caisse Française de Financement Local has so far acquired a total of EUR 2.4 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 0.8 billion by replacing them with fixed rate loans. They

were accompanied by new fixed rate loans in the amount of EUR 1.1 billion. After amortization, outstanding loans considered as sensitive diminished by EUR 1.0 billion in the first nine months of 2015.

The natural amortization of the portfolio of loans and securities represented EUR 4.4 billion in first nine months of 2015, and early reimbursements EUR 1.2 billion (mostly the reimbursement of a loan granted to SFIL recognized as a replacement asset).

Available cash deposited at the Banque de France or invested in short-term French sovereign securities decreased by EUR 1.3 billion.

## 4.2 – OUTSTANDING ASSETS AS OF SEPTEMBER 30, 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	9/30/2015
Loans and bonds to the public sector	56.3	55.8
Treasury (sight accounts and short term investments)	2.1	0.8
Replacement assets	3.9	2.4
<b>Total</b>	<b>62.3</b>	<b>59.0</b>

Surplus cash is deposited in an account opened by Caisse Française de Financement Local at the Banque de France or invested in short-term French sovereign securities, respectively amounting to EUR 0.8 billion and EUR 0.0 as of September 30, 2015.

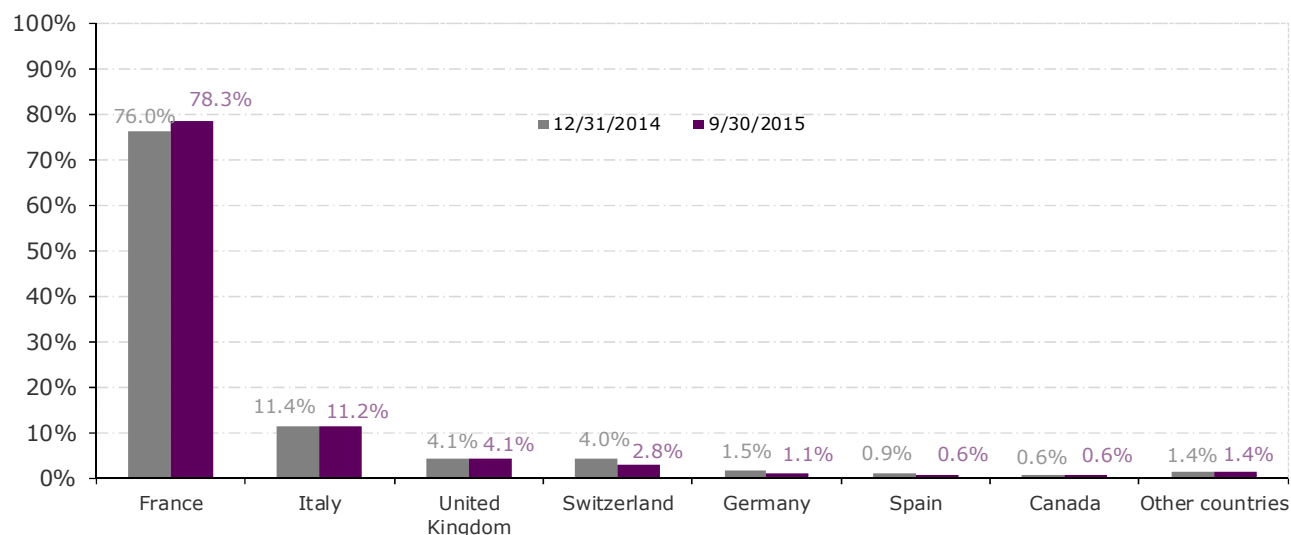
### a. Public sector loans and securities (excluding replacement assets and cash investments)

#### 1. Geographic breakdown

French assets are predominant in the cover pool (almost 78.3%), and their percentage is expected to rise in the future. Loans acquired through La Banque Postale since 2013 accounted for EUR 4.7 billion as of September 30, 2015, representing 10.9% of French 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 in the past by subsidiaries of the Dexia Group.

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

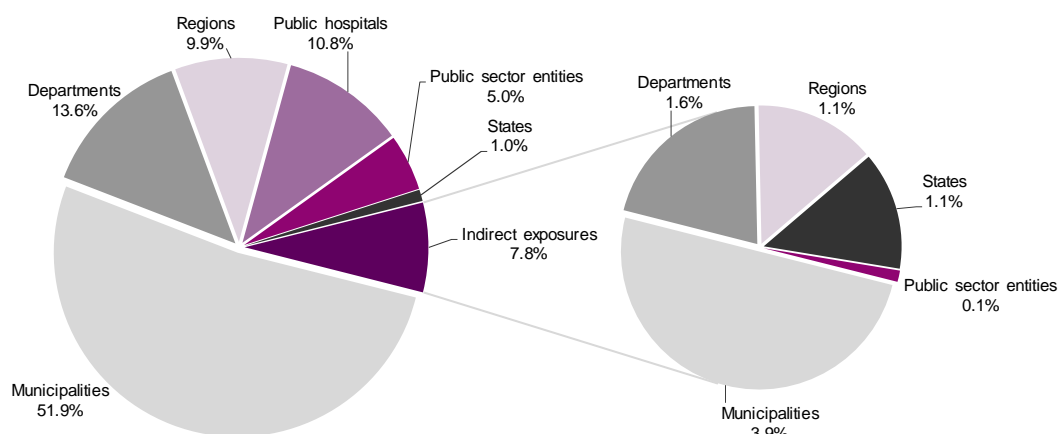


Exposures to Other countries as of September 30, 2015, are broken down by country in the section Bonds and public sector loans, which is presented at the end of this activity report.

#### 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; public hospitals accounted for almost 11%.



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	9/30/2015	in % of the cover pool ***
France*	AA/Aa1/AA+	172	182	0.3%
United Kingdom	AAA/Aa1/AA+	481	423	0.8%
Italy	BBB/Baa2/BBB+	576	563	1.0%
<b>TOTAL</b>		<b>1,229</b>	<b>1,168</b>	<b>2.1%</b>

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

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

\*\*\* Excluding cash investments and replacement assets

Most of these exposures are concentrated on countries that benefit from very good ratings as of September 30, 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 September 30, 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, Aa3 by Moody's and AA- by Fitch), as well as bank account balances usually with a Step 2 rating. They represented 4.7% of the privileged debt (*obligations foncières* and registered covered bonds) of Caisse Française de Financement Local following the early reimbursement of a loan to SFIL in the amount of EUR 1.1 billion considered as a replacement asset.



Replacement assets	Country	Issuer	EUR millions	
			12/31/2014	9/30/2015
<b>Step 1 credit rating</b>				
Loans to sponsor bank	France	SFIL	3,912	2,403
<b>Step 2 credit rating</b>				
Bank account balances	Other	Other	14	2
<b>TOTAL</b>			<b>3,926</b>	<b>2,405</b>

### 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 Interior<sup>1</sup>. This document was signed on December 7, 2009, by several organizations that represent local governments in France (Association des maires de France, Fédération des maires des villes moyennes, Association des petites villes de France, Association des maires de grandes villes de France and Assemblée des communautés de France) as well as certain banks.

Therefore, structured loans are defined as:

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

#### 2. Structured loans and sensitive loans

From the beginning of the year, outstanding French public sector loans increased slightly, with a decrease of EUR 1.5 billion in outstanding structured loans (as defined above) and a rise of EUR 2.4 billion in non-structured vanilla loans.

EUR billions	12/31/2014	9/30/2015	% cover pool	Number of customers*
Sensitive loans not in the charter	3.2	2.7	4.6%	317
Sensitive loans (3E/4E/5E)	3.1	2.6	4.3%	322
<b>Subtotal sensitive loans</b>	<b>6.3</b>	<b>5.3</b>	<b>8.9%</b>	<b>639</b>
Other structured loans	5.2	4.7	7.9%	1,361
<b>Subtotal structured loans</b>	<b>11.5</b>	<b>10.0</b>	<b>16.9%</b>	<b>2,000</b>
Vanilla loans	30.6	33.0	55.9%	15,210
<b>French public sector loans</b>	<b>42.1</b>	<b>43.0</b>	<b>72.9%</b>	<b>17,210</b>
<b>Cover pool</b>	<b>62.3</b>	<b>59.0</b>		

\* considering the customer in the category with the most structured loan

As of September 30, 2015, outstanding structured loans on the balance sheet of Caisse Française de Financement Local represented EUR 10.0 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 5.3 billion at the end of September 2015 compared with EUR 6.3 billion at the end of 2014. The EUR 1.0 billion decrease in these outstanding loans was due for EUR 0.8 billion to proactive efforts to reduce the sensitivity of the outstanding loans and for EUR 0.2 billion to the contractual

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

amortization of these loans.

As of September 30, 2015, the most sensitive structured loans (loans not in the charter) represented 4.6% of the cover pool and 317 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	66
Municipalities with more than 10,000 inhabitants and groups of municipalities	1.4	170
Regions and departments	0.5	19
Public hospitals	0.5	48
Other customers	0.1	14
<b>TOTAL</b>	<b>2.7</b>	<b>317</b>

### 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 penalties and for new loans granted at market price.

These measures made it possible to eliminate entirely the sensitivity of outstanding loans to 285 customers between SFIL's date of creation and September 30, 2015.

The two support funds created by the government and now operational should accelerate this process of reduction in loan sensitivity in 2015 and 2016, by helping local governments and public hospitals to finance the cost of disengaging themselves from their structured loans. The funds have begun to send to local governments concerned a notification of the amount of financial assistance they will receive.

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 they would have been without the decision of the Swiss National Bank in January 2015 to put an end to the floor rate of exchange of its national currency, the Swiss franc (CHF). 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 was significantly raised for the most fragile governments (from 45% to 75% of penalties due).

## 5. Debt benefiting from the legal privilege as of September 30, 2015

As of September 2015, debt benefiting from the legal privilege is composed of *obligations foncières* and registered covered bonds issued by Caisse Française de Financement Local as well as of cash collateral received from counterparties in derivative transactions.

EUR billions	12/31/2014	9/30/2015
Cash collateral received	2.5	1.4
<i>Obligations foncières</i> and registered covered bonds	52.2	50.7
<b>Total</b>	<b>54.7</b>	<b>52.1</b>

### 5.1 – CASH COLLATERAL IN 2015

Cash collateral received by Caisse Française de Financement Local decreased compared with the situation at the end of December 2014. Its level stood at EUR 1.4 billion at the end of September 2015.

### 5.2 – ISSUES IN 2015

Within the framework of an annual recurrent program totaling EUR 5 billion to EUR 7 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 nine months of 2015, Caisse Française de Financement Local reported a volume of issues totaling EUR 4.8 billion with a long average maturity by enriching its reference curve with a 20-year point and by playing an active role in the segment of private placements.

Caisse Française de Financement Local launched issues a total amount of EUR 3.0 billion in the public primary market on several occasions in the first nine months of the year:

- in January, for a 20-year issue of EUR 500 million (a benchmark size for this maturity, which is rare in the covered bond market); the outstanding amount was increased to EUR 650 million through a tap realized in May 2015;
- in April, for an 8-year benchmark issue totaling EUR 1.0 billion, which added a new point to CAFFIL's public issue curve (outstanding amount increased to EUR 1.15 billion through a tap realized in July 2015), and for a tap of the 2019 issue for EUR 150 million;
- in September, for a 10-year benchmark issue totaling EUR 1.0 billion.

In addition to these public transactions, Caisse Française de Financement Local was active in the private placement segment. Altogether, EUR 1.8 billion were raised in this market segment, of which EUR 0.5 billion in registered covered bonds (RCB) to satisfy investors' search for long and very long maturities.

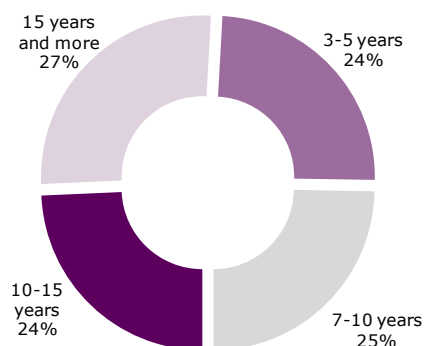
The breakdown of new issues by public/private format and maturity is presented below.

**2015 issues by format**

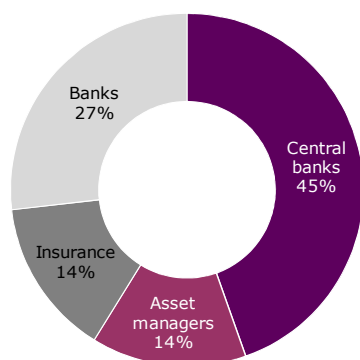


EUR billions

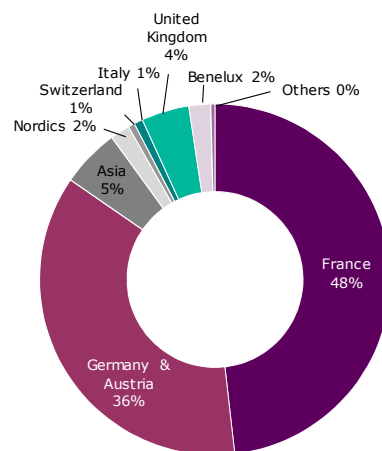
**2015 issues by maturity**



**2015 public issues by investor type**



**2015 public issues by geographic zone**

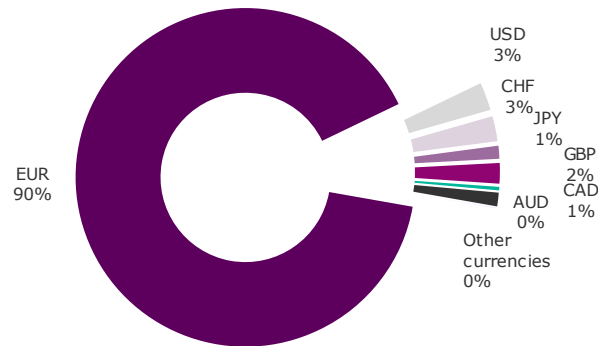


**b. Outstanding debt as of September 2015**

Outstanding *obligations foncières* and registered covered bonds totaled EUR 50.7 billion in swapped value at the end of September 2015, including the new issues of *obligations foncières* for EUR 4.8 billion and after the amortization of issues arriving at maturity for EUR 6.3 billion.

EUR billions - swapped value	2014	9/30/2015
<b>Beginning of the year</b>	<b>52.8</b>	<b>52.2</b>
Issues	4.0	4.8
Amortizations	-3.7	-6.3
Buyback	-0.9	0.0
<b>End of period</b>	<b>52.2</b>	<b>50.7</b>

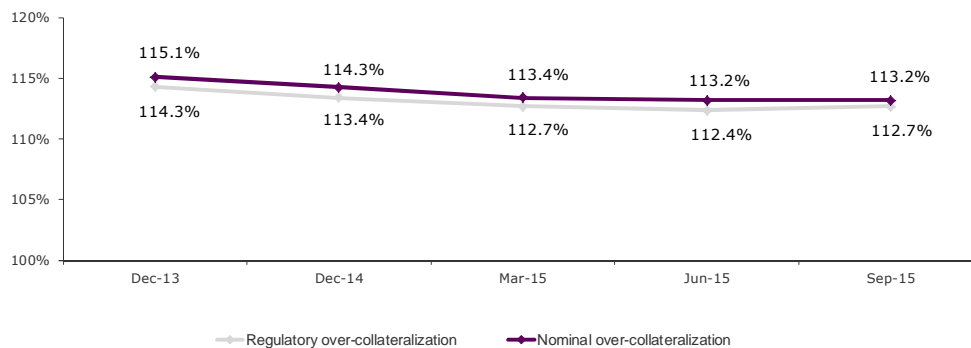
As of September 30, 2015, issues can be broken down by currency as follows.



## 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.

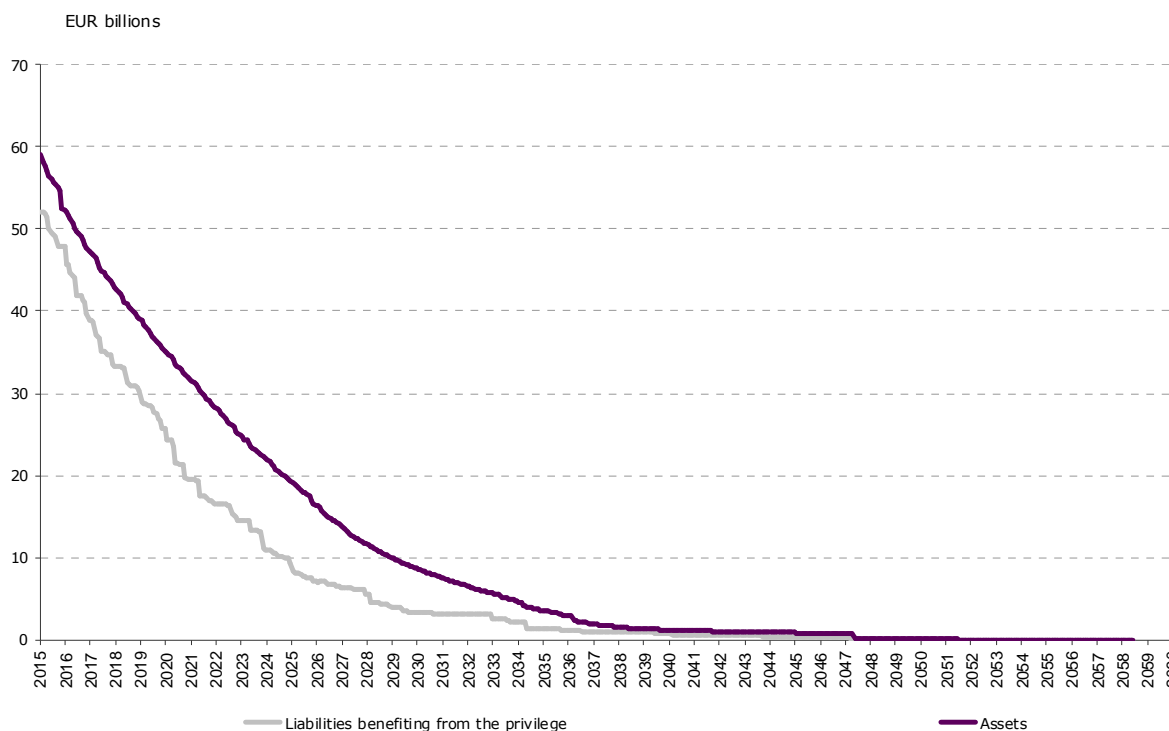


Regulatory over-collateralization may differ from nominal over-collateralization. In fact, it is calculated on the basis of the rules determined by the Autorité de contrôle prudentiel et de résolution (ACPR). In particular, these rules require different weighting levels according to the assets. The assets in Caisse Française de Financement Local's cover pool are generally weighted at 100%.

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 September 30, 2015.

## Amortization of assets and liabilities as of September 30, 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 obtained through the parent company. At the end of September 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 ten 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 when it used small sums to test 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	9/30/2015
Parent company	6.2	5.5
Banque de France	-	-
<b>Total</b>	<b>6.2</b>	<b>5.5</b>

The decrease in debt not benefiting from the legal privilege was the result of the decrease of the cover pool and the change in the level of over-collateralization during the first nine months of 2015.

## 8. Risk management

### 8.1 – CREDIT RISK

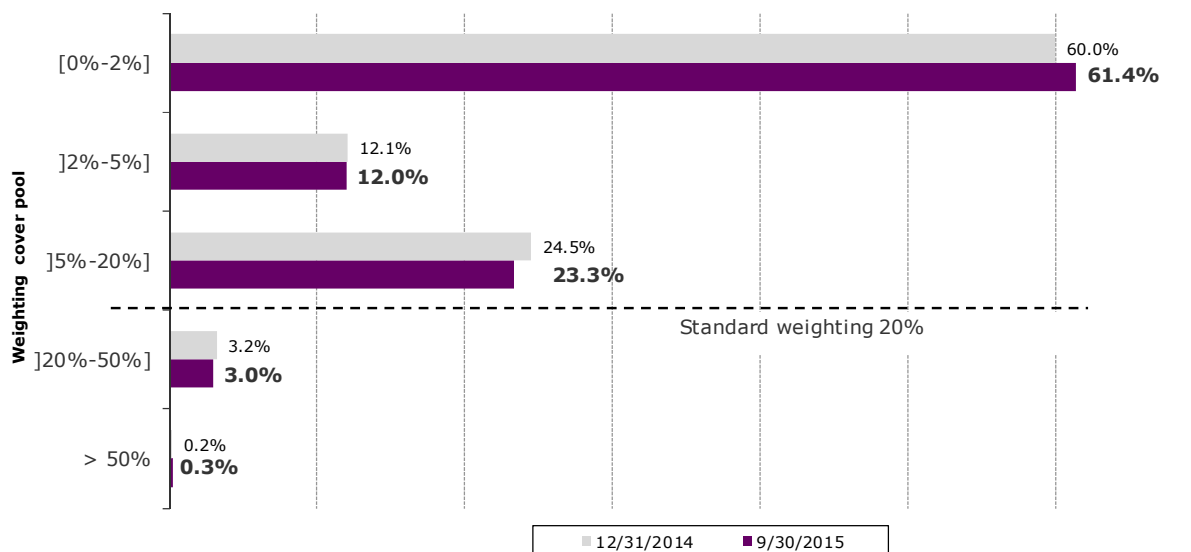
Credit risk represents the potential loss that Caisse Française de Financement Local may incur as the result of the decline in a counterparty's solvency.

### 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 September 30, 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 September 30, 2015



This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio, since only 3.3% of the portfolio has a weighting of more than 20%. The average weighting of the cover pool risk is 6.7%, versus 20% for European local governments in the Basel II / III standard model.

Combined with its high level of regulatory equity, Caisse Française de Financement Local's credit quality enabled the Company to post a phased-in Basel III solvency ratio of 24.1% as of September 30, 2015, compared with 23.3% as of December 31, 2014. The phased-in Common Equity Tier One in Basel III was 23.2% as of September 30, 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
<b>Sovereigns</b>	2%	1,168	1,168	1,168
		100%	100%	100%
<b>French SPE</b>	74%	2,393	5,472	12,589
		5.5%	12.6%	28.9%
<b>Non French SPE</b>	19%	2,961	6,563	10,213
		26.5%	58.8%	91.6%
<b>Total</b>	100%	2,877	8,660	20,568
		4.9%	14.7%	34.9%

As of September 30, 2015, in all categories, the 20 largest exposures (excluding replacement assets and cash investments) represented 14.7% of the global cover pool (compared with 14.4% as of December 31, 2014). The largest exposure accounted for only 1.0% of the cover pool and the twentieth exposure 0.4%.

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

Since Caisse Française de Financement Local did not publish financial statements as of September 30, 2015, the following remarks concern, as a reminder, the accounts as of June 30, 2015.

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 encountered financial difficulties. For customers in default in terms of credit risk, the total amount of their outstanding loans is classified as non-performing by contagion.

Changes 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)	12/31/2014		6/30/2015	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
Beginning of the year	47	53	90	52
New	53	13	20	10
Outgoing	10	14	31	18
<b>End of the year</b>	<b>90</b>	<b>52</b>	<b>79</b>	<b>44</b>

In 2015, four litigious files were resolved after the payment of the sums due and 14 litigious files were reclassified as non-performing.

At the end of June 2015, non-performing and litigious loans totaled EUR 657 million, approximately 1.1% of the total cover pool (EUR 61 billion). These commitments can be broken down as follows.

- EUR 590 million of commitments qualified as non-performing, corresponding to loans to customers with total unpaid amounts of EUR 53 million (of which EUR 47 million 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	12/31/2014		6/30/2015	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
<b>FRANCE</b>				
State	-	-	-	-
Regions	-	-	-	-
Departments	-	4	-	5
Groups of municipalities	85	30	131	33
Municipalities	189	31	299	27
Public sector entities	122	2	160	2
<b>Total</b>	<b>396</b>	<b>67</b>	<b>590</b>	<b>67</b>



The total amount of provisions at the end of June 2015 is presented in the following table.

EUR millions	12/31/2014	6/30/2015
Specific impairment	47	75
Collective impairment	63	65
<b>Total</b>	<b>110</b>	<b>139</b>

Specific provisions for non-performing loans increased by EUR 28 million in the first half of 2015. This rise corresponds, for an amount of EUR +32 million, to the mandatory impairment of unpaid or accrued interest on non-performing loans, the outstanding amount of which increased, and for EUR -4 million to the reversal of provisions on non-performing loans outstanding.

The review of the portfolio and its associated risks entailed an increase of collective impairment in the amount of EUR 2 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 this management report.

At the end of June 2015, the cost of risk represented a gain of EUR 2 million, reflecting a reversal on specific impairment attenuated by a rise in collective impairment.

#### 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 2.4 billion (cf. 4.2.b);
- bank account balances in euros and other currencies, representing EUR 2 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 September 2015, Caisse Française de Financement Local was exposed (positive fair value of the swaps) on 12 banking counterparties. Eleven of these paid collateral for EUR 1.4 billion, offsetting total exposure, and one paid no collateral because of its very good short-term rating. This counterparty represented a limited exposure (EUR 7 million).

All derivative exposures as of September 30, 2015, are listed below.

EUR billions	ST notional amounts	LT notional amounts	% LT notional amounts	Mark to Market		Collateral received	Number of counterparties
				-	+		
SFIL	0.0	22.1	23.1%	(2.6)	-	-	1
Other counterparties	68.0	73.7	76.9%	(4.3)	1.4	1.4	29
<b>Total</b>	<b>68.0</b>	<b>95.8</b>	<b>100.0%</b>	<b>(7.0)</b>	<b>1.4</b>	<b>1.4</b>	<b>30</b>

The swaps negotiated with external counterparties represented 76.9% of outstanding long-term swaps and those signed with SFIL 23.1%. Long-term swaps signed with the five largest counterparties represented a total of 34.9% of notional amounts.

Short-term swaps (Eonia) were all contracted with external counterparties.

## 8.2 – OTHER BALANCE SHEET RISKS

### a. Interest rate risk

#### 1. Definition

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

Three types of interest rate risk can be distinguished:

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

These risks are generally hedged using derivative instruments.

## 2. Hedging strategy

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

There are two steps in the hedging 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 were calibrated in order to 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**

Total sensitivity

EUR millions, end of quarter	Limit	4Q 2014	1Q 2015	2Q 2015	3Q 2015
<b>Sensitivity</b>	<b>25.0</b>	<b>0.6</b>	<b>4.9</b>	<b>10.5</b>	<b>0.0</b>

### Limiting the slope risk

The slope risk benefits from specific limits 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	4Q 2014	1Q 2015	2Q 2015	3Q 2015
<b>Short term</b>	<b>10.0</b>	<b>-1.6</b>	<b>0.3</b>	<b>2.0</b>	<b>3.5</b>
<b>Medium term</b>	<b>10.0</b>	<b>3.8</b>	<b>5.2</b>	<b>5.6</b>	<b>-0.8</b>
<b>Long term</b>	<b>10.0</b>	<b>6.4</b>	<b>6.8</b>	<b>6.3</b>	<b>-0.5</b>
<b>Very long term</b>	<b>10.0</b>	<b>-8.0</b>	<b>-7.3</b>	<b>-3.4</b>	<b>-2.2</b>

- *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	4Q 2014	1Q 2015	2Q 2015	3Q 2015
<b>Short term</b>	<b>20.0</b>	<b>4.2</b>	<b>1.0</b>	<b>7.6</b>	<b>5.2</b>
<b>Medium term</b>	<b>20.0</b>	<b>6.3</b>	<b>7.8</b>	<b>13.4</b>	<b>8.4</b>
<b>Long term</b>	<b>20.0</b>	<b>4.7</b>	<b>4.1</b>	<b>8.9</b>	<b>4.9</b>
<b>Very long term</b>	<b>20.0</b>	<b>8.0</b>	<b>7.3</b>	<b>7.6</b>	<b>3.8</b>

**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 September 30, 2015.

Breakdown of outstanding swaps	Notional * (EUR billions)	SFIL (%)	Other counterparties (%)
<b>Euribor against Eonia</b>			
Macro-hedges	68.0	0.0%	100.0%
<b>Total short-term swaps</b>	<b>68.0</b>	<b>0.0%</b>	<b>100.0%</b>
<b>Fixed rate swaps against Euribor</b>			
Micro-hedges on <i>obligations foncières</i>	45.1	18.2%	81.8%
Micro-hedges on loans and debt securities	24.2	12.6%	87.4%
Macro-hedges on loans	18.6	35.7%	64.3%
<b>Subtotal</b>	<b>88.0</b>	<b>20.4%</b>	<b>79.6%</b>
<b>Currency swaps</b>			
Micro-hedges on <i>obligations foncières</i>	5.0	53.4%	46.6%
Micro-hedges on loans	1.9	51.0%	49.0%
Micro-hedges on debt securities	1.0	55.2%	44.8%
<b>Subtotal</b>	<b>7.9</b>	<b>53.0%</b>	<b>47.0%</b>
<b>Total long-term swaps</b>	<b>95.8</b>	<b>23.1%</b>	<b>76.9%</b>

\* 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)".

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

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

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

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

Duration in years	9/30/2014	12/31/2014	3/31/2015	6/30/2015	9/30/2015
Cover pool	7.05	7.24	7.36	7.08	<b>7.41</b>
Privileged liabilities	5.12	5.40	5.61	5.40	<b>5.70</b>
<b>Gap in asset-liability duration</b>	<b>1.93</b>	<b>1.84</b>	<b>1.75</b>	<b>1.68</b>	<b>1.71</b>
<i>Duration gap limit</i>	3	3	3	3	3

## 2. Weighted average life gap

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

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

Weighted average life (in years)	9/30/2014	12/31/2014	3/31/2015	6/30/2015	9/30/2015
Cover pool	7.86	7.84	7.71	7.81	<b>8.06</b>
Privileged liabilities	5.43	5.71	5.83	5.86	<b>6.11</b>
<b>Gap in asset-liability weighted average life</b>	<b>2.43</b>	<b>2.13</b>	<b>1.88</b>	<b>1.95</b>	<b>1.94</b>

## 3. Regulatory limit

The regulatory changes in May 2014 imposed a limit of one and a half years on the weighted average life gap between the cover pool, considered on the basis of the minimum amount required to satisfy the legal 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 already respects 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 the central bank or with other banks through repurchase agreements.

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.

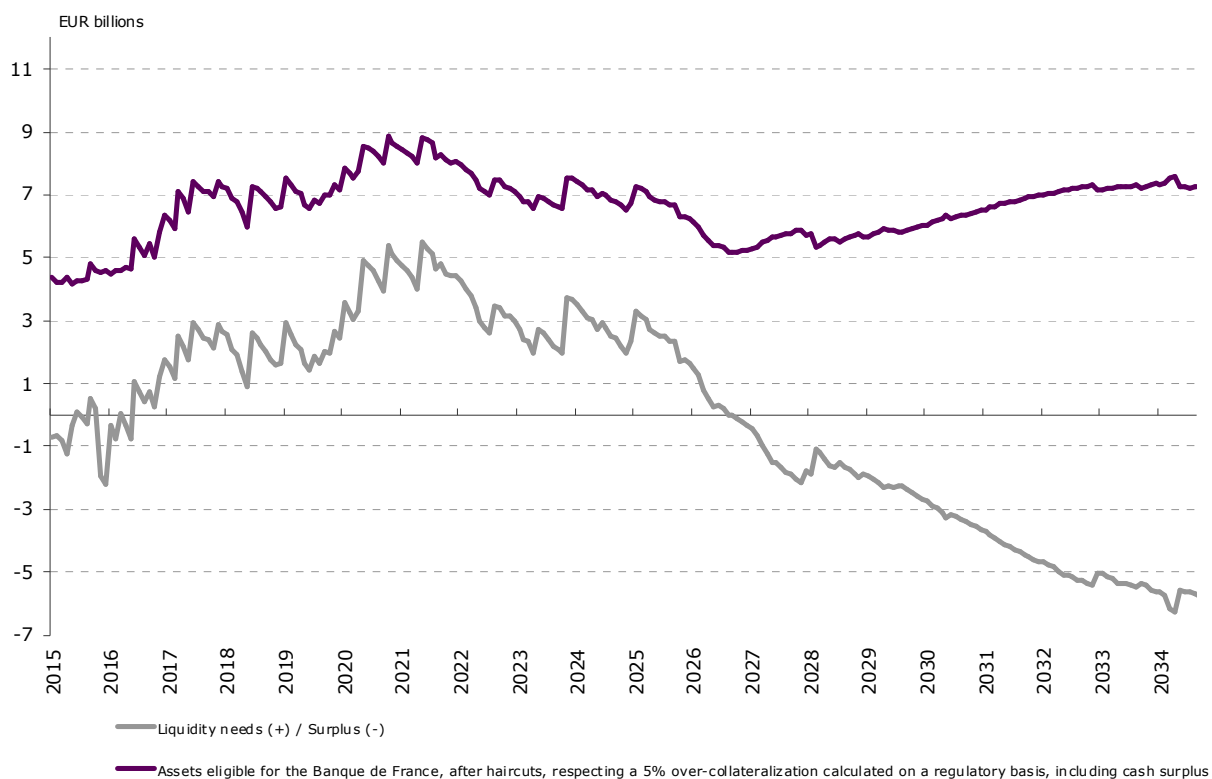
Since it is a credit institution, Caisse Française de Financement Local can post these eligible assets:

- 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).

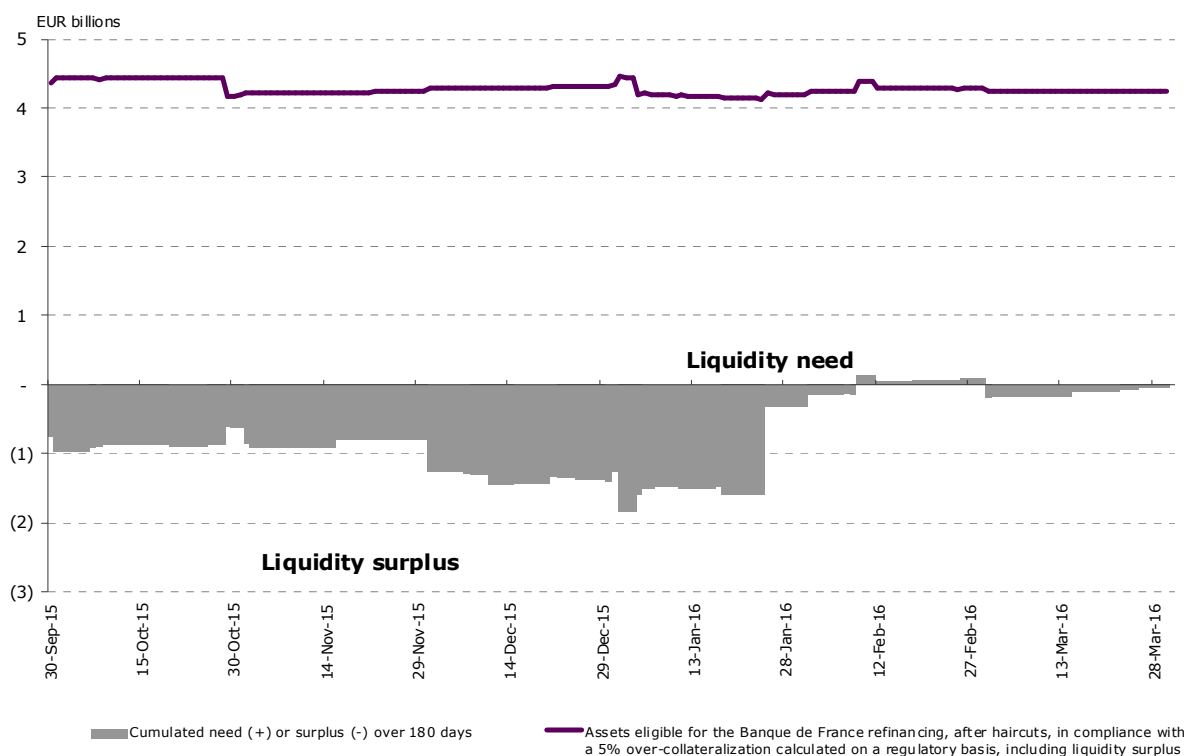
The maximum cumulated liquidity that Caisse Française de Financement Local might need in the future, in a run-off situation and if it were not able to issue new *obligations foncières*, is less than the maximum financing already occasionally obtained from Banque de France in the past. This need is also 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 the 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.



The movements observed for the next 180 days correspond to cash flows from amortization of *obligations foncières*, cash collateral, non-privileged liabilities and assets. As of September 2015, the liquidity situation showed a surplus in liquidity most of the time. However, a liquidity need arises in February 2016 for a limited amount. Covered bond issued after September 30, 2015, and particularly the benchmark issue of October for an amount of EUR 1.0 billion, will cover these needs.

### 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 EUR 6.0 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,
- the new commitments benefiting from the guarantee of the French State via Coface in the framework of the new activity of refinancing large export credits.

With the agreement of the European Commission, this new mission was entrusted by the French State to SFIL, which will refinance credit-buyer contracts insured by Coface and will thus contribute to improve the export competitiveness of companies established in France. The objective is to raise funds on international financial markets for amounts and maturities that fit the refinancing needs of large export credits and for a price which is comparable to the best French covered bond issuers, by relying on the capacities of SFIL and its subsidiary Caisse Française de Financement Local. Refinancing will be available for all banks that work closely with French exporters for their loans insured by Coface on behalf and with the guarantee of the French State.

The second half of 2015 was dedicated to the formalization of relations involving Caisse Française de Financement Local, SFIL and Coface, and of relations between SFIL and the banks active in the French export credit market, as well as to the examination of the first credit projects.

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

SFIL, and its subsidiary Caisse Française de Financement Local, can now start their new mission as a development bank. This 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 their close link with the French Government.

## Bonds and public sector loans as of September 30, 2015

EUR millions	9/30/2015				12/31/2014	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
<b>France</b>						
State			182		182	1,722
Banque de France	768				768	519
Regions	1,593	105	276		1,974	2,030
Departments	6,328		236		6,564	6,400
Municipalities	15,673	24	577		16,274	16,110
Groups of municipalities	9,810	101	208		10,119	9,371
Public sector entities :					-	
- health	6,052				6,052	6,102
- social housing	1,573				1,573	1,667
- others	903		3		906	931
Credit institutions	2,405				2,405	3,926
<b>Subtotal</b>	<b>45,105</b>	<b>230</b>	<b>1,482</b>	<b>-</b>	<b>46,817</b>	<b>48,778</b>
<b>Germany</b>						
Länder		513		102	615	854
<b>Subtotal</b>		<b>513</b>		<b>102</b>	<b>615</b>	<b>854</b>
<b>Austria</b>						
Länder			195		195	197
<b>Subtotal</b>			<b>195</b>		<b>195</b>	<b>197</b>
<b>Belgium</b>						
Regions	23		44		67	87
Communities		50			50	50
Public sector entities	65				65	69
<b>Subtotal</b>	<b>88</b>	<b>50</b>	<b>44</b>		<b>182</b>	<b>206</b>
<b>Canada</b>						
Provinces		22			22	22
Communities	182				182	192
Public sector entities	129				129	129
<b>Subtotal</b>	<b>311</b>	<b>22</b>			<b>333</b>	<b>343</b>
<b>Spain</b>						
Regions		105			105	232
Municipalities	246				246	253
<b>Subtotal</b>	<b>246</b>	<b>105</b>			<b>351</b>	<b>485</b>
<b>United States</b>						
Federated States		251			251	253
<b>Subtotal</b>		<b>251</b>			<b>251</b>	<b>253</b>
<b>Finland</b>						
Municipalities	1				1	2
Public sector entities	-				-	41
<b>Subtotal</b>	<b>1</b>				<b>1</b>	<b>43</b>



EUR millions	9/30/2015				12/31/2014	
	Direct exposure		Indirect exposure		Total	Total
PAYS	Loans	Bonds	Loans	Bonds		
<b>Italy</b>						
State		563			563	576
Regions		2,922			2,922	2,967
Provinces		626			626	653
Municipalities	10	2,133			2,143	2,223
<b>Subtotal</b>	<b>10</b>	<b>6,244</b>		<b>-</b>	<b>6,254</b>	<b>6,419</b>
<b>Japan</b>						
Municipalities		25			25	25
<b>Subtotal</b>		<b>25</b>			<b>25</b>	<b>25</b>
<b>Portugal</b>						
Municipalities	47				47	51
Public sector entities	7				7	7
<b>Subtotal</b>	<b>54</b>				<b>54</b>	<b>58</b>
<b>United Kingdom</b>						
State				423	423	481
Counties			398		398	398
Districts			28		28	28
Municipalities			1,368		1,368	1,368
Public sector entities			56		56	56
<b>Subtotal</b>			<b>1,850</b>	<b>423</b>	<b>2,273</b>	<b>2,331</b>
<b>Sweden</b>						
Municipalities	23		11		34	34
<b>Subtotal</b>	<b>23</b>		<b>11</b>		<b>34</b>	<b>34</b>
<b>Switzerland</b>						
Cantons	579		274		853	1,424
Municipalities	628				628	765
Public sector entities	90				90	91
<b>Subtotal</b>	<b>1,297</b>		<b>274</b>		<b>1,571</b>	<b>2,280</b>
<b>Supranational</b>						
International organizations	36				36	39
<b>Subtotal</b>	<b>36</b>				<b>36</b>	<b>39</b>
<b>TOTAL COVER POOL</b>	<b>47,171</b>	<b>7,440</b>	<b>3,856</b>	<b>525</b>	<b>58,992</b>	<b>62,345</b>

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.