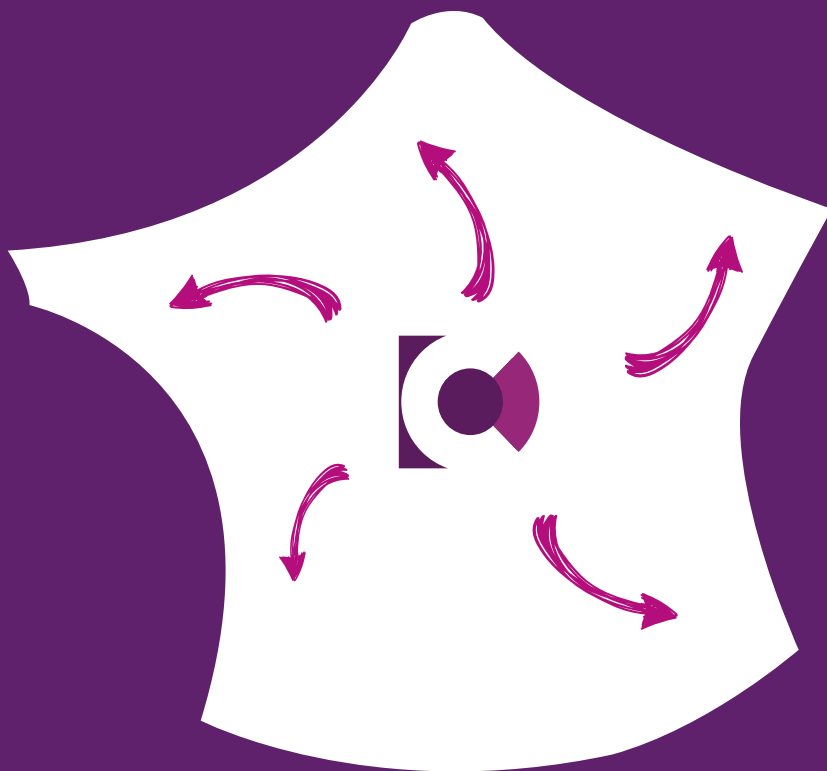


Caisse Française de Financement Local

2015

Annual Financial Report



CAFFIL

Public sector assets - *Obligations foncières*

ANNUAL FINANCIAL REPORT 2015

Caisse Française de Financement Local

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Profile

Caisse Française de Financement Local (also known by its acronym CAFFIL) is an issuer of covered bonds with a portfolio of assets solely comprised of loans to public sector entities. It is fully owned by the French State-owned development bank SFIL.

Caisse Française de Financement Local is a French specialized credit institution (*société de crédit foncier*). Its sole business is the refinancing of loans to public sector entities through the issue of covered bonds, called *obligations foncières*.

Since it was created in February 2013, Caisse Française de Financement Local is in charge of financing loans to French local governments granted by La Banque Postale. As of 2016, Caisse Française de Financement Local will also refinance credits for large French export contracts, with the unconditional and irrevocable guarantee of the French State.

Caisse Française de Financement Local is a 100%-owned subsidiary of SFIL, which also manages the Company in accordance with article L.513-15 of the Monetary and Financial Code. SFIL is a credit institution approved by the Autorité de contrôle prudentiel et de résolution (ACPR), 75% of which is held by the French State, 20% by Caisse des Dépôts et Consignations and 5% by La Banque Postale. The shareholding structure of Caisse Française de Financement Local is thus firmly anchored in the public sphere, reflecting the missions entrusted to it by the French State.

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

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

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

Key figures

Portfolio of assets
(cover pool)

EUR 60.0 billion

Ratio of non-performing loans
(% cover pool)

1.1%

Obligations foncières
(covered bonds)

EUR 51.6 billion

Obligations foncières issued
in 2015

EUR 6.2 billion

Regulatory
over-collateralization

12.5%

Solvency ratio
(Basel III)

24.0%

Management Report

Caisse Française de Financement Local

2015

1. General presentation of Caisse Française de Financement Local

1.1 - NATURE AND ACTIVITIES OF THE COMPANY

Caisse Française de Financement Local (also known by its acronym CAFFIL) is a credit institution active in the refinancing of loans to 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 on public sector entities as defined in article L.513-4 of the Monetary and Financial Code as well as securitization units or shares of similar entities considered as exposures on public sector entities as defined in article L.513-5 of the Monetary and Financial Code;
 - to hold securities and other assets under the conditions set by decree to be considered as replacement 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 - LEGAL AND SHAREHOLDING STRUCTURE OF THE COMPANY

a. Legal structure and name of the Company

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

On January 31, 2013, the Company took the name Caisse Française de Financement Local to replace that of Dexia Municipal Agency, upon the sale of its sole shareholder, Société de Financement Local (renamed SFIL in June 2015), to the French State, Caisse des Dépôts et Consignations and La Banque Postale.

The Company's registered office is located at 1-3, rue du Passeur de Boulogne in Issy-les-Moulineaux (92130), France.

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

b. Shareholding structure of the Company

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

In 2015, the French State entrusted SFIL and Caisse Française de Financement Local with the responsibility to refinance large export credits with the guarantee of the State (see 1.3.d). The objective is to enable large export credits as well as French local governments and public hospitals to benefit from optimal financing conditions through a high rating and irreproachable risk management.

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 missions 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's and SFIL's ongoing financial transactions if so required.

1.3 – ECONOMIC MODEL OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

a. Servicing and financing provided by SFIL

The role of SFIL 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), as defined by the regulations applicable to *sociétés de crédit foncier*, in particular article L.513-15 of the Monetary and Financial Code;
- 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 governments and public hospitals that it originates.

In addition to commitments of the French State as the reference shareholder, on January 31, 2013, SFIL signed a declaration of support of Caisse Française de Financement Local, which is reproduced in this annual financial report – General information.

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

b. Other management agreements

Specific individual agreements have been established with entities that have transferred assets to the *société de crédit foncier*, and continue to ensure management for their national clientele. At the end of 2015, there were agreements with the following entities: Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium), and Dexia Crediop (Italy). These agreements already existed in previous years.

Starting in 2015, management of new registered covered bonds (RCB) is entrusted to Landesbank Baden-Württemberg (LBBW). Dexia Kommunalbank Deutschland continues to manage registered covered bonds issued prior to 2015.

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

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

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

This partnership enables Caisse Française de Financement Local to maintain its control of the credit risk through a two-stage analysis:

- 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 and eligibility criteria of Caisse Française de Financement Local cannot be transferred to its balance sheet. Caisse Française de Financement Local's eligibility criteria are strictly monitored by internal management policies and limit eligible counterparties to French local public sector entities and public hospitals.

- Before loans originated by La Banque Postale are sold 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 sale 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*.

d. Refinancing of export credits

All of the authorizations required to expand the activities of SFIL and Caisse Française de Financement Local to include the refinancing of large export credits were obtained in 2015. Since then, Caisse Française de Financement Local may grant loans to SFIL in order to refinance its export credits. Such loans benefit from an irrevocable and unconditional 100% guarantee by the French State.

This new business will bring Caisse Française de Financement Local closer to the French State, without modifying the risk profile of its cover pool.

The system will function as follows:

- SFIL will contribute to the financial proposal made by one or more banks in the banking syndicate granting the buyer credit covered by the export credit insurance guaranteed by the State⁽¹⁾. Then, these banks will sell all or part of the loans (and the attached rights) to SFIL and will keep at least the share of the export credit not covered by the insurance (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 by the French State, referred to as an “enhanced guarantee⁽²⁾”. Loans granted by Caisse Française de Financement Local to SFIL to refinance the purchased export credits will thus constitute exposures that are totally guaranteed by the French State and eligible for the cover pool of a *société de crédit foncier*. These loans will also comply with the European CRR regulation (article 129, which specifies the assets authorized for inclusion in a cover pool to ensure that the covered bonds will benefit from the best prudential treatment).

These new loans, like the new French public sector loans marketed by La Banque Postale, will be added to the portfolio of Caisse Française de Financement Local, which is financed by the issue of *obligations foncières*. Given the current size of the cover pool and the growth of its traditional line of business, the percentage share of these activities will increase little by little and will only become significant in several years.

1.4 – LEGAL FRAMEWORK

a. European framework

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

In September 2015, the European Commission launched a survey on the need to harmonize the different national legal frameworks for covered bonds. The responses of issuers and other stakeholders in this market were sent to the European Commission in January 2016 and will be studied in 2016. Two European directives govern and define covered bonds. The first is the UCITS directive (Undertakings for Collective Investment in Transferable Securities, which concerns the legislative, regulatory and administrative aspects of certain vehicles for collective investment in securities), article 52-4, and the second is the CRD (Capital Requirements Directive), which complements the related CRR regulation (Capital Requirements Regulation), article 129.

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

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

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

(1) Public guarantees for foreign trade, which in particular cover export credit insurance operations, are granted by the Minister in charge of the Economy, once approved by the Guarantees and Foreign Trade Credit Commission. They were formerly managed by Coface, but since the amended 2015 finance law, they are entrusted to an entity the State has asked to manage and deliver these guarantees, under the State's control, on its behalf and in its name. This public entity also manages and delivers enhanced guarantees under the State's control, on its behalf and in its name.

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

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

To meet Label requirements, Caisse Française de Financement Local committed to respect the above-mentioned directives and to ensure a high level of transparency in its communication to investors. All detailed information on the issues and cover pool of Caisse Française de Financement Local is now posted on the Covered Bond Label site (<https://www.coveredbond-label.com/issuer/47/>).

b. French legislative framework and regulations

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

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

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

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

1. General framework

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

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

Application to Caisse Française de Financement Local

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

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

2. Assets

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

Application to Caisse Française de Financement Local

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

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

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

Beginning in 2016, new assets made up of loans designed to refinance large export credits guaranteed by the French State will become part of the portfolio of assets of Caisse Française de Financement Local.

3. Liabilities and the privilege

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

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

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

- that when a *société de crédit foncier* is subject to bankruptcy or liquidation procedures, cash flows generated by the assets, after any financial instrument hedges if such be the case, are allocated in priority to serve the *obligations foncières* and other resources benefiting from the privilege, also after any financial instrument hedges if such be the case;
- that the liquidation of a *société de crédit foncier* does not accelerate the reimbursement of *obligations foncières* and other debt benefiting from the privilege, which continue to be paid at their contractual due dates with priority over all other commitments. These other commitments can only be settled after all debt benefiting from the privilege has been discharged.

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

Application to Caisse Française de Financement Local

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

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

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

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

4. Other provisions

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

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

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

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

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

The ratings of the bonds issued by Caisse Française de Financement Local are 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 more notches in function of the current safeguards (legal framework, quality of assets, asset/liability management, over-collateralization, etc.).

The rating of SFIL 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 public service responsibilities SFIL was entrusted with, State commitments and the State's influence on SFIL's governance.

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 2015 and post-closing events

2.1 - THE COVERED BOND MARKET

The market for public sector issues of covered bonds in euros was active in 2015 with an offer in the primary market of EUR 146 billion (compared with EUR 117 billion in 2014). This dynamic activity was in part bolstered by investors' need to replace a large volume of bonds that had reached maturity in 2015 (EUR 147 billion), but also by the active presence of issuers outside the euro zone who found in this market favorable conditions for their long term financing. Canadian, Australian and British issuers thus accounted for approximately 18% of the offering, although German and French issuers remained the most dynamic with, overall, more than 30% of the offering.

A significant highlight of 2015 was the ECB's move to pursue its covered bond purchase program as part of the implementation of its unconventional monetary policy. Generally, with outstandings in its purchase program as of December 31, 2015, of almost EUR 144 billion, the Eurosystem demonstrated how important it considers this market, which it helped to build.

The intervention of the Eurosystem resulted in a long decline in primary and secondary spreads. Then, since the month of September, the very abundant primary offering led investors to be more selective and demanding with regard to new issue premiums compared with the secondary market. Spreads thus tended to widen in the last quarter of 2015.

In such an environment, Caisse Française de Financement Local launched its annual program of financing via *obligations foncières* in good conditions of volume, spread and average life. This has made it possible to provide the long-term liquidity required for the development of the commercial offers of La Banque Postale to the public sector in France and for ongoing support of SFIL's policy to reduce loan sensitivity.

In 2016, investor demand should remain naturally sustained as large volumes reach maturity (approximately EUR 150 billion). In addition, the particularly favorable regulatory treatment in such an evolving environment (Basel III or Solvency 2) should encourage investors to choose covered bonds when allocating assets. Nevertheless, the net offering is expected to be almost nothing as in 2015.

2.2 - BUSINESS OF LOCAL GOVERNMENT FINANCING IN 2015

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

With an excellent first half, La Banque Postale granted loans totaling EUR 4.0 billion in 2015, up approximately 20% from the previous year. Combined with the loans granted directly by Caisse Française de Financement Local, total production rose to EUR 6.3 billion and confirmed the leading role of LBP/SFIL in refinancing the local public sector (largest lender in terms of market share). For the fourth year of business, the organization that had been set up confirmed its efficiency after a progressive and regular ramp-up.

SFIL continued to implement the policy that consists in reducing the sensitivity of the structured loans of Caisse Française de Financement Local with a volume of EUR 1.4 billion of sensitive loans transformed into fixed rate contracts. Since the beginning of 2013, the total amount of outstanding structured loans was reduced by more than 44%, from EUR 8.5 billion to EUR 4.6 billion, and 300 customers definitively moved out of the "sensitive customer" category. Since the support funds initiated by the French State are fully operational, more than 100 legal settlements have been signed. The efforts to reduce sensitivity were generally accompanied by new loans of which EUR 1.7 billion were paid out in 2015.

By the end of 2015, half of the borrowers with loans indexed on EUR/CHF had been totally cleared of any sensitivity, and among them approximately 80% of small local governments and public hospitals that held such loans. At the same date, 92 borrowers, including 89 local governments, withdrew their suits. Litigation at the end of the year involved 131 plaintiffs compared with 210 at the end of 2014.

2.3 - EVENTS AFFECTING THE RATINGS OF *OBLIGATIONS FONCIERES*

The ratings of the *obligations foncières* issued by Caisse Française de Financement Local were 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 December 31, 2015, the ratings were as follows: AA+ by Standard and Poor's, Aaa by Moody's and AA by Fitch.

2.4 - LITIGATION RELATED TO STRUCTURED LOANS

In its portfolio, Caisse Française de Financement Local has structured loans considered as sensitive (see 4.2.e.1 for definition) 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.

a. Decrease in outstanding sensitive structured loans

The policy applied by SFIL since its creation at the beginning of 2013 made it possible to effect a significant reduction in the size of the portfolio of sensitive structured loans of Caisse Française de Financement Local (see 2.2 and 4.2.e.2).

b. Creation of support funds contributing to the cost of sensitivity reduction

The two support funds created by the French government in 2013 and 2014 allow local governments and public hospitals eligible for this arrangement to finance the cost of doing away with their structured loans. These funds were fully operational as of 2015. In the second half, notifications of the amounts of assistance provided by the funds began to be sent to local governments and public hospitals that had requested such help. This made it possible to maintain a sustained pace of sensitivity reduction and resulted in a major decrease in the number of law suits.

The intervention capacity of these funds was significantly 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 customers holding loans indexed on the EUR/CHF exchange rate were still responsible would not be greater, after assistance from the funds, than they would have been before the decision of the Swiss National Bank (SNB) in January 2015 to put an end to the floor rate of exchange of 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 million to the hospital support fund decided in November 2015 in order to participate in the increase in these funds.

To prepare its 2013 and 2014 annual financial statements, as well as its 2015 half year financial statements, Caisse Française de Financement Local took into account the hypothesis that the solutions announced by the government would in fact rapidly be made available. It was notably a question of defining a legal base for other structured loan agreements contracted by public sector entities (which took effect on July 30, 2014), creating a support fund for local governments and then for public hospitals and finally the measures taken in 2015 to counter the major rise in the exchange value of the Swiss franc decided by the Swiss National Bank 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 (rise in the two support funds and increase in the maximum rate of assistance granted).

c. Significant decline in the number of suits

As of December 31, 2015, the number of borrowers who had brought suit totaled 131, down from 210 as of December 31, 2014, a decline of 79 borrower-plaintiffs.

The law that created a legal basis to secure structured loan agreements subscribed by public sector 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 initiated the first law suit to be decided, chose to put an end to the litigation within the framework of a financial agreement that made it possible to eliminate its debt sensitivity.

Since this first legal decision in February 2013, the Tribunal has decided a limited number of cases. Four decisions were handed down in 2014 before the law creating a legal basis to secure structured loan agreements subscribed by public entities took effect, which Dexia Credit Local and Caisse Française de Financement Local appealed, and three in 2015.

Of the three decisions of the Tribunal de grande instance de Nanterre handed down in 2015, a single decision condemned jointly and separately Dexia Credit Local and Caisse Française de Financement Local for the failure of Dexia Credit Local to provide adequate information and sufficient warning when it marketed the loan. This same decision condemned the 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.

As of December 31, 2015, all these decisions were being heard in appeal before the Cour d'appel de Versailles, except for litigation in which a financial agreement had been reached. At the same time, 88 borrowers who had brought suit signed a financial settlement agreement with SFIL, Caisse Française de Financement Local and Dexia Credit Local, thereby putting an end to legal litigation.

2.5 - TAX ASSESSMENT

In 2015, French tax authorities investigated the income declared and the tax paid for 2012 and 2013. Following the tax assessment, the tax authorities expressed their disagreement with the tax treatment of the following two points: the taxation in Ireland of the income from the Dublin branch of Dexia Municipal Agency, which has now been closed, and the deductibility of provisions for non-performing loans.

In order to take into account the risk of an unfavorable outcome in these proceedings, Caisse Française de Financement Local has recorded a provision for additional income tax in the amount of EUR 38 million. Nonetheless, Caisse Française de Financement Local does not agree with the position of the tax authorities and will appeal within the framework of legal recourse allowed by current tax regulations.

3. Changes in main balance sheet items

EUR billions value after currency swaps	12/31/2013	12/31/2014	12/31/2015	Change Dec. 2015 / Dec. 2014
Cover pool	63.7	62.3	60.0	(3.7)%
Loans	53.2	51.6	50.5	(2.1)%
Securities	9.0	10.2	7.0	(31.4)%
Cash deposit in central bank	1.5	0.5	2.5	381.0%
Assets assigned in guarantee to Banque de France	-	-	-	-
Privileged debt	55.3	54.6	53.0	(2.9)%
<i>Obligations foncières*</i>	52.8	52.2	51.6	(1.2)%
Cash collateral received	2.5	2.4	1.4	(40.6)%
Non-privileged debt	6.8	6.2	5.5	(11.3)%
Parent company	6.8	6.2	5.5	(11.3)%
Banque de France	-	-	-	-
Equity IFRS (excluding unrealized gains and losses)	1.5	1.5	1.5	(2.4)%

* 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 2.5 billion at the end of December 2015 versus EUR 2.1 billion as of the end of 2014.

As of December 31, 2015, the cover pool totaled EUR 60.0 billion, excluding accrued interest not yet due. As of December 31, 2014, the total was EUR 62.3 billion; the decrease was therefore EUR 2.3 billion (-3.7%). At the end of December, 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 53.0 billion, which decreased (-2.9%) 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 2015

The net change in the cover pool as of December 31, 2015, corresponded to a decrease in assets in the amount of EUR 2.3 billion. This change is explained by the following items.

EUR billions	2015
1- Acquisition of loans from La Banque Postale	3.4
Loans to the French public sector (vanilla loans in euros)	3.4
2- Reduction of loan sensitivity	1.7
Sensitive structured loans removed	(1.4)
Refinancing loans (vanilla loans in euros)	1.4
New loans (vanilla loans in euros)	1.7
3- Amortization of portfolio of loans and securities	(5.8)
4- Early reimbursements	(1.9)
5- Changes in treasury	0.4
Change in short maturity securities investments (French sovereign)	(1.6)
Change in Banque de France cash deposit	2.0
6- Other changes	(0.1)
Other loans to the French public sector	0.1
Divestments	(0.2)
Impairment and currency adjustment	0.0
Net change in the cover pool	(2.3)

In 2015, Caisse Française de Financement Local acquired a total of EUR 3.4 billion in loans to the French local public sector originated by La Banque Postale.

In application of the policy of reduction of loan sensitivity in effect since the beginning of 2013, the operations conducted by SFIL in 2015 made it possible to decrease outstanding loans considered as sensitive by EUR 1.4 billion by replacing them with fixed rate loans. They were accompanied by new fixed rate loans in the amount of EUR 1.7 billion. After amortization, outstanding loans considered as sensitive diminished by EUR 1.7 billion in 2015.

The natural amortization of the portfolio of loans and securities represented EUR 5.8 billion in 2015, and early reimbursements EUR 1.9 billion (mostly the reimbursement of a loan granted to SFIL recognized as a replacement asset and the debt tender offering to which Caisse de Financement Local brought part of its bonds issued by several Italian regions).

Divestments in 2015 totaled EUR 0.2 billion which were mainly attributable to a Swiss borrower.

Available cash deposited at the Banque de France or invested in short-term French sovereign securities increased by EUR 0.4 billion.

4.2 - OUTSTANDING ASSETS AS OF DECEMBER 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	12/31/2015
Loans and bonds to the public sector	56.3	55.2
Treasury (sight accounts and short term investments)	2.1	2.5
Replacement assets	3.9	2.3
TOTAL	62.3	60.0

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 2.5 billion and zero as of December 31, 2015.

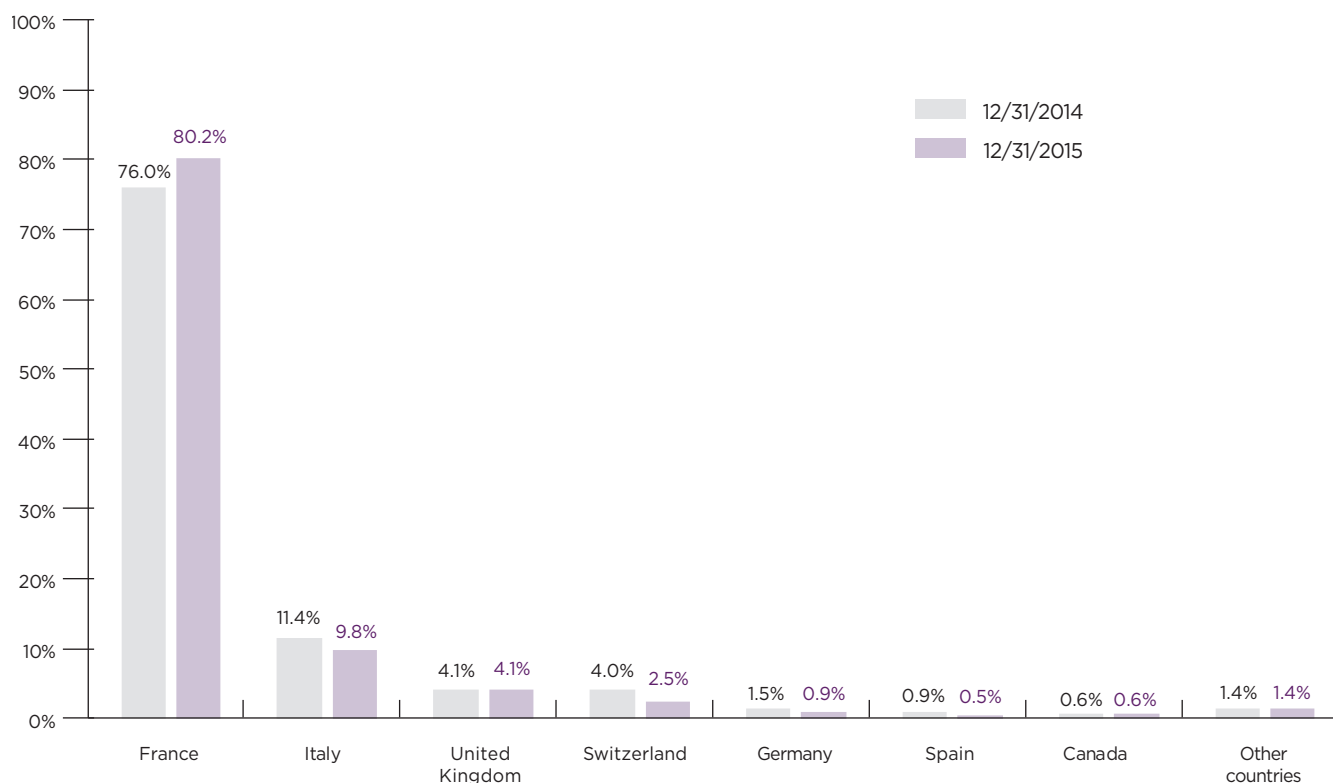
a. Public sector loans and securities (excluding replacement assets and treasury)

1. Geographic breakdown

French assets are predominant in the cover pool (80.2%), and their percentage is expected to rise in the future. Loans acquired through La Banque Postale since 2013 accounted for almost EUR 6 billion as of December 31, 2015, representing 13.5% 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.

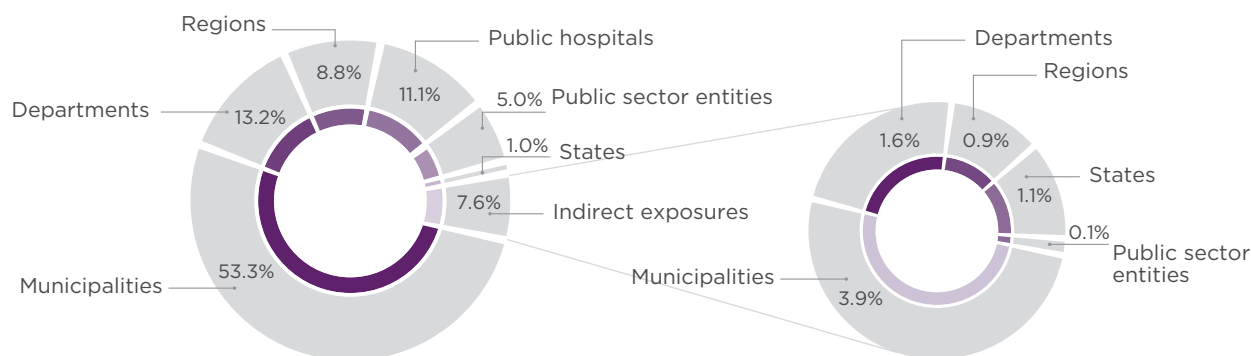


Exposures to Other countries as of December 31, 2015, are broken down by country in the section Bonds and public sector loans, which is presented at the end of this management report.

2. Breakdown by type of counterparty

The portfolio of Caisse Française de Financement Local is made up of the following items:

- for 82%, direct or indirect exposures on municipalities, departments or regions;
- for 11%, public hospitals;
- for 7%, sovereign exposures or commitments on other public sector entities (including public social housing).



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	12/31/2015	in % of the cover pool ***
France*	AA/Aa2/AA	172	189	0.3%
United Kingdom	AAA/Aa1/AA+	481	403	0.7%
Italy	BBB-/Baa2/BBB+	576	568	1.0%
TOTAL		1,229	1,160	2.1%

* Excluding treasury (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 treasury and replacement assets

Most of these exposures are concentrated on countries that benefit from very good ratings as of December 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 December 31, 2015, the replacement assets of Caisse Française de Financement Local were comprised of a long-term loan to SFIL, which benefits 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. After SFIL's early reimbursement in 2015 of a loan totaling EUR 1.1 billion, replacement assets represented 4.7% of the privileged debt (*obligations foncières* and registered covered bonds) of Caisse Française de Financement Local at the end of 2015.

Replacement assets	Country	Issuer	EUR millions	
			12/31/2014	12/31/2015
Step 1 credit rating				
Loans to parent company	France	SFIL	3,912	2,339
Step 2 credit rating				
Bank account balances	Other	Other	14	4
TOTAL			3,926	2,343

c. Assets removed from the cover pool

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

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

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

d. Yield

Article R.511-16-1 of the Monetary and Financial Code, introduced by the decree 2014-1315 of November 3, 2014, requires that in their annual financial report, credit institutions publish the yield of their assets, defined as the ratio between the net result and the total of their balance sheet. In 2015, this ratio equals - 0.10% in IFRS and - 0.05% in French GAAP.

e. 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⁽¹⁾. 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

Since the beginning of 2015, outstanding loans to the French public sector have risen, with an increase of EUR 3.8 billion in non-structured loans (vanilla) and a decrease of EUR 2.3 billion in structured loans (see the definition above).

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

EUR billions	12/31/2014	12/31/2015	% cover pool	Number of customers*
Sensitive loans not in the charter	3.2	2.4	3.9%	270
Sensitive loans (3E/4E/5E)	3.1	2.2	3.7%	309
SUBTOTAL SENSITIVE LOANS	6.3	4.6	7.6%	579
Other structured loans	5.2	4.6	7.7%	1,368
SUBTOTAL STRUCTURED LOANS	11.5	9.2	15.3%	1,947
Vanilla loans	30.6	34.4	57.3%	15,236
FRENCH PUBLIC SECTOR LOANS	42.1	43.6	72.8%	17,183
COVER POOL	62.3	60.0		

* considering the customer in the category with its most highly structured loan.

As of December 31, 2015, outstanding structured loans on the balance sheet of Caisse Française de Financement Local represented EUR 9.2 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 4.6 billion at the end of December 2015 compared with EUR 6.3 billion at the end of 2014. The EUR 1.7 billion decrease in these outstanding loans was due for EUR 1.4 billion to proactive efforts to reduce the sensitivity of the outstanding loans and for EUR 0.3 billion to the contractual amortization of these loans.

As of December 31, 2015, the most sensitive structured loans (loans not in the charter) represented 3.9% of the cover pool and 270 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	12/31/2014		12/31/2015	
	Amounts EUR billions	Number of customers	Amounts EUR billions	Number of customers
Municipalities with fewer than 10,000 inhabitants	0.2	76	0.1	50
Municipalities with more than 10,000 inhabitants and groups of municipalities	1.7	218	1.2	146
Regions and departments	0.7	21	0.4	16
Public hospitals	0.5	48	0.5	44
Other customers	0.1	15	0.1	14
TOTAL	3.2	378	2.3	270

Interest rates

The average rate paid by customers with sensitive loans in 2015 was 6.4% compared to 5.5% in 2014 (see below).

%	2014	2015
Decile 1	13.7	21.9
Decile 2	9.3	13.6
Decile 3	6.6	7.4
Decile 4	5.2	4.8
Decile 5	4.5	4.3
Decile 6	4.2	4.0
Decile 7	3.9	3.8
Decile 8	3.7	3.6
Decile 9	3.4	3.3
Decile 10	2.6	2.4
AVERAGE RATE PAID	5.5	6.4

The rates paid in 2015 decreased for deciles 4 to 10 (70% of borrowers). On the other hand, they increased for the first three deciles.

The first two deciles concern borrowers holding contracted loans indexed on the EUR/CHF exchange rate. The interest rate paid increased significantly in 2015. This was due to the considerable appreciation of the Swiss franc subsequent to the decision of the Swiss National Bank in January 2015 to eliminate the floor rate for the Swiss franc.

To account for this new situation, the government decided on a major increase in the capacities of intervention in the support funds created in 2013 and 2014 to enable local governments and public hospitals eligible for such arrangements to

finance the cost of putting an end to their structured loans. The objective was to cover the additional cost linked to the appreciation of the Swiss franc so that the early reimbursement penalties for which the concerned borrowers were still responsible would not be greater, after assistance from the funds, than they would have been before 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 amounts allocated to the support funds totaled respectively EUR 3.0 billion for local governments and EUR 400 million for public hospitals. In addition, the ceiling on assistance was significantly increased for the most fragile local governments, rising from 45% to 75% of the penalties due.

Of the 150 borrowers that made up the first two deciles in 2015, 80 were able to reduce the sensitivity of the loans concerned since the payments of the 2015 high contractual interest rate. They no longer have any loans indexed on the EUR/CHF exchange rate. The other borrowers who have not yet reduced the sensitivity of their loans indexed on the EUR/CHF exchange rate may do so in 2016 and benefit from the two funds the government has introduced to put an end to the structured loans (support funds for local governments and public hospitals).

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 300 customers between SFIL's date of creation and December 31, 2015. The number of customers holding sensitive loans decreased from 879 to 579, and the outstanding sensitive loans dropped from EUR 8.5 billion to EUR 4.6 billion.

The two support funds created by the government and now operational accelerated this process of reduction in loan sensitivity in 2015 and to be continued in 2016, by helping local governments and public hospitals to finance the cost of disengaging themselves from their structured loans. Since September 2015, 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 significantly 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 would not be greater, after assistance from the funds, than they would have been before 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 December 31, 2015

As of December 31, 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	12/31/2015
Cash collateral received	2.4	1.4
<i>Obligations foncières</i> and registered covered bonds	52.2	51.6
TOTAL	54.6	53.0

5.1 - CHANGE IN 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 December 2015.

5.2 - CHANGE IN ISSUES IN 2015

Within the recurrent annual program of EUR 5 billion to EUR 7 billion, the issuance policy of Caisse Française de Financement Local primarily aimed to construct a coherent yield curve in the euro market while keeping an eye on the good performance of its benchmarks in the secondary market. The diversification of its sources of financing is necessary to achieve long maturities coherent with its needs. This implies an active presence in the market of private placements within the framework of the EMTN program or the issue of registered covered bonds.

a. New issues in 2015

In 2015, Caisse Française de Financement Local reported a volume of issues of EUR 6.2 billion by enhancing its reference curve with four new points, by increasing the amount of existing souches and by developing its presence in the private placement segment. Caisse Française de Financement Local raised money on the primary market on four occasions for a total amount of EUR 3.5 billion:

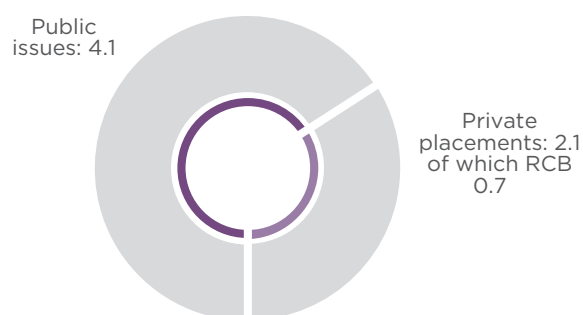
- a 20-year issue in January for EUR 500 million;
- an 8-year issue in April for EUR 1.0 billion;
- a 10-year issue in September for EUR 1.0 billion;
- a 7-year issue in October for EUR 1.0 billion.

At the same time, Caisse Française de Financement Local provided additional liquidity for several of its reference issues via four taps in 2015 for a cumulated amount of EUR 600 million.

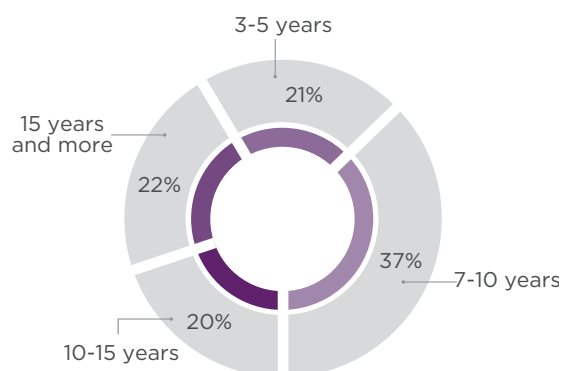
In addition to these public transactions, Caisse Française de Financement Local remained very active in the private placement segment and especially with the registered covered bond format, thus making it possible to respond to investors' search for long and very long maturities. Altogether EUR 2.1 billion was raised in this market segment.

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

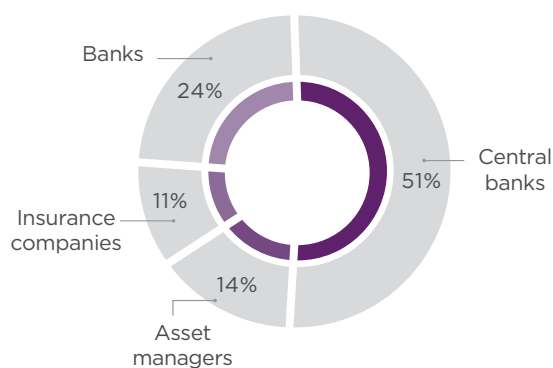
2015 issues by format
EUR billions



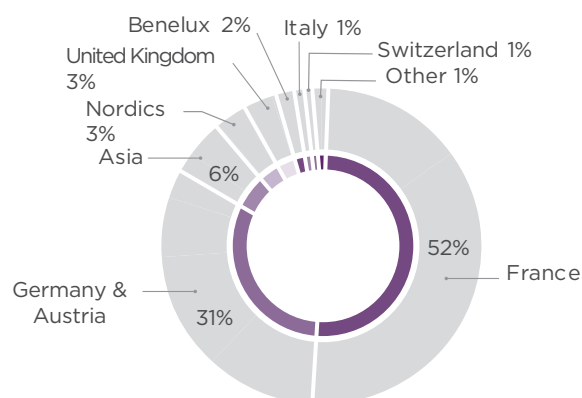
2015 issues by maturity



2015 public issues by investor category



2015 public issues by geographic zone

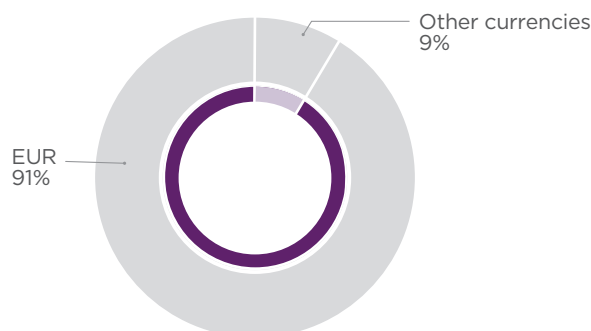


b. Outstanding debt as of December 2015

Outstanding *obligations foncières* and registered covered bonds totaled EUR 51.6 billion in swapped value at the end of December 2015, including the new issues of *obligations foncières* for EUR 6.2 billion and after the amortization of issues arriving at maturity for EUR 6.8 billion.

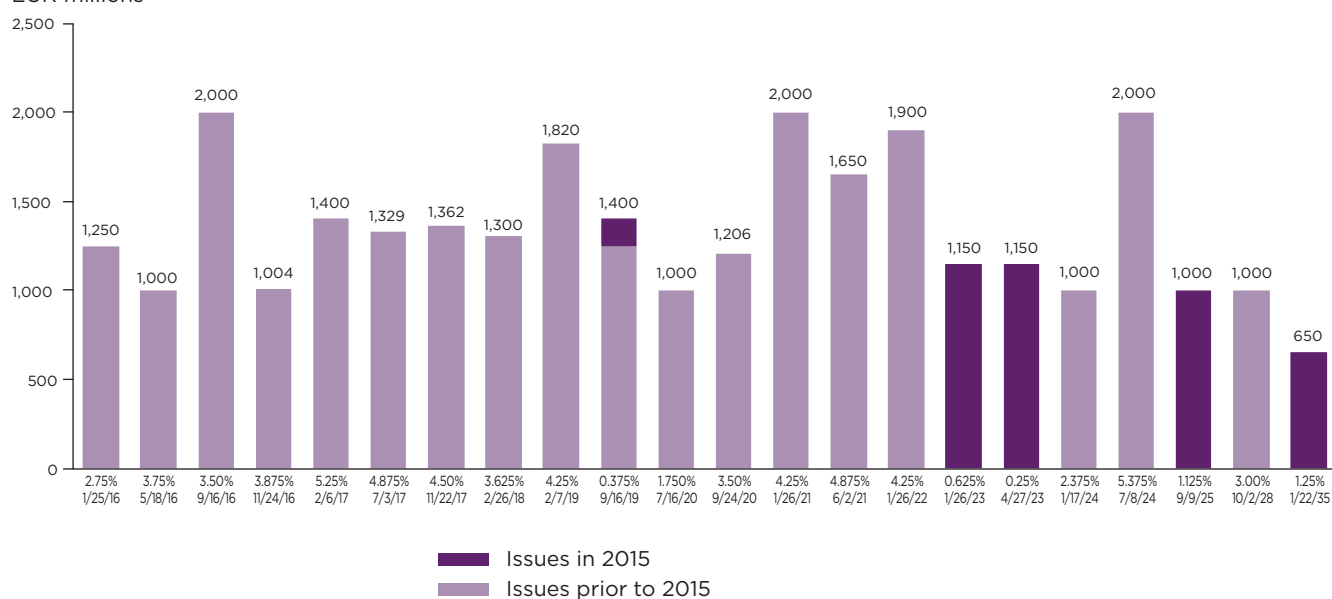
EUR billions - swapped value	2014	2015
Beginning of the year	52.8	52.2
Issues	4.0	6.2
Amortizations	(3.7)	(6.8)
Buyback	(0.9)	0.0
END OF PERIOD	52.2	51.6

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



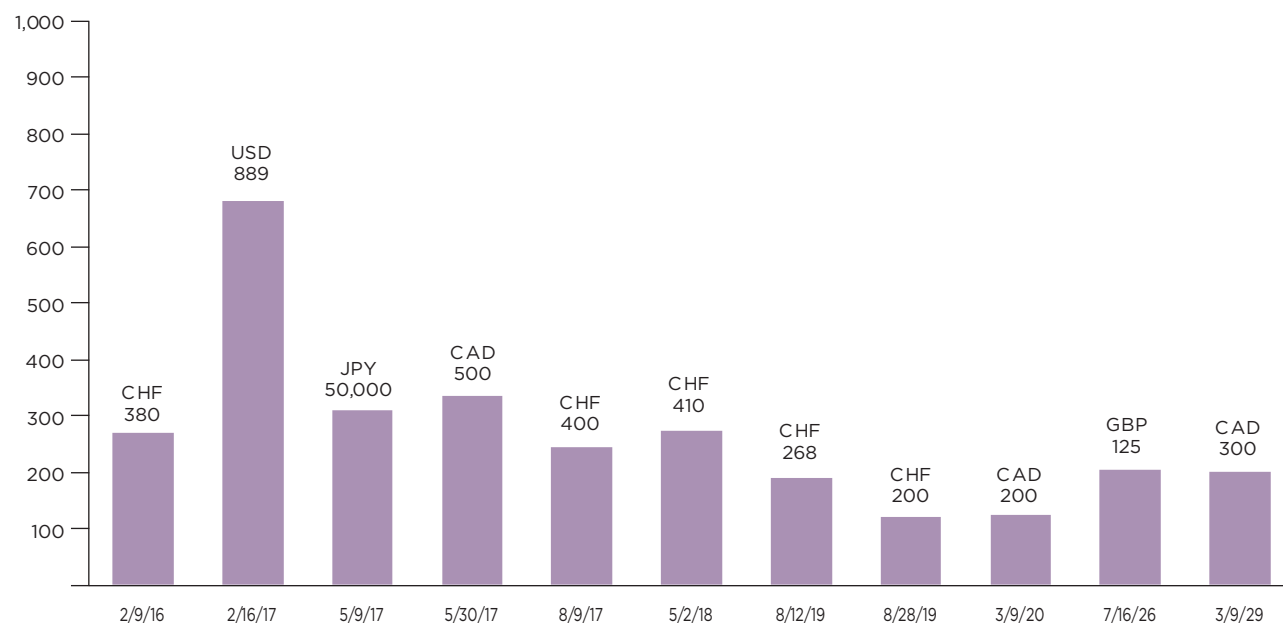
Benchmarks in euros

EUR millions

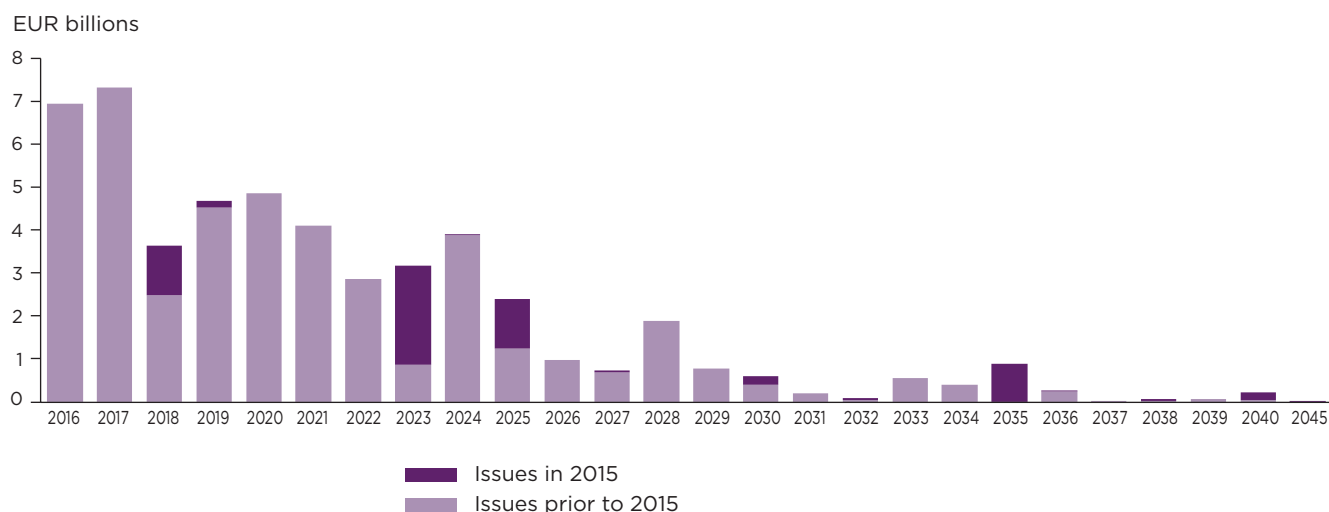


Main issues in non-euro currencies

Value in EUR millions (swapped value)



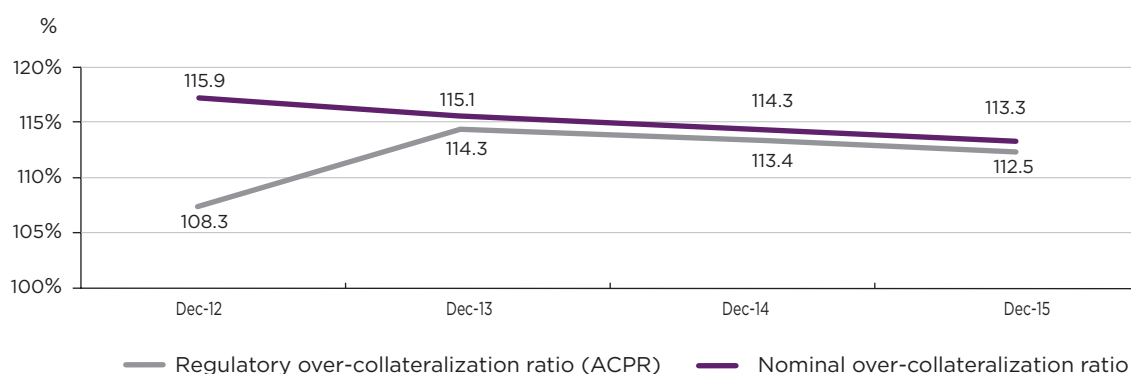
Amortization of *obligations foncières* and registered covered bonds



6. Changes in the over-collateralization ratio in 2015

The over-collateralization ratio, which is calculated on the basis of regulatory standards governing *sociétés de crédit foncier*, is the ratio between the assets and the resources benefiting from the legal privilege. The 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.

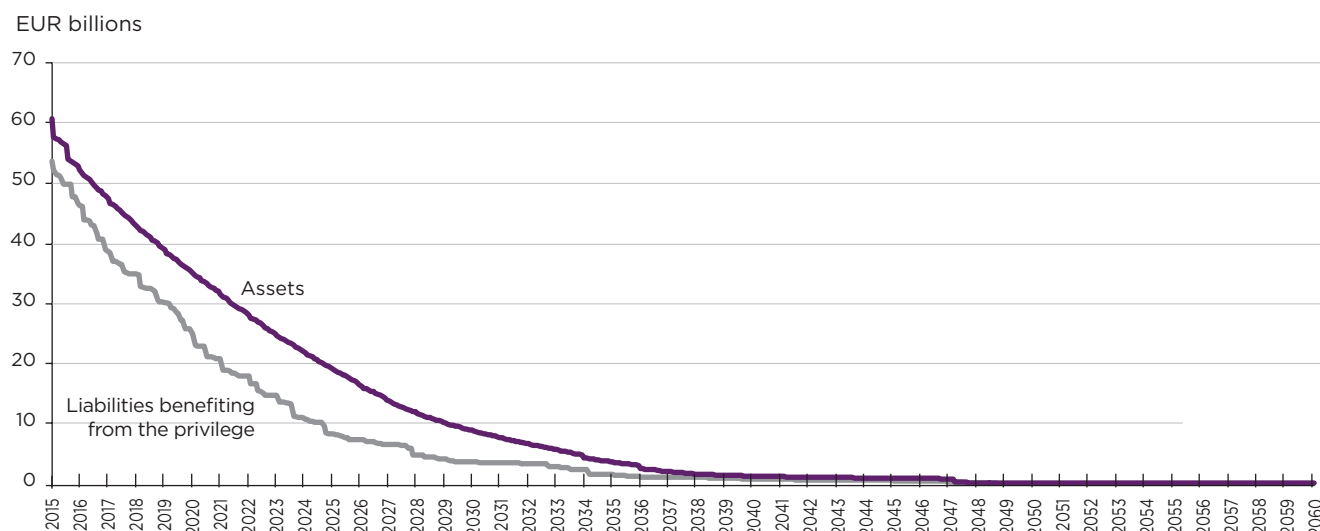


Regulatory over-collateralization may differ from nominal over-collateralization. In fact, it is calculated on the basis of the rules determined by the Autorité de contrôle prudentiel et de résolution (ACPR). In particular, these rules require different weighting levels according to the assets. The assets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

Any assets that Caisse Française de Financement Local may have assigned in guarantee to borrow funds from the Banque de France or any other banking institution would be excluded from the calculation of over-collateralization.

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

Amortization of assets and liabilities as of December 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 obtained through the parent company. At the end of December 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 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. Since the creation of SFIL, Caisse Française de Financement Local has not contracted 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	12/31/2015
Parent company	6.2	5.5
Banque de France	-	-
TOTAL	6.2	5.5

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 in 2015.

8. Risk management

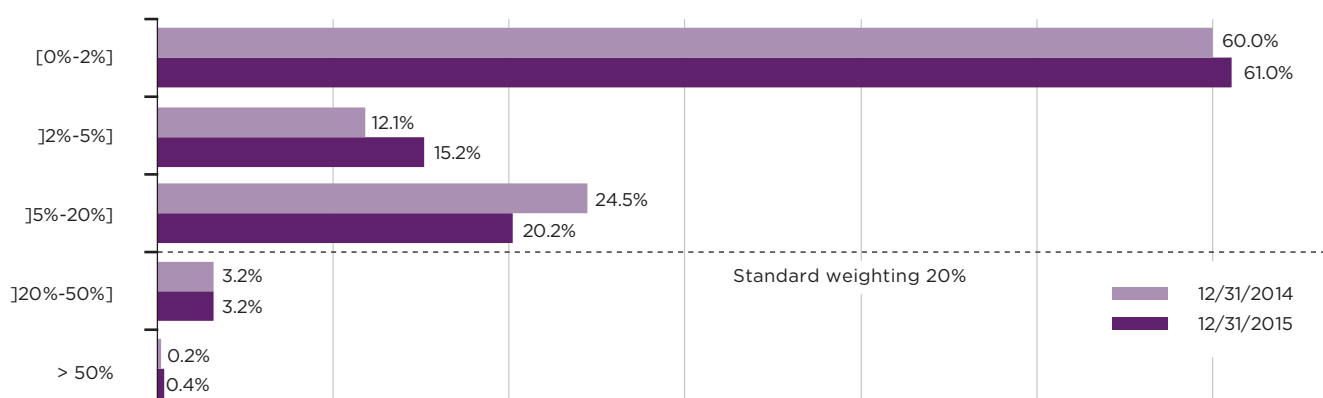
8.1 - CREDIT RISK

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. SFIL chose the advanced method within the framework of the calculation of the solvency ratio and capital adequacy. Banking regulator authorized the Company to use the advanced internal models developed for the consolidated calculation and reporting 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. This enables Caisse Française de Financement Local to present an analysis of its exposure as of December 31, 2015, broken down by risk weighting, such as used for the calculation of capital requirements for credit risk.

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



This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio, since only 3.6% of the portfolio has a weighting of more than 20%. The average risk weighting of the cover pool is 6.5%, versus 20% for European local governments according to the Basel II / III standard method.

Combined with its high level of regulatory equity, the credit quality of Caisse Française de Financement Local's assets enabled the Company to post a phased-in Basel III solvency ratio of 24.0% as of December 31, 2015, compared with 23.3% as of December 31, 2014. The phased-in Common Equity Tier One ratio in Basel III was 23.2% as of December 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
Sovereigns	2%	1,160 100%	1,160 100%	1,160 100%
French local authorities	80%	2,321 5.3%	6,005 13.6%	15,048 34.1%
Non-French local authorities	18%	2,439 24.6%	5,385 54.4%	9,145 92.4%
TOTAL	100%	2,748 4.6%	8,163 13.6%	19,965 33.3%

As of December 31, 2015, all categories combined, the 20 largest exposures (excluding replacement assets and cash investments) represented 13.6% 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

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 portfolio's overall high quality. Nonetheless, non-performing loans have increased significantly in recent years. The reason for this rise lies in the growth of unpaid commitments linked to litigation on sensitive structured loans, but also reflects a more conservative approach since the change in Caisse Française de Financement Local's shareholder. Thus, from 2013 to 2015, there was a rise in the number of customers the Company classified in default. With several of them, there was already litigation concerning their structured loans and in addition they 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 and litigious loans Number of customers	12/31/2014		12/31/2015	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
Beginning of the year	47	53	90	52
New	53	13	29	14
Outgoing	10	14	45	31
END OF THE YEAR	90	52	74	35

Non-performing and litigious loans concerned 109 customers at the end of 2015 compared with 142 at the end of the previous year, representing a decrease of 33 customers. In 2015, seventeen litigious files were resolved after the payment of the sums due and fourteen litigious files were reclassified as non-performing.

At the end of December 2015, non-performing and litigious loans totaled EUR 673 million, approximately 1.1% of the total cover pool (EUR 60 billion). These loans can be broken down as follows.

- EUR 596 million in loans qualified as non-performing, corresponding to loans to customers with total unpaid amounts of EUR 56 million (of which EUR 48 million were unpaid on structured loans);
- EUR 77 million in loans qualified as litigious, corresponding to unpaid interest on structured loans that are subject to litigation.

Non-performing loans and litigious loans EUR millions	12/31/2014		12/31/2015	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
FRANCE				
State	-	-	-	-
Regions	-	-	-	1
Departments	-	4	-	11
Groups of municipalities	85	30	104	42
Municipalities	189	31	352	19
Public sector entities	122	2	140	4
TOTAL	396	67	596	77

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

EUR millions	12/31/2014	12/31/2015
Specific impairment	47	66
Collective impairment	63	63
TOTAL	110	129

Specific provisions for non-performing loans increased by EUR 19 million in 2015. This rise corresponds, for an amount of EUR +26 million, to the mandatory impairment of unpaid or accrued interest on non-performing loans, the outstanding amount of which increased, and for EUR -7 million to the reversal of provisions on the nominal amount of non-performing loans.

The review of the portfolio and its associated risks did not entail any change in collective impairment

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 in section 2.3 of this management report.

At the end of December 2015, the cost of risk, retreated from the contribution to the support fund for public hospitals, presented a gain of EUR 7 million, reflecting a reversal on specific 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, 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 2.3 billion (see 4.2.b);
- bank account balances in euros and other currencies, representing EUR 4 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 character-

istics, 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 December 2015, Caisse Française de Financement Local was exposed (positive fair value of the swaps) on 12 banking counterparties. 11 of these paid cash collateral of 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 9 million).

All derivative exposures as of December 31, 2015, are listed below.

EUR billions	Short-term notional amounts	Long-term notional amounts	% of long-term notional amounts	Mark to Market		Collateral received	Number of counterparties
				-	+		
SFIL	0.0	21.5	22.5%	(2.7)	-	-	1
Other counterparties	59.7	74.2	77.5%	(3.8)	1.4	1.4	28
TOTAL	59.7	95.7	100.0%	(6.5)	1.4	1.4	29

The swaps negotiated with external counterparties represented 77.5% of outstanding long-term swaps and those signed with SFIL 22.5%. Long-term swaps signed with the five largest counterparties represented a total of 35.6% 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 cancellation of liability swaps.
- In the second stage, Euribor lending and borrowing flows (naturally or after hedges) are swapped against Eonia generally 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 finances fixed rate assets.

3. Limits on interest rate risk

The sensitivity of residual positions that remain after the two levels of hedging 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	1Q 2015	2Q 2015	3Q 2015	4Q 2015
SENSITIVITY	25.0	4.9	10.5	0.0	0.1

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	1Q 2015	2Q 2015	3Q 2015	4Q 2015
Short term	10.0	0.3	2.0	3.5	0.6
Medium term	10.0	5.1	5.6	(0.8)	(0.4)
Long term	10.0	6.8	6.3	(0.5)	1.9
Very long term	10.0	(7.3)	(3.4)	(2.2)	(2.0)

- *Limiting the slope risk between two points of maturity close to one another on the curve:* in each segment, the sum in absolute value of the sensitivities of points on the yield curve (grouped in several points of reference) is limited to EUR 20 million per segment. Measurement of sensitivity at the end of 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	1Q 2015	2Q 2015	3Q 2015	4Q 2015
Short term	20.0	1.0	7.6	5.2	6.2
Medium term	20.0	7.8	13.4	8.4	4.5
Long term	20.0	4.1	8.9	4.9	3.7
Very long term	20.0	7.3	7.6	3.8	3.8

4. Outstanding derivatives

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

Breakdown of outstanding swaps	Notional* EUR billions	SFIL %	Other counterparties %
Euribor against Eonia			
Macro-hedges	59.7	0.0%	100.0%
TOTAL SHORT-TERM SWAPS	59.7	0.0%	100.0%
Fixed rate swaps against Euribor			
Micro-hedges on <i>obligations foncières</i>	45.7	17.0%	83.0%
Micro-hedges on loans and debt securities	24.1	13.2%	86.8%
Macro-hedges on loans	18.5	35.3%	64.7%
Subtotal	88.3	19.8%	80.2%
Currency swaps			
Micro-hedges on <i>obligations foncières</i>	4.8	56.0%	44.0%
Micro-hedges on loans	1.7	52.6%	47.4%
Micro-hedges on debt securities	0.9	51.8%	48.2%
Subtotal	7.4	54.7%	45.3%
TOTAL LONG-TERM SWAPS	95.7	22.5%	77.5%

* 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)	12/31/2014	3/31/2015	6/30/2015	9/30/2015	12/31/2015
Cover pool	7.24	7.36	7.08	7.41	7.17
Privileged liabilities	5.40	5.61	5.40	5.70	5.52
Gap in asset-liability duration	1.84	1.75	1.68	1.71	1.64
<i>Duration gap limit</i>	3	3	3	3	3

2. Weighted average life gap

Changes in the gap in weighted average life can differ from the changes in the gap in duration over the same period, for the evolution in the duration gap is partly attributable to movements in the interest rate curve. The gap in the weighted average life of the cover pool and the liabilities benefiting from the legal privilege is presented below.

Weighted average life (in years)	12/31/2014	3/31/2015	6/30/2015	9/30/2015	12/31/2015
Cover pool	7.84	7.71	7.81	8.06	7.84
Privileged liabilities	5.71	5.83	5.86	6.11	5.95
Gap in asset-liability weighted average life	2.13	1.88	1.95	1.94	1.89

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. Caisse Française de Financement Local respects this 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.

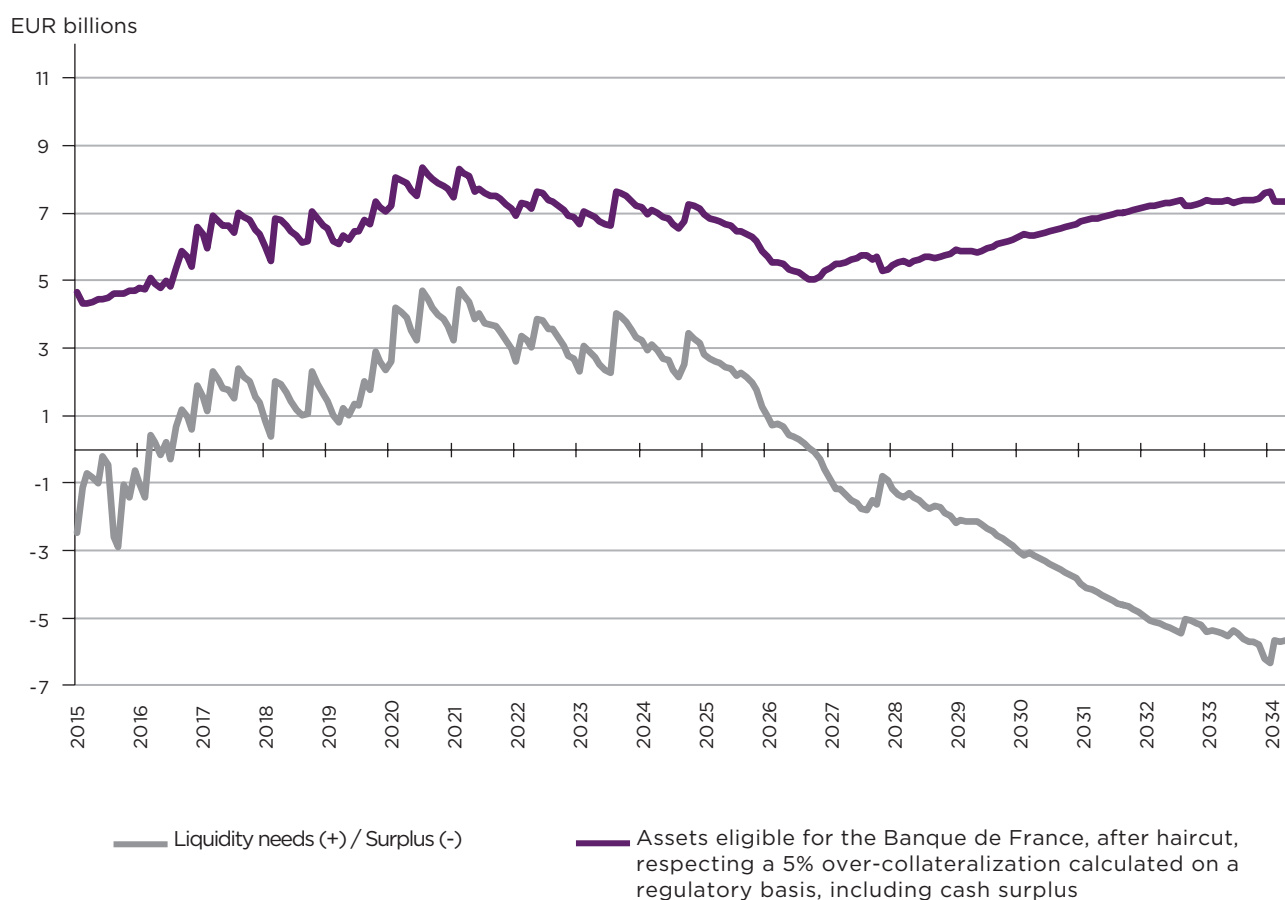
Since it is a credit institution, Caisse Française de Financement Local can post these eligible assets:

- 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).

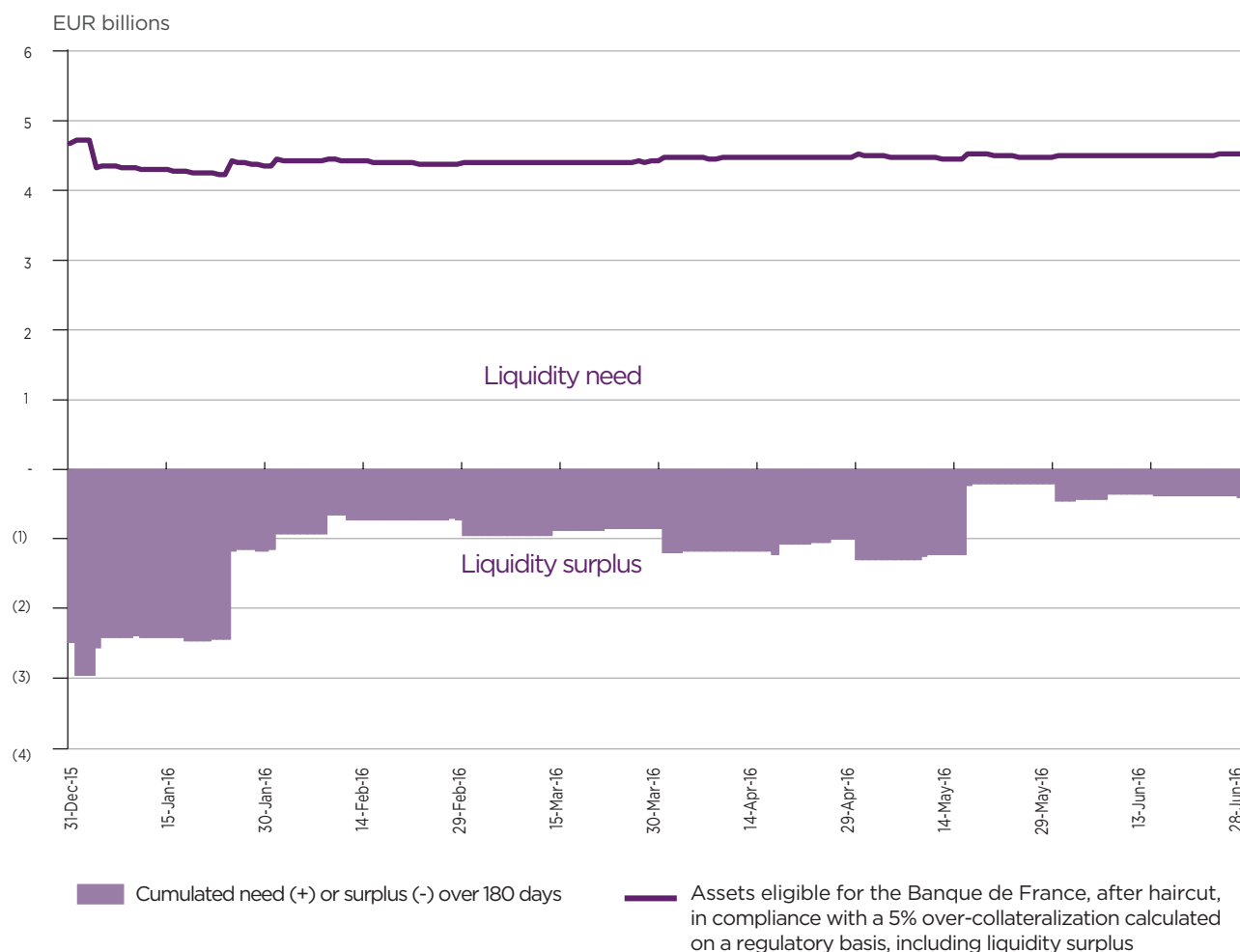
The maximum cumulated liquidity that Caisse Française de Financement Local might need in the future, in a run-off situation and if it were not able to issue new *obligations foncières*, is less than the maximum financing already occasionally obtained from the Banque de France in the past. This need is 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 Coverage Ratio (LCR);
- 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 December 2015, the liquidity situation showed a surplus over the whole period.

8.3. MANAGEMENT OF OTHER RISKS

a. Legal risks

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

Caisse Française de Financement Local is involved in no litigation or suit other than those described in the year's highlights (2.4 and 2.5).

b. Operational risks and permanent control

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

Caisse Française de Financement Local delegates to 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 2015 annual financial report entitled Supplemental information – Report of the Chairman of the Supervisory Board.

c. Security and means of payment

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

9. Commitments granted – commitments received

Commitments granted as of December 31, 2015, are mainly comprised of the portion of loans not yet paid out of loans granted to French local governments in the amount of EUR 0.3 billion and financing offers granted to SFIL for the refinancing of the export credit business in the amount of EUR 0.6 billion.

Commitments received were principally:

- the authorized overdraft in the current account as stipulated in the financing agreement signed with SFIL for EUR 50 million;
- the pledge of securities to the benefit of Caisse Française de Financement Local in guarantee of the reimbursement of loans granted to the parent company, SFIL, in the amount of EUR 2.3 billion;
- guarantees received on loans to customers for EUR 6.1 billion.

10. Payment deadlines

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

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

As of December 31, 2015 and 2014, all supplier accounts were settled. The only supplier debt recorded corresponded to invoices not yet received.

11. Research and development

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

12. Non-tax-deductible charges and expense

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

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

13. Income for the year

13.1 – INCOME ACCORDING TO IFRS

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

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

The income statement for 2015 is presented in a synthetic form as follows.

IFRS EUR millions	2013	2014	2015	Change 2015/2014
Interest margin	141	103	115	12%
Net commissions	(24)	(28)	(26)	
Net result of assets at fair value	119	(14)	(32)	
Net result of financial assets available for sale	6	8	(2)	
Other income and expense	-	-	-	
NET BANKING INCOME	242	69	55	(20)%
General operating expenses	(74)	(90)	(90)	
Taxes	(5)	(3)	(6)	
OPERATING INCOME BEFORE COST OF RISK	163	(24)	(41)	(72)%
Cost of risk	(178)	(18)	(14)	
PRE-TAX INCOME	(15)	(42)	(55)	(31)%
Income tax	18	13	(21)	
NET INCOME	3	(29)	(76)	(162)%

a. Income restated excluding non-recurring events

Income was strongly influenced by the following factors that should be mentioned in this analysis:

- adjustments in fair value concerning interest rate risk hedges. The application of these changes in accounting standards or methods is a source of volatility in Net banking income. The impact was very positive in 2013 and negative in 2014 and 2015, as can be seen in the following table.

EUR millions	2013	2014	2015
Fair value adjustments on interest rate hedging	116	(24)	(36)

- the contribution to the support funds created by the French State to solve the problem of sensitive structured loans. This contribution was totally covered by a provision once Caisse Française de Financement Local decided to contribute to these funds (local governments in 2013, hospitals in 2014 and increase in hospital funds in 2015); the impact on the Cost of risk is presented below.

EUR millions	2013	2014	2015
Contribution to support funds for sensitive structured loans	(150)	(18)	(20)

- the provision covering the risk of additional tax to pay within the framework of the tax assessment. This provision was recorded in the 2015 financial statements for EUR 38 million.

Corrected for these items, Net banking income went from EUR +93 million in 2014 to EUR +91 million in 2015, and Net income was stable at EUR -1 million.

b. Net banking income

Net banking income decreased as compared with 2014, from EUR 69 million to EUR 55 million.

As indicated above, since 2013, fair value adjustments have an effect on existing hedging transactions the Company uses to cover its interest rate and foreign exchange risks. These adjustments impacted asymmetrically the hedged item and its hedging derivative, although the Company applies strict financial hedging rules, and this factor was therefore the cause of major changes in Net banking income:

- fair value adjustments introduced by the new standard IFRS 13: Credit Value Adjustment / Debit Value Adjustment (CVA / DVA), Funding Value Adjustment (FVA);
- fair value adjustment of collateralized derivatives: to account for developments in French banks' best practices, the Company chose a valuation against Eonia for derivatives for which it receives cash collateral while the other derivatives remain valued against Euribor. This change in the valuation of hedging derivatives, whereas the valuation of hedged items is not modified, creates inefficiency in hedging relations;
- evaluation of the hedged risk of certain assets and liabilities that are swapped against an Euribor index different from that in the reference curve that serves to value instruments on the balance sheet. The value of the derivative and that of the hedged item follow independent trends, thereby creating hedging inefficiency in accounting.

These adjustments in the accounting value are recorded in the income statement mainly in the item Net result of assets at fair value.

Corrected for these items, Net banking income totaled EUR +91 million in 2015, down EUR 2 million from 2014.

The Interest margin rose EUR 12 million. This margin corresponds to the difference between income from the assets and the cost of the liabilities (with comprehensive hedging of interest rate and foreign exchange risks). The increase in the margin was mainly due to regular improvement in financing conditions and the good level of commercial margins.

There was a EUR 2 million decline in Net commissions paid, which principally correspond to billing by SFIL within the framework of its management agreement as defined in article L.513-15 of the Monetary and Financial Code.

Finally, the item Net result of financial assets available for sale was down EUR 10 million from 2014. This item mainly represents the results on early reimbursements of loans or issues, and if such is the case, on sales of portfolio securities.

c. Other items

Most of the General operating expenses are made up of billing by the parent company for the operational management of the Company. The expenses were stable compared with 2014. On the other hand, the increase in taxes was the result of the contribution of EUR 5 million for the first time to the Single Resolution Fund created by European regulators. This sum is not deductible from corporate income tax in France.

The Cost of risk was impacted by accounting for the voluntary contributions of Caisse Française de Financement Local to the support funds for sensitive structured loans in the amount of EUR 18 million in 2014 (public hospital fund) and EUR 20 million in 2015 (increased capacity of intervention for the hospital fund). Excluding provisions for these contributions, the Cost of risk can be attributed to efforts to bolster specific and collective provisions in 2014 in the amount of EUR 26 million and in 2015 for EUR 19 million (cf. 8.1.c Non-performing loans, litigious loans, provisions) of which respectively zero and EUR 6 million were recorded in the Cost of risk. The change in provisions which is not registered in the Cost of Risk is recognized in Net banking income and corresponds to the neutralization of non-performing loan interest.

Income tax totaled EUR -21 million in 2015. This included the provision for tax risk for EUR 38 million (see 2.5 Tax assessment) and the effect of the non-deductibility of the contribution to the Single Resolution Fund.

Net income totaled EUR -76 million in 2015 compared with EUR -29 million in 2014. Corrected for adjustments in fair value, extraordinary contributions to support funds and the provision for tax risk, net income was stable at EUR -1 million.

13.2 - INCOME ACCORDING TO FRENCH GAAP

Net income for the year 2015 is presented below in a synthetic manner.

French GAAP EUR millions	2013	2014	2015	Change 2015 / 2014
Interest margin	160	158	186	18%
Net commissions	(24)	(28)	(26)	
Provisions and income on trading portfolio	-	-	-	
Provisions and income on securities	41	(2)	21	
Other income and expense	-	-	-	
NET BANKING INCOME	177	128	181	41%
General operating expenses	(74)	(90)	(90)	
Taxes	(5)	(3)	(6)	
OPERATING INCOME BEFORE COST OF RISK	98	35	85	143%
Cost of risk	(183)	(18)	(14)	
OPERATING INCOME	(85)	17	71	318%
Income (loss) on fixed assets	-	-	(5)	
Income tax	(5)	(9)	(96)	
Regulated provision on long- and medium- term loans	70	-	-	
NET INCOME	(20)	8	(30)	(475)%

The Company's business is piloted according to IFRS (as adopted by the European Commission). The French GAAP financial statements are published in accordance with legal requirements and serve as a base to calculate income subject to corporate income tax.

Readers are reminded that Caisse Française de Financement Local applies an accounting treatment to early loan reimbursement penalties and swap unwinding payments that is in compliance with the tax treatment specified by government tax authorities. This accounting method introduces accelerated recognition of income compared with systematic amortization. These penalties and payments are generated by early reimbursements, but also by renegotiations, which generally accompany active debt management by borrowers, as well as swaps of liabilities which are canceled in order to back these liabilities by a portfolio of acquired loans. The methods employed, which have not changed in the last three years, are described in the rules of presentation and evaluation of the financial statements in the notes to the financial statements in the sections entitled Customer loans, Micro-hedge transactions and Macro-hedge transactions.

Net banking income was up 41%, or EUR 53 million, as compared with the same period in 2014, rising from EUR 128 million to EUR 181 million.

This trend was mainly due to the Interest margin for EUR +28 million and the item Provisions and income on placement portfolio, which reported a change of EUR +23 million (reversal of provisions in 2015, reflecting the improvement of the market value of placement securities).

The Interest margin corresponds to the difference between income from the assets and the cost of the liabilities (with comprehensive hedging of interest rate and foreign exchange risks). The Interest margin varies differently when it is presented in IFRS (economic presentation) or in French GAAP (tax presentation). The way debt management is accounted for is, in certain cases, asymmetrical in French GAAP (see above), a fact that can make it difficult to interpret the changes, especially the years in which local government debt management (including reduction in loan sensitivity) is very active.

In 2015, the Interest margin rose more in French GAAP than in IFRS financial statements.

Most of the General operating expenses are made up of billing by the parent company for the operational management of the Company. These general expenses were stable compared with 2014. On the other hand, the increased taxes reflected the EUR 5 million contribution, for the first time, to the Single Resolution Fund created by European regulators. This item is not deductible from the calculation of corporate income tax.

The Cost of risk was impacted by accounting for the voluntary contributions of Caisse Française de Financement Local to the support funds for sensitive structured loans in the amount of EUR 18 million in 2014 (public hospital fund) and EUR 20 million in 2015 (increased capacity of intervention for the hospital fund). Excluding provisions for these contributions, the Cost of risk can be attributed to efforts to bolster specific and collective provisions in 2014 in the amount of EUR 26 million and in 2015 for EUR 19 million (cf. 8.1.c Non-performing loans, litigious loans, provisions) of which respectively zero and EUR 6 million were recorded in the Cost of risk. The change in provisions which is not registered in the Cost of Risk is recognized in net banking income and corresponds to the neutralization of non-performing loan interest.

Income tax totaled EUR -96 million in 2015. This item takes account of the impact of the non-deductibility of the contribution to the Single Resolution Fund, and especially of a provision for tax risk in the amount of EUR 86 million (the difference with the amount covered by a provision for this purpose in IFRS accounts for EUR 38 million, was due to the non-recognition of deferred taxes in French GAAP accounts).

Net income was down from EUR +8 million to EUR -30 million. The loss was due to the provision for tax risk mentioned above.

14. Proposed allocation of net income

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

Year of distribution	Distributed from the year's income	Amount distributed EUR	Amount per share EUR	Number of shares
2000	1999	3,600,000	1.20	3,000,000
2001	2000	-	-	4,000,000
2002	2001	-	-	4,500,000
2003	2002	-	-	4,500,000
2004	2003	120,000,000	24.00	5,000,000
2005	2004	62,000,000	10.00	6,200,000
2006	2005	84,320,000	12.40	6,800,000
2007	2006	116,280,000	15.30	7,600,000
2008	2007	70,080,000	8.00	8,760,000
2009	2008	113,520,000	12.00	9,460,000
2010	2009	133,560,000	12.60	10,600,000
2011	2010	110,075,000	9.25	11,900,000
2012	2011	15,080,000	1.16	13,000,000
2013	2012	-	-	13,150,000
2014	2013	-	-	13,150,000
2015	2014	-	-	13,150,000

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

Net income for the year 2015	(30,262,597.76)
Allocated to the legal reserve (5%)	-
Income available	(30,262,597.76)
Prior retained earnings	25,339,608.95
Retained earnings after allocation	(4,922,988.81)

15. Outlook for 2016

For the year 2016, Caisse Française de Financement Local and its parent company SFIL aim to:

- confirm their role as a major player in the market for loans to French local government and public hospital within the framework of cooperation with La Banque Postale (leader in this market in 2015);
- give concrete shape to their new role in refinancing banks that work with French exporters for their large export credits.

In addition to these two responsibilities entrusted by the French State, within an operating framework approved by the European Commission, there is also the objective to reduce the volume of sensitive structured loans (already cut in half since the beginning of 2013). This activity is generally accompanied by new loans granted to the local governments concerned.

Caisse Française de Financement Local will thus see new loans enter its portfolio of assets in 2016. They represent exposures on the French local public sector and the French State.

To cover its financing needs, Caisse Française de Financement Local plan to issue approximately EUR 7.0 billion of *obligations foncières* in 2016 with a long average maturity adapted to the profile of the new assets. Its program will mainly be developed through several benchmark issues in euros and private placements adapted to the needs of its large investor base.

Bonds and public sector loans as of December 31, 2015

EUR millions	12/31/2015					12/31/2014
	Direct exposure		Indirect exposure			
COUNTRY	Loans	Bonds	Loans	Bonds	Total	Total
France						
State			189		189	1,722
Banque de France	2,496				2,496	519
Regions	1,718	105	279		2,102	2,030
Departments	6,305		225		6,530	6,400
Municipalities	15,855	23	559		16,437	16,110
Groups of municipalities	10,141	96	204		10,441	9,371
Public sector entities:					-	
- health	6,119				6,119	6,102
- social housing	1,545				1,545	1,667
- other	915		2		917	931
Credit institutions	2,343				2,343	3,926
Subtotal	47,437	224	1,458		49,119	48,778
Germany						
Länder		513			513	854
Subtotal		513			513	854
Austria						
Länder			194		194	197
Subtotal			194		194	197
Belgium						
Regions	22		41		63	87
Communities		50			50	50
Public sector entities	65				65	69
Subtotal	87	50	41		178	206
Canada						
Provinces		22			22	22
Communities	182				182	192
Public sector entities	129				129	129
Subtotal	311	22			333	343
Spain						
Regions		104			104	232
Municipalities	161				161	253
Subtotal	161	104			265	485
United States						
Federated States		253			253	253
Subtotal		253			253	253

EUR millions	12/31/2015					12/31/2014
	Direct exposure		Indirect exposure			
COUNTRY	Loans	Bonds	Loans	Bonds	Total	Total
Finland						
Municipalities	0				0	2
Public sector entities						41
Subtotal	0				0	43
Italy						
State		568			568	576
Regions		2,131			2,131	2,967
Provinces		610			610	653
Municipalities	10	2,090			2,100	2,223
Subtotal	10	5,399			5,409	6,419
Japan						
Municipalities		25			25	25
Subtotal		25			25	25
Portugal						
Municipalities	45				45	51
Public sector entities	6				6	7
Subtotal	51				51	58
United Kingdom						
State				403	403	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	403	2,253	2,331
Sweden						
Municipalities	18		11		29	34
Subtotal	18		11		29	34
Switzerland						
Cantons	394		262		656	1,424
Municipalities	614				614	765
Public sector entities	91				91	91
Subtotal	1,099		262		1,361	2,280
Supranational						
International organizations	36				36	39
Subtotal	36				36	39
TOTAL COVER POOL	49,210	6,590	3,816	403	60,019	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.

Supervisory Board and Executive Board

Supervisory Board (March 2016)

Philippe Mills
Chairman

François Laugier
Vice Chairman

Stéphane Costa de Beauregard
Member of the Supervisory Board

Sami Gotrane
Member of the Supervisory Board

Béatrice Gosserez
Member of the Supervisory Board

Florent Lecinq
Member of the Supervisory Board

Executive Board (March 2016)

Gilles Gallerne
Chairman

Caroline Gruson
Chief Executive Officer
Member of the Executive Board

Cyril Cudennec
Member of the Executive Board

Olivier Eudes
Member of the Executive Board

Emmanuel Moritz
Member of the Executive Board

Directorships and positions of members of supervisory and management bodies

In application of article L.225-102-1 of the Code of Commerce, the following list presents the directorships and positions exercised in 2015 by every member of the supervisory and management bodies of Caisse Française de Financement Local who served during the year

Supervisory Board

CHAIRMAN

Philippe Mills

50 years old – French nationality

Professional address: SFIL - 1-3, rue du Passeur de Boulogne 92130 Issy-les-Moulineaux

Date mandate begins and ends: January 31, 2013 – 2019

Date of first mandate: January 31, 2013

Principal function: Chairman of the Board of Directors and Chief Executive Officer, SFIL

Other mandates and responsibilities:

- Chairman of the Executive Committee, SFIL
- Alternate Expert, Board of Directors, European Investment Bank – EIB
- Member of the Board of Directors, European Association of Public Banks – EAPB

VICE CHAIRMAN

François Laugier

51 years old – French nationality

Professional address: SFIL - 1-3, rue du Passeur de Boulogne 92130 Issy-les-Moulineaux

Date mandate begins and ends: January 31, 2013 – 2019

Date of first mandate: January 31, 2013

Principal function: Deputy Chief Executive Officer, SFIL

Other mandates and responsibilities: Member of the Executive Committee, SFIL

MEMBERS

Stéphane Costa de Beauregard

49 years old – French nationality

Professional address: SFIL - 1-3, rue du Passeur de Boulogne 92130 Issy-les-Moulineaux

Date mandate begins and ends: January 31, 2013 – 2019

Date of first mandate: January 31, 2013

Principal function: Director, Customer's Debt Management, SFIL

Other mandates and responsibilities: Member of the Executive Committee, SFIL

Béatrice Gosserez

50 years old – French nationality

Professional address: SFIL - 1-3, rue du Passeur de Boulogne 92130 Issy-les-Moulineaux

Date mandate begins and ends: December 12, 2012 – 2017

Date of first mandate: December 12, 2012

Principal function: General Secretary, SFIL

Other mandates and responsibilities: Member of the Executive Committee, SFIL

Sami Gotrane

52 years old – French nationality

Professional address: SFIL - 1-3, rue du Passeur de Boulogne 92130 Issy-les-Moulineaux

Date mandate begins and ends: January 31, 2013 – 2019

Date of first mandate: January 31, 2013

Principal function: Director, Treasury and Financial Markets, SFIL

Other mandates and responsibilities:

- Member of the Executive Committee, SFIL
- Chairman, CTG Financial Consulting

Florent Lecinq

40 years old – French nationality

Professional address: SFIL - 1-3, rue du Passeur de Boulogne 92130 Issy-les-Moulineaux

Date mandate begins and ends: February 25, 2013 – 2019

Date of first mandate: February 25, 2013

Principal function: Chief Financial Officer, SFIL

Other mandates and responsibilities: Member of the Executive Committee, SFIL

Executive Board**CHAIRMAN****Gilles Gallerne**

52 years old – French nationality

Professional address: SFIL - 1-3, rue du Passeur de Boulogne 92130 Issy-les-Moulineaux

Date mandate begins and ends: January 31, 2013 – 2018

Date of first mandate: January 1, 2008

Principal function: Director, CAFFIL Coordination, SFIL

Other mandates and responsibilities: Member of the Executive Committee, SFIL

CHIEF EXECUTIVE OFFICER**Caroline Gruson**

42 years old – French nationality

Professional address: SFIL - 1-3, rue du Passeur de Boulogne 92130 Issy-les-Moulineaux

Date mandate begins and ends: January 31, 2013 – 2018

Date of first mandate: January 5, 2011

Principal function: Deputy Director, CAFFIL Coordination, SFIL

Other mandates and responsibilities: None

MEMBERS**Cyril Cudennec**

39 years old – French nationality

Professional address: SFIL - 1-3, rue du Passeur de Boulogne 92130 Issy-les-Moulineaux

Date mandate begins and ends: January 31, 2013 – 2018

Date of first mandate: January 31, 2013

Principal function:

- Director, Financial Markets, SFIL (until April 2015)
- Director, Financial Performance Management, Deputy CFO, SFIL (since April 2015)

Other mandates and responsibilities: None

Pierre-Marie Debreuille (until May 27, 2015)

40 years old – French nationality

Professional address: SFIL - 1-3, rue du Passeur de Boulogne 92130 Issy-les-Moulineaux

Date mandate begins and ends: January 31, 2013 – May 27, 2015

Date of first mandate: January 31, 2013

Principal function: Director, Financial Performance Management, Deputy CFO, SFIL (until April 2015)

Other mandates and responsibilities: Member of the Executive Committee, SFIL (since May 2015)

Olivier Eudes (since May 27, 2015)

47 years old – French nationality

Professional address: SFIL - 1-3, rue du Passeur de Boulogne 92130 Issy-les-Moulineaux

Date mandate begins and ends: May 27, 2015 – 2018

Date of first mandate: May 27, 2015

Principal function: Director, Financial Markets, SFIL (since April 2015)

Other mandates and responsibilities: Manager, SCI phoenix (since August 2015)

Emmanuel Moritz

40 years old – French nationality

Professional address: SFIL - 1-3, rue du Passeur de Boulogne 92130 Issy-les-Moulineaux

Date mandate begins and ends: January 31, 2013 – 2018

Date of first mandate: January 31, 2013

Principal function: Director, Credit Risks, SFIL

Other mandates and responsibilities: None

Compensation of members of supervisory and management bodies

In 2015, Caisse Française de Financement Local paid no compensation to the members of its supervisory and management bodies who were employees of SFIL and who exercised their mandates with no specific compensation, except for the Chairman of the Supervisory Board, who is also a member of the parent company's Board of Directors and only in this role receives any compensation.

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

Statutory Auditors

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

Mazars

Exaltis – 61, rue Henri Regnault – 92075 – La Défense Cedex

represented by Anne Veaute, Partner

Alternate: Pierre Masieri

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

Deloitte & Associés

185, avenue Charles de Gaulle – 92524 Neuilly-sur-Seine Cedex

represented by Charlotte Vandeputte, Partner

Alternate: BEAS, represented by Mireille Berthelot, Partner

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

Specific Controller

Fidus

12, rue de Ponthieu – 75008 Paris

represented by Jean-Michel Thierry, Partner

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

Alternate: Eric Lebègue

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

Social, environmental and societal information

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

Report of one of the Statutory Auditors, appointed as independent third-party, on the social, environmental and societal information published in the management report

Year ended December 31, 2015

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

To the Shareholders,

In our capacity as Statutory Auditor of Caisse Française de Financement Local S.A., and appointed as independent third-party, for whom the certification request has been approved by the French National Accreditation Body (COFRAC) under the number 3-1048⁽¹⁾, we hereby present you with our report on the social, environmental and societal information prepared for the year ended December 31, 2015 (hereinafter the "CSR Information"), presented in the management report pursuant to Article L.225-102-1 of the Code of Commerce (Code de commerce).

RESPONSIBILITY OF THE COMPANY

The Executive Board is responsible for preparing a management report including CSR Information in accordance with the provisions of Article R.225-105-1 of the Code of Commerce.

INDEPENDENCE AND QUALITY CONTROL

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

RESPONSABILITY OF THE STATUTORY AUDITOR

Based on our work, our responsibility is:

- to attest that the CSR Information required under article R.225-105-1 of the Code of Commerce is presented in the management report or, in the event of omission, is explained pursuant to the third paragraph of article R.225-105 of the Code of Commerce;
- to express a reasoned opinion on the accuracy of information included in the management report and, if need be, the explanations relating to the omission of some of the CSR Information required under the third paragraph of article R.225-105 of the Code of Commerce;
- the procedures performed to conduct our mission.

Our work was carried out by a team of two people in March 2016. To assist us in conducting our work, we referred to our corporate responsibility experts.

We conducted the following procedures in accordance with professional auditing standards applicable in France, with the order of May 13, 2013 determining the methodology according to which the independent third party entity conducts its assignment. As indicated page 39 of the management report, the company does not disclose any CSR information because of the absence of employees and physical footprints. Our work consisted in the appreciation of the pertinence of the explanations related to total absence of CSR information.

Based on these procedures:

- we attest the relevance of the explanations relating to the total omission of CSR Information in the management report;
- we do not have any observation to mention about the provided explanations.

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

Neuilly-sur-Seine, March 29, 2016.

French original signed by one of the statutory auditors:

DELOITTE & ASSOCIÉS
Charlotte Vandeputte

IFRS Financial Statements

Assets as of December 31, 2015

EUR millions	Note	12/31/2013	12/31/2014	12/31/2015
Central banks	2.1	1,471	519	2,496
Financial assets at fair value through profit or loss		-	2	2
Derivatives	4.1	6,501	8,361	7,043
Financial assets available for sale	2.2	1,084	2,770	889
Loans and advances due from banks	2.3	7,314	6,752	4,865
Loans and advances to customers	2.4	61,929	62,242	60,854
Fair value revaluation of portfolio hedge		1,611	3,178	2,784
Financial assets held to maturity		-	-	-
Current tax assets	2.5	13	0	0
Deferred tax assets	2.5	90	99	108
Accruals and other assets	2.6	4	3	20
TOTAL ASSETS		80,017	83,926	79,061

Liabilities as of December 31, 2015

EUR millions	Note	12/31/2013	12/31/2014	12/31/2015
Central banks	3.1	-	-	-
Financial liabilities at fair value through profit or loss		8	0	2
Derivatives	4.1	10,605	13,512	12,013
Due to banks	3.2	6,774	6,228	5,520
Customer borrowings and deposits		-	-	-
Debt securities	3.3	57,129	58,501	57,142
Fair value revaluation of portfolio hedge		1,398	1,786	1,446
Current tax liabilities	3.4	2	10	1
Deferred tax liabilities	3.4	-	-	-
Accruals and other liabilities	3.5	2,742	2,532	1,584
Provisions	3.6	-	-	38
Subordinated debt		-	-	-
Equity		1,359	1,357	1,315
Capital and related reserve		1,315	1,315	1,315
Reserves and retained earnings		215	218	189
Gains and losses through equity		(174)	(147)	(113)
Net income		3	(29)	(76)
TOTAL LIABILITIES		80,017	83,926	79,061

Income statement

EUR millions	Note	2013	2014	2015
Interest income	5.1	5,086	4,453	4,047
Interest expense	5.1	(4,945)	(4,350)	(3,932)
Fee and commission income	5.2	0	0	0
Fee and commission expense	5.2	(24)	(28)	(26)
Net result of financial instruments at fair value through profit or loss	5.3	119	(14)	(32)
Net result of financial assets available for sale	5.4	6	8	(2)
Other income		0	0	0
Other expense		0	(0)	(0)
NET BANKING INCOME		242	69	55
Operating expense	5.5	(79)	(93)	(96)
GROSS OPERATING INCOME		163	(24)	(41)
Cost of risk	5.6	(178)	(18)	(14)
OPERATING INCOME		(15)	(42)	(55)
Net gains (losses) on other assets		-	0	-
INCOME BEFORE TAX		(15)	(42)	(55)
Income tax	5.7	18	13	(21)
NET INCOME		3	(29)	(76)
Earnings per share (in EUR)				
- Basic		0.24	(2.22)	(5.79)
- Diluted		0.24	(2.22)	(5.79)

Net income and unrealized or deferred gains and losses through equity

EUR millions	2013	2014	2015
Net income	3	(29)	(76)
Items will be reclassified subsequently to profit or loss	70	27	34
Unrealized or deferred gains and losses of financial assets available for sale	71	39	49
Unrealized or deferred gains and losses of cash flow hedges	21	2	4
Taxes on items reclassified subsequently to profit or loss	(22)	(14)	(19)
Items will not be reclassified subsequently to profit or loss	-	-	-
Total of unrealized or deferred gains and losses through equity	70	27	34
NET INCOME AND GAINS AND LOSSES THROUGH EQUITY	73	(2)	(42)

Equity

EUR millions	Capital and reserves			Unrealized or deferred gains and losses			Total equity
	Share capital, additional paid-in capital	Retained earnings and net income for the period	Total	Net change in fair value of available-for-sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax	Total	
EQUITY AS OF DECEMBER 31, 2014	1,315	189	1,504	(118)	(28)	(147)	1,357
Shares issued	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Changes in fair value of available-for-sale financial assets through equity	-	-	-	31	-	31	31
Changes in fair value of derivatives through equity	-	-	-	-	3	3	3
Changes in fair value of available-for-sale financial assets through profit and loss	-	-	-	-	-	-	-
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-
Net income for the period	-	(76)	(76)	-	-	-	(76)
Other movements	-	-	-	-	-	-	-
EQUITY AS OF DECEMBER 31, 2015	1,315	113	1,428	(87)	(26)	(113)	1,315

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

Cash flow statement

EUR millions	2013	2014	2015
NET INCOME BEFORE TAXES	(15)	(42)	(55)
+/- Depreciation and write-downs	178	44	39
+/- Expense / income from investing activities	5	110	290
+/- Expense / income from financing activities	(110)	(88)	(184)
+/- Other non-cash items	40	(126)	102
= Non-monetary items included in net income before tax and other adjustments	113	(60)	247
+/- Cash from interbank operations	(474)	38	1,158
+/- Cash from customer operations	2,610	990	(772)
+/- Cash from financing assets and liabilities	4,775	(1,448)	3,222
+/- Cash from not financing assets and liabilities	0	0	(1,258)
- Income tax paid	(14)	(3)	(35)
= Decrease / (increase) in cash from operating activities	6,897	(423)	2,315
CASH FLOW FROM OPERATING ACTIVITIES (A)	6,995	(525)	2,507
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-	-
+/- Cash from or for shareholders	-	-	-
+/- Other cash from financing activities	(3,417)	(430)	(540)
CASH FLOW FROM FINANCING ACTIVITIES (C)	(3,417)	(430)	(540)
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	-	-	-
Increase / (decrease) in cash equivalents (A + B + C + D)	3,578	(955)	1,967
Cash flow from operating activities (A)	6,995	(525)	2,507
Cash flow from investing activities (B)	-	-	-
Cash flow from financing activities (C)	(3,417)	(430)	(540)
Effect of changes in exchange rates on cash and cash equivalents (D)	-	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	(2,090)	1,488	533
Cash and balances with central banks (assets and liabilities)	2,400	1,471	519
Interbank accounts (assets and liabilities) and loans / deposits at sight	(4,490)	17	14
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1,488	533	2,500
Cash and balances with central banks (assets and liabilities)	1,471	519	2,496
Interbank accounts (assets and liabilities) and loans / deposits at sight	17	14	4
CHANGE IN NET CASH	3,578	(955)	1,967

Notes to the IFRS financial statements

1. ACCOUNTING POLICIES AND VALUATION METHODS

1.1 - CONTEXT OF PUBLICATION

Caisse Française de Financement Local decided to publish a set of individual financial statements according to IFRS. This publication is voluntary. The financial statements as of December 31, 2015, were examined by the Executive Board on March 21, 2016.

Readers are reminded that in order to prepare its financial statements for 2013 and 2014 and for the first half of 2015, Caisse Française de Financement Local had worked on the hypothesis that the comprehensive arrangements to solve the problem of structured loans announced by the government would be voted and implemented. It was specifically a question of the law that created a legal basis for structured loan contracts subscribed by public sector entities (which took effect as of July 30, 2014), of the creation of a support fund for local governments, and then for public hospitals, and lastly of the measures taken in 2015 to account for the significant appreciation of the Swiss franc as a result of the decision of the Swiss National Bank (SNB) so that the support would remain at least as attractive as before the SNB decision for local governments holding loans indexed on the EUR/CHF exchange rate (rise in the two support funds and increase in the maximum percentage of assistance granted).

1.2 - HIGHLIGHTS OF THE PERIOD AND POST-CLOSING EVENTS

a. Covered bond market

The market for public sector issues of covered bonds in euros was active in 2015 with an offer in the primary market of EUR 146 billion (compared with EUR 117 billion in 2014). This dynamic activity was in part bolstered by investors' need to replace a large volume of bonds that had reached maturity in 2015 (EUR 147 billion), but also by the active presence of issuers outside the euro zone who found in this market favorable conditions for their long term financing. Canadian, Australian and British issuers thus accounted for approximately 18% of the offering, although German and French issuers remained the most dynamic with, overall, more than 30% of the offering.

A significant highlight of 2015 was the ECB's move to pursue its covered bond purchase program as part of the implementation of its unconventional monetary policy. Generally, with outstandings in its purchase program as of December 31, 2015, of almost EUR 144 billion, the Eurosystem demonstrated how important it considers this market, which it helped to build. The intervention of the Eurosystem resulted in a long decline in primary and secondary spreads. Then, since the month of September, the very abundant primary offering led investors to be more selective and demanding with regard to new issue premiums compared with the secondary market. Spreads thus tended to widen in the last quarter of 2015.

In such an environment, Caisse Française de Financement Local launched its annual program of financing *via obligations foncières* in good conditions of volume, spread and average life. This has made it possible to provide the long-term liquidity required for the development of the commercial offers of La Banque Postale to the public sector in France and for ongoing support of SFIL's policy to reduce loan sensitivity.

In 2016, investor demand should remain naturally sustained as large volumes reach maturity (approximately EUR 150 billion). In addition, the particularly favorable regulatory treatment in such an evolving environment (Basel III or Solvency 2) should encourage investors to choose covered bonds when allocating assets. Nevertheless, the net offering is expected to be almost nothing as in 2015.

b. Business of local government financing in 2015

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

With an excellent first half, La Banque Postale granted loans totaling EUR 4.0 billion in 2015, up approximately 20% from the previous year. Combined with the loans granted directly by Caisse Française de Financement Local, total production rose to EUR 6.3 billion and confirmed the leading role of LBP/SFIL in refinancing the local public sector (largest lender in terms of market share). For the fourth year of business, the organization that had been set up confirmed its efficiency after a progressive and regular ramp-up.

SFIL continued to implement the policy that consists in reducing the sensitivity of the structured loans of Caisse Française de Financement Local with a volume of EUR 1.4 billion of sensitive loans transformed into fixed rate contracts. Since the beginning of 2013, the total amount of outstanding structured loans was reduced by more than 44%, from EUR 8.5 billion to EUR 4.6 billion, and 300 customers definitively moved out of the "sensitive customer" category. Since the support funds

initiated by the French State are fully operational, more than 100 legal settlements have been signed. The efforts to reduce sensitivity were generally accompanied by new loans of which EUR 1.7 billion were paid out in 2015.

By the end of 2015, half of the borrowers with loans indexed on EUR/CHF had been totally cleared of any sensitivity, and among them approximately 80% of small local governments and public hospitals that held such loans. At the same date, 92 borrowers, including 89 local governments, withdrew their suits. Litigation at the end of the year involved 131 plaintiffs compared with 210 at the end of 2014.

c. Events affecting the ratings of *obligations foncières*

The ratings of the *obligations foncières* issued by Caisse Française de Financement Local were 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 December 31, 2015, the ratings were as follows: AA+ by Standard and Poor's, Aaa by Moody's and AA by Fitch.

d. 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.

Decrease in outstanding sensitive structured loans

The policy applied by SFIL since its creation at the beginning of 2013 made it possible to effect a significant reduction in the size of the portfolio of sensitive structured loans of Caisse Française de Financement Local.

Creation of support funds contributing to the cost of sensitivity reduction

The two support funds created by the French government in 2013 and 2014 allow local governments and public hospitals eligible for this arrangement to finance the cost of doing away with their structured loans. These funds were fully operational as of 2015. In the second half, notifications of the amounts of assistance provided by the funds began to be sent to local governments and public hospitals that had requested such help. This made it possible to maintain a sustained pace of sensitivity reduction and resulted in a major decrease in the number of law suits.

The intervention capacity of these funds was significantly 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 customers holding loans indexed on the EUR/CHF exchange rate were still responsible would not be greater, after assistance from the funds, than they would have been before the decision of the Swiss National Bank (SNB) in January 2015 to put an end to the floor rate of exchange of 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 million to the hospital support fund decided in November 2015 in order to participate in the increase in these funds.

Significant decline in the number of suits

As of December 31, 2015, the number of borrowers who had brought suit totaled 131, down from 210 as of December 31, 2014, a decline of 79 borrower-plaintiffs.

The law that created a legal basis to secure structured loan agreements subscribed by public sector 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 initiated the first law suit to be decided, chose to put an end to the litigation within the framework of a financial agreement that made it possible to eliminate its debt sensitivity.

Since this first legal decision in February 2013, the Tribunal has decided a limited number of cases. Four decisions were handed down in 2014 before the law creating a legal basis to secure structured loan agreements subscribed by public entities took effect, which Dexia Credit Local and Caisse Française de Financement Local appealed, and three in 2015.

Of the three decisions of the Tribunal de grande instance de Nanterre handed down in 2015, a single decision condemned jointly and separately Dexia Credit Local and Caisse Française de Financement Local for the failure of Dexia Credit Local to provide adequate information and sufficient warning when it marketed the loan. This same decision condemned the 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.

As of December 31, 2015, all these decisions were being heard in appeal before the Cour d'appel de Versailles, except for litigation in which a financial agreement had been reached. At the same time, 88 borrowers who had brought suit signed a financial settlement agreement with SFIL, Caisse Française de Financement Local and Dexia Credit Local, thereby putting an end to legal litigation.

e. Tax assessment

In 2015, French tax authorities investigated the income declared and the tax paid for 2012 and 2013. Following the tax assessment, the tax authorities expressed their disagreement with the tax treatment of the following two points: the taxation in Ireland of the income from the Dublin branch of Dexia Municipal Agency, which has now been closed, and the deductibility of provisions for non-performing loans.

In order to take into account the risk of an unfavorable outcome in these proceedings, Caisse Française de Financement Local has recorded a provision for additional income tax in the amount of EUR 38 million in its 2015 financial statements according to IFRS, as adopted by the European Commission. Nonetheless, Caisse Française de Financement Local does not agree with the position of the tax authorities and will appeal within the framework of legal recourse allowed by current tax regulations.

1.3 - APPLICABLE ACCOUNTING STANDARDS

a. Application of IFRS adopted by the European Commission

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

Since its publication in 2002, regulation EC 1606/2002 has been updated several times. Caisse Française de Financement Local's financial statements have therefore been prepared in accordance with all IFRS as adopted and endorsed by the European Commission up to the accounting closing on December 31, 2015, including the conditions for the application of an interest-rate portfolio hedging and the possibility of hedging deposits.

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

In preparing the financial statements, management is required to make estimates and assumptions that affect amounts reported. In order to make these assumptions and estimates, management uses the information available at the date of preparation of the financial statements and exercises its judgment. While management believes it has considered all available information when making these assumptions, actual results may differ from such estimates and the differences may have a material impact on the financial statements.

Judgments were principally made in the following areas:

- classification of financial instruments;
- determination of whether or not the market is active for financial instruments measured at fair value;
- hedge accounting;
- existence of a present obligation with probable outflows in the event of litigation;
- identification of impairment triggers.

These judgments are detailed in the corresponding sections of these applicable accounting standards.

Estimates were principally made in the following areas:

- determination of fair value for financial instruments measured at fair value;
- determination of the recoverable amount of impaired financial assets;
- estimate of future taxable profit for the recognition and measurement of deferred tax assets.

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

The following review of changes in accounting standards is based on the situation as of December 31, 2015.

IASB and IFRIC texts endorsed by the European Commission and effective as of January 1, 2015

- IFRIC 21 Levies: this interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. Caisse Française de Financement Local anticipated the application of this interpretation in 2014. The taxes mainly concerned by this interpretation are the "C3S" (Solidarity Social Contribution) and the contributions to the Single Resolution Fund.
- Annual Improvements to the IFRS 2011-2013 Cycle.

IASB and IFRIC texts endorsed by the European Commission during the year but not applicable as of January 1, 2015

- Amendments to IAS 1: Disclosure Initiative: these amendments clarify the application of the concepts of materiality (specifying this is also applicable to the notes to the financial statements and that including non-relevant information can be detrimental to their understanding) and professional judgment (by modifying certain formulations judged as prescriptive).
- Annual Improvements to the IFRS 2012-2014 Cycle: these are minor changes to existing standards.
- Annual Improvements to the IFRS 2010-2012 Cycle: these are minor changes to existing standards.

These amendments will be applicable as from January 1, 2016. Their impact is not expected to be significant.

1.4 - ACCOUNTING PRINCIPLES APPLIED TO THE FINANCIAL STATEMENTS

a. Offsetting financial assets and financial liabilities

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

b. Foreign currency transactions

Foreign currency transactions are accounted for using the exchange rate on the transaction date. Monetary assets and liabilities denominated in foreign currencies are recognized at closing rates. Non-monetary assets and liabilities recognized at fair value and denominated in foreign currencies existing at the reporting date are recorded at closing rates, whereas non-monetary assets and liabilities recognized at amortized cost are recorded at their historical rates.

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

c. Trade date and settlement date

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

d. Financial assets

Management determines the appropriate classification of its investments at initial recognition. However, under certain conditions financial assets may be subsequently reclassified.

Loans and advances to banks and customers

Loans are defined as non-derivative financial assets with fixed or determinable payments that are not listed on an active market, other than:

- those that the entity intends to sell immediately or in the near future, which should be classified as held for trading, and those that the entity, upon initial recognition, designates at fair value through profit or loss;
- those that the entity, upon initial recognition, designates as available for sale; or
- those for which the holder may not recover substantially all of the initial investment for reasons other than the deterioration of credit, which should be classified as available for sale.

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

Financial assets held to maturity

Listed securities with fixed maturity are classified as Financial assets held to maturity when management has both the intent and the ability to hold the assets to maturity.

Held-to-maturity financial assets are initially recognized at fair value (including transaction costs) and subsequently measured at amortized cost, less any allowance for impairment. Interest is recognized in the interest margin using the effective interest rate method.

Financial assets available for sale

Assets intended to be held for an indefinite period of time and which may be sold in response to a need for liquidity or changes in interest rates, exchange rates or equity prices are classified as Financial assets available for sale. These assets are, except for certain cases, intended to be held to maturity.

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

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

When available-for-sale financial assets are restated as Loans and advances at a later date on the basis of the October 2008 amendment to IAS 39, the reserve representative of changes in the fair value of available-for-sale financial assets as presented in the financial statements as of December 31, 2015, corresponds to the part of this reserve still to be amortized with regard to the securities restated as of October 1, 2008.

Financial assets held for trading

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

Financial assets designated at fair value through profit or loss

Caisse Française de Financement Local does not use the option to designate its financial assets at fair value through profit or loss.

Realized gains and losses on sales of financial assets

For financial assets measured at amortized cost, realized gains and losses on disposals are the differences between the proceeds received (net of transaction costs) and the carrying amount of the assets. The carrying amount is systematically determined based on the “first in, first out” approach.

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

Early reimbursement indemnities

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

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

Early reimbursement with refinancing

The method of accounting for early reimbursement indemnities differs depending on whether the restructuring conditions are substantially different from those set initially.

In line with the principles of AG 62 of IAS 39, Caisse Française de Financement Local considers that the conditions are substantially different when the net present value of the cash flows under the new conditions, including any fees paid net of any fees received, is more than 10% different from the net present value of the cash flows remaining from the original loan. If the difference in net present value is less than 10%, any early reimbursement indemnities are amortized over the term of the new loan, as there is continuity between the two operations. If the difference exceeds 10%, early reimbursement indemnities are recognized directly in income.

Early reimbursement without refinancing

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

Sale and repurchase agreements and lending of securities

Securities sold subject to a linked repurchase agreement (repo) are not derecognized and remain on the balance sheet in their original category. The corresponding liability is included in Customer borrowings and deposits or Due to banks, as appropriate. The asset is reported as pledged in the notes.

Securities purchased under an agreement to resell (reverse repo) are recorded as off-balance sheet items and the corresponding loans are recorded in Loans and advances to customers or Loans and advances due from banks, as appropriate. The difference between the sale and repurchase price is recognized as interest income or expense and is amortized over the life of the agreement using the effective interest rate method.

Securities lent to third parties are retained in the financial statements. Securities borrowed are not recognized in the financial statements. If these borrowed securities are sold to third parties, the obligation to return them is recorded at fair value in Financial liabilities at fair value through profit or loss, and the gain or loss is included in Net gains (losses) on financial instruments at fair value through profit or loss.

Impairment of financial assets

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

Financial assets at amortized cost

Caisse Française de Financement Local first assesses whether objective evidence of impairment exists for a financial asset when taken individually. If no such evidence exists, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

- Determination of impairment
 - Specific impairment: if there is objective evidence that loans or other receivables, or financial assets classified as held-to-maturity are impaired, the amount of the provision is calculated as the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, net of any guarantees and collateral, discounted at the financial instrument's original effective interest rate (except for reclassified assets, see below). When an asset is assessed as being impaired, it is excluded from the portfolio on which collective impairment is calculated. Caisse Française de Financement Local recognizes provisions to cover all the interest due and accrued on non-performing loans.
 - Collective impairment: collective impairment covers the risk of loss in value not covered by specific impairment where there is objective evidence that probable losses are present in certain segments of the portfolio or other lending commitments at the balance sheet date. These losses are estimated on the basis of past performance and historical patterns of losses in each segment and the current economic environment in which the borrowers operate. For this purpose, Caisse Française de Financement Local uses a credit risk model based on an approach that combines default probabilities and losses in the event of default. This model is subject to regular back-testing and is based on Basel III data and risk models, consistent with the incurred loss model.

- Accounting treatment of impairment

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

When an asset is determined by management as being irrecoverable, the outstanding specific impairment is reversed via the income statement in Cost of risk, and the net loss is recorded under the same heading. Subsequent recoveries are also recognized as Cost of Risk.

Reclassified financial assets

Reclassified financial assets are impaired following the same rules as financial assets measured at amortized cost. If there is objective evidence that reclassified financial assets are impaired, the amount of the impairment on reclassified assets is calculated as the difference between the net carrying amount of the asset, excluding the amount of revaluations at fair value due to former classification as available-for-sale financial assets, and the net present value of the expected cash flows discounted at the effective interest rate at the time of reclassification. Any existing unamortized reserve of unrealized gains and losses will be taken to profit or loss account in Cost of risk.

In the event of a positive update to expected cash flows, the impairment amount is reversed through the interest margin over the new schedule of expected cash flows, not by a reversal of impairment.

Financial assets available for sale

Impairment of available-for-sale financial assets is recognized on an individual basis if there is objective evidence of impairment as a result of one or more events occurring since initial recognition of the asset. Caisse Française de Financement Local only holds interest bearing debt instruments as available-for-sale financial assets. These assets are subject only to specific impairment.

- Determination of impairment

Financial assets available for sale held by Caisse Française de Financement Local are only debt securities. For the latter, impairment is triggered based on the same criteria as those applied to financial assets valued at amortized cost (see above).

- Accounting treatment of impairment

When financial assets available for sale are impaired, the total reserve in other comprehensive income is recycled into profit or loss and Caisse Française de Financement Local reports these impairment losses in the income statement in Cost of risk (for financial asset available for sale with fixed income). Any subsequent decline in fair value constitutes an additional impairment loss, recognized in the income statement.

In the event of an increase in the fair value of an interest-bearing financial instrument that relates objectively to an event occurring after the last impairment was recognized, Caisse Française de Financement Local recognizes a reversal of the impairment loss in the income statement in Cost of risk.

Off-balance sheet commitments

Off-balance sheet commitments such as credit substitutes (e.g. guarantees and standby letters of credit) and loan commitments are converted into on-balance sheet items when called. However, under specified circumstances such as uncertainty about the counterparty's creditworthiness, the off-balance sheet commitment should be classified as impaired if the credit worthiness has deteriorated to an extent that makes the payment of principal and interest uncertain.

e. Financial liabilities

Financial liabilities designated at fair value through profit and loss

Caisse Française de Financement Local does not use this option.

Financial liabilities at amortized cost

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

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

Obligations foncières are recorded at nominal value. Reimbursement premiums and issue premiums are amortized according to the straight-line method over the life of the securities concerned, as of the first year, *pro rata temporis*. They are recorded on the balance sheet in items corresponding to the type of debt concerned. The amortization of these premiums is recorded in the income statement as Interest income and expense on debt securities. In the case of bonds issued above par, the spread of issue premiums is deducted from related interest income and expense on debt securities.

Interest related to *obligations foncières* is accounted for as interest expense on debt securities for accrued amounts, due and not yet due, calculated *pro rata temporis* on the basis of contractual rates.

Fees and commissions on bond issues are amortized over the life of the bonds to which they are attached.

Bonds denominated in other currencies are treated in the same way as foreign exchange transactions (see above b. Foreign currency transactions).

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

Pursuant to article L.513-12 of the Monetary and Financial Code and article 6 of CRBF standard n°99-10 of July 27, 1999, total assets must at all times be greater than total liabilities benefiting from the privilege mentioned in article L.513-11 of the above-mentioned Monetary and Financial Code.

f. Derivatives

All derivatives are initially recognized on the balance sheet at fair value and then are revalued at their fair value. The fair value of derivatives is calculated either on the basis of prices observed in listed markets or by using internal valuation models.

The amount registered on the balance sheet includes the premium paid or received after amortization, the amount of changes in fair value and accrued interest, which altogether make up the fair value of the derivative. Derivative instruments are recorded in the assets if their fair value is positive and in the liabilities if it is negative.

Derivatives not documented in a hedging relationship

Caisse Française de Financement Local is not authorized to conduct derivative transactions that would not be documented in a hedging relationship. Nevertheless, as of December 31, 2015, transaction derivatives were recorded. They resulted from operations in which hedge ineffectiveness arose after the hedged items were impaired. Gains and losses (realized and unrealized) were recognized as Net result of financial instruments at fair value through profit and loss.

Hedging derivatives

Hedging derivatives can be categorized as either:

- a hedge of the fair value of a recognized asset or liability or a firm commitment (fair value hedge); or
- a hedge of a future cash flow attributable to a recognized asset or liability or a forecast transaction (cash flow hedge).

Hedge accounting may be used for such derivatives, provided certain criteria are met:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship between the hedging instrument and the hedged item must be prepared before hedge accounting is applied;
- the hedge relationship is expected to be effective both prospectively and retrospectively in offsetting changes in fair value or cash flows attributable to the hedged risk on the hedged item throughout the reporting period;
- the hedge shall be effective at inception and on an ongoing basis.

Changes in the fair value of derivatives that are designated and documented in a fair value hedging relationship, and that respect the criteria set out above, are recorded in the income statement, along with the corresponding change in fair value of the hedged assets or liabilities which are attributable to that specific hedged risk. If at any time the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortized to profit or loss over the residual maturity of the hedged item by adjusting the yield on the hedged item.

The effective portion of the changes in the fair value of derivatives that are designated in a cash flow hedging relationship, that respect the criteria set out above, and that prove to be effective in relation to the hedged risk, is recognized in equity as Unrealized or deferred gains and losses of cash flow hedges. The non-effective portion of the changes in the fair value of the derivatives is recognized in the income statement. Amounts deferred in equity are transferred to the income statement and classified as income or expense in the periods during which the hedged firm commitment or forecast transaction affect the income statement.

Hedging a portfolio's interest rate risk

Caisse Française de Financement Local makes use of the provisions of IAS 39 as adopted by the European Union (IAS 39 carve-out) because it better reflects the way Caisse Française de Financement Local manages its financial instruments. The objective of hedging relationships is to reduce the interest rate risk exposure stemming from certain categories of assets or liabilities designated as the qualifying hedged items.

The entity performs a comprehensive analysis of its interest rate risk exposure. It consists in assessing fixed rate exposure generated by all fixed-rate balance sheet items.

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

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

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

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

g. Fair value of financial instruments

Fair value is the price that would be received for the sale of an asset or paid to sell a liability in an orderly transaction between market participants at the measurement date, either in the principal market, or in its absence, in the most advantageous market Caisse Française de Financement Local can access. The fair value of a liability reflects the effect of the risk of non-performance, which in particular includes Caisse Française de Financement Local's own credit risk.

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

If the financial instrument is not listed in an active market, valuation techniques are used. Valuation techniques include the use of market data from recent arm's length transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, and valuation models. A valuation model reflects what the transaction would have been under the market conditions existing on the measurement date. The valuation model should take into account all the factors that market participants would consider when pricing the asset. Within this framework, Caisse Française de Financement Local uses its own valuation models and market assumptions, i.e. present value of cash flows or any other techniques based on market conditions existing at the reporting date.

Financial instruments measured at amortized cost

The following remarks are applicable to the fair value of loans and advances presented in the notes:

- the fair value of fixed-rate loans is estimated by comparing market interest rates when the loans were granted with current market interest rates offered on similar loans;
- caps, floors and early repayment options are included in determining the fair value of loans and advances.

Financial instruments measured at fair value

Available-for-sale financial assets and derivatives are measured at fair value by reference to listed market prices when available. When listed market prices are not available, fair values are estimated on the basis of pricing models or discounted cash flows, using observable or non-observable market data.

For available-for-sale financial assets, when listed prices are not available, the pricing models attempt to reflect as accurately as possible the market conditions on the valuation date as well as any changes in the credit quality of these financial instruments and the market liquidity. To determine the fair value of its derivatives, Caisse Française de Financement Local uses different discounting curves in function of the effective exchange of collateral with its counterparty. When Caisse Française de Financement Local receives collateral, future derivative cash flows are discounted with an overnight indexed swap (OIS). On the other hand, when no collateral is exchanged, they are discounted with a Euribor-type curve. As a reminder, Caisse Française de Financement Local does not pay collateral to its derivative counterparties, since they benefit from the legal privilege on assets for the same reason as holders of *obligations foncières*.

In addition, a value adjustment is taken into account in the valuation of derivatives to reflect the impact of a counterparty's credit risk (CVA - credit value adjustment) or the counterparty's net exposure to the credit risk of Caisse Française de Financement Local (DVA - debit value adjustment). This value adjustment enables to switch from a fair value based on risk-free rate discounted cash flows, i.e. abstracting from the counterparty risk, to fair value that integrates this risk. It is determined in function of the exposure to risk combined with rates of losses integrating market parameters.

h. Interest income and expense

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

The effective interest rate is the rate that exactly discounts expected future cash flows through the life of the financial instrument, or when appropriate, a shorter period to determine the net carrying amount of the financial asset. The calculation of this rate includes commissions received or paid that are an integral part of the effective interest rate due to their nature, transaction costs and any premiums and discounts.

Accrued interest is recognized on the balance sheet in the same item as the related financial asset or liability.

Transaction costs are incremental costs that are directly attributable to the acquisition of a financial asset or liability and are used for the calculation of the effective interest rate.

Once an interest-bearing financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognized based on the effective interest rate used to discount the recoverable future cash flows.

i. Commission income and expense

Most of the commissions arising from Caisse Française de Financement Local's activities are recognized on an accrual basis over the life of the underlying transaction.

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

j. Deferred taxes

Deferred taxes are recognized using the liability method to account for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The tax rates enacted or substantively enacted at the reporting date are used to determine deferred taxes.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax liabilities are recognized to account for temporary differences arising from investments in subsidiaries, jointly controlled companies and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes related to fair value re-measurement of assets available for sale and cash flow hedges, and other operations recognized directly in other comprehensive income, are also recognized directly in other comprehensive income.

k. Provisions

Provisions are mainly for litigation, restructuring and off-balance sheet loan commitments. A provision is measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate applied is a market rate.

Provisions are recognized when:

- Caisse Française de Financement Local has a present legal or constructive obligation as a result of past events,
- it is probable that an outflow of resources representing economic benefits will be required to settle the obligation and,
- a reliable estimate of the amount of the obligation can be made.

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

l. Dividends on shares

Dividends on shares are recognized in liabilities in the period in which they are disclosed (after authorization). Dividends of the year that are authorized after the reporting date are disclosed in the note on post-closing events.

m. Earnings per share

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

n. Related-party transactions

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

o. Segment reporting

Caisse Française de Financement Local's sole activity is the financing or refinancing of commitments on public sector entities. Caisse Française de Financement Local conducts its business solely from France. The Company has no direct activities in other countries and is unable to present a relevant breakdown of its results by geographic region.

p. Cash and cash equivalents

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

2. NOTES TO THE ASSETS (EUR millions)

2.1 - CENTRAL BANKS

	12/31/2013	12/31/2014	12/31/2015
Mandatory reserve deposits with central banks	-	-	-
Other deposits	1,471	519	2,496
TOTAL	1,471	519	2,496

2.2 - FINANCIAL ASSETS AVAILABLE FOR SALE

a. Analysis by nature

	12/31/2013	12/31/2014	12/31/2015
Loans	-	-	-
Bonds	1,084	2,770	889
TOTAL	1,084	2,770	889

b. Analysis by counterparty

	12/31/2013	12/31/2014	12/31/2015
Public sector	742	2,427	889
Credit institutions guaranteed by the public sector	342	343	-
Total public sector	1,084	2,770	889
Replacement assets	-	-	-
TOTAL	1,084	2,770	889
<i>of which eligible for central bank refinancing</i>	<i>835</i>	<i>2,481</i>	<i>600</i>

c. Impairment

	12/31/2013	12/31/2014	12/31/2015
Public sector	1,084	2,770	889
Replacement assets	-	-	-
Total performing assets	1,084	2,770	889
Public sector	-	-	-
Replacement assets	-	-	-
Total impaired assets	-	-	-
Specific impairment	-	-	-
TOTAL ASSETS AFTER IMPAIRMENT	1,084	2,770	889

d. Analysis by residual maturity

See note 7.4

e. Unrealized or deferred gains and losses, breakdown by country

See note 4.4

2.3 - LOANS AND ADVANCES DUE FROM BANKS

a. Analysis by nature

	12/31/2013	12/31/2014	12/31/2015
Sight accounts	18	14	4
Other loans and advances due from banks	7,296	6,738	4,861
Performing assets	7,314	6,752	4,865
Impaired loans and advances	-	-	-
Impaired assets	-	-	-
Total assets before impairment	7,314	6,752	4,865
Specific impairment	-	-	-
Collective impairment	-	-	-
TOTAL	7,314	6,752	4,865

b. Breakdown by counterparty

	12/31/2013	12/31/2014	12/31/2015
Credit institutions	8	4	0
Swiss cantonal banks benefiting from their cantons' legal guarantee	686	629	373
Banks guaranteed by a local government, <i>crédits municipaux</i>	129	91	58
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	2,105	2,099	2,089
Replacement assets	4,386	3,929	2,345
TOTAL	7,314	6,752	4,865
<i>of which eligible for central bank refinancing</i>	-	-	-

c. Replacement assets

	12/31/2013	12/31/2014	12/31/2015
SFIL - loans secured by public sector assets	4,368	3,915	2,341
Credit institutions - sight accounts	18	14	4
TOTAL	4,386	3,929	2,345

d. Analysis by residual maturity

See note 7.4

e. Unrealized or deferred gains and losses, breakdown by country

See note 4.4

2.4 - LOANS AND ADVANCES TO CUSTOMERS**a. Analysis by counterparty**

	12/31/2013	12/31/2014	12/31/2015
Public sector	58,234	57,915	56,585
Other - guaranteed by a State or local government	3,525	3,974	3,725
Performing assets	61,759	61,889	60,310
Impaired loans and advances	254	463	673
Impaired assets	254	463	673
Total assets before impairment	62,013	62,352	60,983
Specific impairment	(14)	(47)	(66)
Collective impairment	(70)	(63)	(63)
TOTAL	61,929	62,242	60,854
<i>of which eligible for central bank refinancing</i>	<i>42,118</i>	<i>41,139</i>	<i>39,227</i>

The loans depreciated concern customers that represent an identified credit risk (non-performing loans: EUR 596 million) and customers with unpaid loans corresponding to disagreement on the amount due (compromised non-performing loans: EUR 77 million).

In 2015, Caisse Française de Financement Local maintained a high level of collective impairment which amounted to EUR 63 million.

Assets considered as forborne by Caisse Française de Financement Local concern exposures to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (recognized or to come) that would not have been granted in other circumstances. These concessions may either be a waiver of a part of the debt, a rescheduling of the loan repayment, restructuring measures through an amendment to the loan contract, or partial or full refinancing of the loan with a new contract, including for transactions aiming to reduce the sensitivity of the loan.

There were 69 forborne contracts as of December 31, 2015, with 46 borrowers, for a total of EUR 546 million.

b. Analysis by residual maturity

See note 7.4

c. Unrealized or deferred gains and losses breakdown by country

See note 4.4

2.5 - TAX ASSETS

	12/31/2013	12/31/2014	12/31/2015
Current income tax	13	-	-
Other taxes	0	0	0
Current tax assets	13	0	0
Deferred tax assets (see note 4.2)	90	99	108
TOTAL TAX ASSETS	103	99	108

Deferred tax assets were submitted to a recoverability test taking into account the business plans presented to the Supervisory Board according to realistic hypotheses. Deferred taxes as of December 31, 2015, are recoverable on the basis of this analysis within seven years by taking into account the tax rules governing the treatment of past deficits.

In application of the 2013 law of Finances (article 24), the assignation of deficits has a ceiling of EUR 1 million plus 50% of the fraction of taxable income in the year in which the ceiling was exceeded. The non-attributable fraction of the deficits can be carried forward to the following years with no time limit and under the same conditions.

2.6 - ACCRUALS AND OTHER ASSETS

	12/31/2013	12/31/2014	12/31/2015
Cash collateral paid	-	-	-
Other accounts receivable	0	-	-
Prepaid charges	1	1	0
Other assets	3	2	20
TOTAL ACCRUALS AND OTHER ASSETS	4	3	20

2.7 - RESTATEMENT OF FINANCIAL ASSETS (IAS 39 AMENDED)

	From Financial assets held for trading to Loans and advances (1)	From Financial assets held for trading to Financial assets available for sale (2)	From Financial assets available for sale to Loans and advances (3)
Carrying amount of assets reclassified as of October 1, 2008	-	-	17,855
Carrying amount of reclassified assets as of December 31, 2015	-	-	4,239
Fair value of reclassified assets as of December 31, 2015	-	-	3,776
AMOUNT NOT RECOGNIZED THROUGH PROFIT AND LOSS (1) AND (2) DUE TO RECLASSIFICATION	-	-	-
AMOUNT NOT RECOGNIZED THROUGH ASSETS AVAILABLE FOR SALE (3) DUE TO RECLASSIFICATION	-	-	(463)
Premium/discount amortization through profit and loss	-	-	-
Premium/discount amortization through AFS reserve	-	-	15

3. NOTES TO THE LIABILITIES (EUR millions)

3.1 - CENTRAL BANKS

This item includes refinancing obtained through Banque de France tenders. The use of such financing organized by tenders involved the pledging of eligible assets within the framework of a general guarantee management agreement (3G). This source of financing does not benefit from the privilege defined in article L.513-11 of the Monetary and Financial Code.

	12/31/2013	12/31/2014	12/31/2015
Overnight borrowing	-	-	-
Term borrowing	-	-	-
Accrued interest	-	-	-
TOTAL FUNDING FROM BANQUE DE FRANCE	-	-	-

3.2 - DUE TO BANKS

a. Analysis by nature

	12/31/2013	12/31/2014	12/31/2015
Demand deposits	1	0	-
Term deposits	6,773	6,228	5,520
TOTAL	6,774	6,228	5,520

At the end of December 2015, the funding borrowed from SFIL within the framework of the financing agreement was made up of different loans with maturities initially running from 26 days to 10 years borrowed with an Euribor or Eonia index.

	12/31/2013	12/31/2014	12/31/2015
Term borrowing - parent company	6,758	6,212	5,511
Interest accrued not yet due	15	16	9
Sight accounts	1	0	-
TOTAL	6,774	6,228	5,520

b. Analysis by residual maturity

See note 7.4

3.3 - DEBT SECURITIES

a. Analysis by nature

	12/31/2013	12/31/2014	12/31/2015
Obligations foncières	51,522	51,444	49,643
Registered covered bonds	5,607	7,057	7,499
TOTAL	57,129	58,501	57,142

b. Analysis by residual maturity

See note 7.4

3.4 - TAX LIABILITIES

	12/31/2013	12/31/2014	12/31/2015
Current income tax	-	8	0
Other taxes	2	2	1
Current tax liabilities	2	10	1
Deferred tax liabilities (see note 4.2)	-	-	-
TOTAL TAX LIABILITIES	2	10	1

3.5 - ACCRUALS AND OTHER LIABILITIES

	12/31/2013	12/31/2014	12/31/2015
Cash collateral received	2,546	2,351	1,397
Other accrued charges	45	21	15
Deferred income	-	-	-
Contribution to support funds ⁽¹⁾	150	158	162
Other accounts payable and other liabilities	1	2	10
TOTAL	2,742	2,532	1,584

(1) This item represents the residual balance of the commitment made by Caisse Française de Financement Local to contribute to the pluri-annual support funds:
- in 2013, for local governments in the amount of EUR 10 million for 15 years (EUR 150 million),
- in 2014 and 2015 for public hospitals in the amount of respectively EUR 18 million (EUR 6 million for three years) and EUR 20 million (EUR 10 million for two years).

3.6 - PROVISIONS

In 2015, French tax authorities investigated the income declared and the tax paid for 2012 and 2013. Following the tax assessment, the tax authorities expressed their disagreement with the tax treatment of the following two points: the taxation in Ireland of the income from the Dublin branch of Dexia Municipal Agency, which has now been closed, and the deductibility of provisions for non-performing loans.

In order to take into account the risk of an unfavorable outcome in these proceedings, Caisse Française de Financement Local has recorded a provision for additional income tax in the amount of EUR 38 million. Nonetheless, Caisse Française de Financement Local does not agree with the position of the tax authorities and will appeal within the framework of legal recourse allowed by current tax regulations.

4. OTHER NOTES ON THE BALANCE SHEET (EUR millions)

4.1 - DERIVATIVES

a. Analysis by nature

	12/31/2013		12/31/2014		12/31/2015	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss⁽¹⁾	-	8	2	0	2	2
Derivatives designated as fair value hedges	3,770	7,638	5,304	8,985	4,643	8,117
Derivatives designated as cash flow hedges	6	128	6	146	6	162
Derivatives designated as portfolio hedges	2,734	2,966	3,054	4,482	2,397	3,811
Hedging derivatives	6,510	10,732	8,364	13,613	7,046	12,090
CVA / DVA Impact	(9)	(127)	(3)	(101)	(3)	(77)
TOTAL DERIVATIVES	6,501	10,613	8,363	13,512	7,045	12,015

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

b. Detail of derivatives designated as fair value hedges

	12/31/2013		Assets	Liabilities
	Notional amount			
	To receive	To deliver		
Foreign exchange derivatives	9,807	10,190	480	797
Interest rate derivatives	51,792	51,777	3,290	6,841
TOTAL	61,599	61,967	3,770	7,638
	12/31/2014		Assets	Liabilities
	Notional amount			
	To receive	To deliver		
Foreign exchange derivatives	9,168	9,272	460	549
Interest rate derivatives	53,960	53,944	4,844	8,436
TOTAL	63,128	63,216	5,304	8,985
	12/31/2015		Assets	Liabilities
	Notional amount			
	To receive	To deliver		
Foreign exchange derivatives	7,052	6,952	482	372
Interest rate derivatives	57,560	57,541	4,161	7,745
TOTAL	64,612	64,493	4,643	8,117

c. Detail of derivatives designated as cash flow hedges

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

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

	12/31/2015		Assets	Liabilities
	Notional amount			
	To receive	To deliver		
Foreign exchange derivatives	954	1,071	6	162
Interest rate derivatives	-	-	-	-
TOTAL	954	1,071	6	162

	12/31/2013	12/31/2014	12/31/2015
Amount removed from cash flow hedge reserve and included in the carrying amount of a non-financial instrument (hedging of cash flows of a highly probable transaction)	-	-	-

d. Detail of derivatives designated as portfolio hedges

	12/31/2013		Assets	Liabilities
	Notional amount			
	To receive	To deliver		
Interest rate derivatives	96,626	96,621	2,734	2,966
TOTAL	96,626	96,621	2,734	2,966
	12/31/2014		Assets	Liabilities
	Notional amount			
	To receive	To deliver		
Interest rate derivatives	85,393	85,388	3,054	4,482
TOTAL	85,393	85,388	3,054	4,482
	12/31/2015		Assets	Liabilities
	Notional amount			
	To receive	To deliver		
Interest rate derivatives	90,293	90,288	2,397	3,811
TOTAL	90,293	90,288	2,397	3,811

4.2 - DEFERRED TAXES

Deferred tax assets and liabilities are netted out when they concern the same tax entity.

a. Analysis by nature

	12/31/2013	12/31/2014	12/31/2015
Deferred tax assets before impairment	90	99	108
Impairment on deferred tax assets	-	-	-
Deferred tax assets	90	99	108
Deferred tax liabilities	-	-	-
TOTAL	90	99	108

b. Movements

	12/31/2013	12/31/2014	12/31/2015
As of January 1	89	90	99
Charge/credit recognized in the income statement	23	23	27
Effect of change in tax rates - impact on the income statement	-	-	-
Movements directly recognized in equity	(22)	(14)	(18)
Effect of change in tax rates - impact on equity	-	-	-
Translation adjustment	-	-	-
Other movements	-	-	-
As of December 31	90	99	108

c. Deferred taxes from assets on the balance sheet

	12/31/2013	12/31/2014	12/31/2015
Loans and loan loss provisions	475	(123)	80
Securities	91	54	46
Derivatives	(37)	81	167
Accruals and other assets	14	13	14
TOTAL	543	25	307

d. Deferred taxes from liabilities on the balance sheet

	12/31/2013	12/31/2014	12/31/2015
Borrowings, deposits and issues of debt securities	(453)	74	(199)
Derivatives	-	-	-
Provisions	-	-	-
Accruals and other liabilities	-	-	-
TOTAL	(453)	74	(199)

4.3 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature

	Parent company ⁽¹⁾			Other related parties ⁽²⁾		
	12/31/2013	12/31/2014	12/31/2015	12/31/2013	12/31/2014	12/31/2015
ASSETS						
Loans and advances	4,368	3,916	2,341	-	-	-
Bonds	-	-	-	-	-	-
LIABILITIES						
Due to banks - sight accounts	-	-	-	-	-	-
Due to banks - term loans	6,773	6,228	5,520	-	-	-
INCOME STATEMENT						
Interest income on loans and advances	16	23	11	(0)	(4)	(9)
Interest income on bonds	-	-	-	-	-	-
Interest expense on borrowings	(65)	(60)	(37)	-	-	-
Fees and commissions	(19)	(22)	(19)	-	-	-
OFF-BALANCE SHEET						
Foreign exchange derivatives	5,832	5,039	4,399	-	-	-
Interest rate derivatives	13,898	16,479	17,487	-	-	-
Commitments and guarantees issued by the Group	4,420	3,966	2,391	134	133	140
Commitments and guarantees given by the Group	-	-	600	-	-	-

(1) This item includes transactions with SFIL, the parent company of Caisse Française de Financement Local.

(2) This items includes transactions with Caisse des Dépôts et Consignations and La Banque Postale, shareholders of SFIL.

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

	12/31/2013	12/31/2014	12/31/2015
Unrealized gains and losses on available for sale securities	(116)	(82)	(48)
Canada	0	0	0
Germany	1	1	-
France	2	1	(2)
Italy	(110)	(82)	(42)
United States	(9)	(2)	(4)
Unrealized gains and losses on loans and receivable securities	(105)	(100)	(85)
Spain	(2)	(2)	(1)
France	5	4	3
Italy	(108)	(102)	(87)
Unrealized gains and losses on derivatives designated as cash-flow hedges	(45)	(43)	(39)
TOTAL	(266)	(225)	(172)
Deferred taxes on gains and losses, available for sale securities	40	28	17
Deferred taxes on gains and losses, loans and receivable securities	36	35	29
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	16	15	13
TOTAL	(174)	(147)	(113)

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

The credit risk exposure reported represents the accounting net carrying amount of exposures, being the notional amounts after deduction of specific impairment and AFS reserves, and taking into account accrued interest.

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

	12/31/2015					Total
	Spain	Ireland	Italy	Portugal	Greece	
Government bonds	-	-	585	-	-	585
TOTAL	-	-	585	-	-	585

	12/31/2014					Total
	Spain	Ireland	Italy	Portugal	Greece	
Financial assets available for sale	-	-	487	-	-	487
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	112	-	-	112
TOTAL	-	-	599	-	-	599

UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES	-	-	(82)	-	-	(82)
UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES	-	-	-	-	-	-

	12/31/2015					Total
	Spain	Ireland	Italy	Portugal	Greece	
Financial assets available for sale	-	-	472	-	-	472
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	113	-	-	113
TOTAL	-	-	585	-	-	585

UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES	-	-	(42)	-	-	(42)
UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES	-	-	-	-	-	-

5. NOTES TO THE INCOME STATEMENT (EUR millions)

5.1 - INTEREST INCOME - INTEREST EXPENSE

	2014	2015
INTEREST INCOME	4,453	4,047
Central banks	-	-
Loans and advances due from banks	80	50
Loans and advances to customers	1,697	1,648
Financial assets available for sale	41	40
Financial assets held to maturity	-	-
Derivatives used for hedging	2,635	2,309
Impaired assets	-	-
Other	-	-
INTEREST EXPENSE	(4,350)	(3,932)
Accounts with central banks	(0)	(3)
Due to banks	(63)	(34)
Customer borrowings and deposits	(1)	-
Debt securities	(2,045)	(1,846)
Subordinated debt	-	-
Derivatives used for hedging	(2,241)	(2,049)
Other	0	-
INTEREST MARGIN	103	115

5.2 - FEES AND COMMISSIONS

	2014			2015		
	Income	Expense	Net	Income	Expense	Net
Lending activity	0	-	0	0	-	0
Purchase and sale of securities	0	(1)	(1)	-	(2)	(2)
Services on securities other than custodian services	0	(5)	(5)	-	(5)	(5)
Issuance and underwriters of securities	-	0	0	-	(0)	(0)
Rebilling by parent company	-	(22)	(22)	-	(19)	(19)
TOTAL	0	(28)	(28)	0	(26)	(26)

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

All interest received and paid on assets, liabilities and derivatives is recorded in net interest income, as required by IFRS. Thus, net gains (losses) on trading transactions and net gains (losses) on hedging transactions include only the change in the clean value of derivatives and the revaluation of assets and liabilities qualified as hedges and the revaluation of the portfolio held for trading.

	2014	2015
Net trading income	2	(0)
Net result of hedge accounting	(16)	(32)
Net result of foreign exchange transactions	(0)	(0)
TOTAL	(14)	(32)

Analysis of net result of hedge accounting

	2014	2015
Fair value hedges	7	(4)
Fair value changes in the hedged item attributable to the hedged risk	568	1,061
Fair value changes in the hedging derivatives	(561)	(1,065)
Cash flow hedges	-	-
Fair value changes in the hedging derivatives - ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
Portfolio hedge	(3)	(4)
Fair value changes in the hedged item	1,179	(41)
Fair value changes in the hedging derivatives	(1,182)	37
CVA / DVA Impact ⁽¹⁾	(20)	(24)
TOTAL	(16)	(32)

(1) As of December 31, 2015, the application of IFRS 13 shows a net negative impact of EUR -24 million comprised of EUR -23.5 million for DVA and EUR -0.1 million for CVA.

5.4 - NET RESULT OF FINANCIAL ASSETS AVAILABLE FOR SALE

	2014	2015
Net result of disposals of loans and securities available for sale	(0)	(5)
Net result of disposals of debt securities	9	(1)
Net result of the sale or cancellation of loans and advances	(1)	4
TOTAL	8	(2)

5.5 - OPERATING EXPENSE

	2014	2015
Payroll costs	-	-
Other general and administrative expense ⁽¹⁾	(90)	(90)
Taxes	(3)	(6)
TOTAL	(93)	(96)

(1) Of which EUR 87 million to the benefit of SFIL as of December 31, 2015.

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

The general management of the operations of Caisse Française de Financement Local has been entrusted by an agreement to its parent company, SFIL, a credit institution.

Specific individual agreements have been established with entities that have transferred assets to the *société de crédit foncier*, and continue to ensure management for their national clientele. At the end of 2015, there were agreements with the following entities: Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium), and Dexia Crediop (Italy). These agreements already existed in previous years.

Starting in 2015, management of new registered covered bonds (RCB) is entrusted to Landesbank Baden-Württemberg (LBBW). Dexia Kommunalbank Deutschland continues to manage registered covered bonds issued prior to 2015.

5.6 - COST OF RISK

	2014				2015			
	Collective impairment	Specific impairment and losses	Contribution to support funds	Total	Collective impairment	Specific impairment and losses	Contribution to support funds	Total
Credit (loans, commitments and securities held to maturity)	7	(7)	(18)	(18)	(1)	7	(20)	(14)
Fixed income securities available for sale	-	-	-	-	-	-	-	-
TOTAL	7	(7)	(18)	(18)	(1)	7	(20)	(14)

Detail of collective and specific impairments

Collective impairment	2014			2015		
	Allocations	Reversals	Total	Allocations	Reversals	Total
Loans and borrowings	(47)	54	7	(5)	4	(1)
Off-balance sheet commitments	-	-	-	-	-	-
TOTAL	(47)	54	7	(5)	4	(1)

Specific impairment	2014				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(10)	3	(0)	-	(7)
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	(10)	3	(0)	-	(7)
Fixed income securities	-	-	-	-	-
TOTAL	(10)	3	(0)	-	(7)

Specific impairment	2015				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(4)	11	(0)	-	7
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	(4)	11	(0)	-	7
Fixed income securities	-	-	-	-	-
TOTAL	(4)	11	(0)	-	7

5.7 - CORPORATE INCOME TAX

a. Breakdown of tax expense

	2014	2015
Current taxes	(9)	(10)
Deferred taxes	22	27
Tax on prior years' income	-	-
Deferred taxes on prior years	-	-
Provisions for tax litigation	-	(38)
TOTAL	13	(21)

b. Effective tax expense as of December 31, 2015

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

	2014	2015
INCOME BEFORE INCOME TAXES	(43)	(55)
Net income from associates	-	-
TAX BASE	(43)	(55)
Applicable tax rate at end of the period	38.00 %	38.00 %
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	16	21
Tax effect of non-deductible expenses	-	(2)
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Other additional taxes or tax savings	(3)	(2)
Liability method	-	-
Provisions for tax litigation	(0)	(38)
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	13	(21)

c. Tax consolidation

As of January 1, 2014, Caisse Française de Financement Local has been a member of the SFIL tax group.

6. NOTE ON OFF-BALANCE SHEET ITEMS (EUR millions)

6.1 - REGULAR WAY TRADE

	12/31/2013	12/31/2014	12/31/2015
Assets to be delivered	-	-	-
Liabilities to be received	120	500	-

6.2 - GUARANTEES

	12/31/2013	12/31/2014	12/31/2015
Guarantees received from credit institutions ⁽¹⁾	4,568	4,103	2,525
Guarantees received from customers ⁽²⁾	6,801	6,870	5,867

(1) At the end of December 2015, this amount was mainly composed of pledges of assets with benefits to Caisse Française de Financement Local, received as a guarantee for loans granted to SFIL.

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

6.3 - FINANCING COMMITMENTS

	12/31/2013	12/31/2014	12/31/2015
Loan commitments granted to credit institutions ⁽¹⁾	-	0	600
Loan commitments granted to customers ⁽²⁾	228	150	293
Loan commitments received from credit institutions ⁽³⁾	50	50	50
Loan commitments received from customers	-	-	-

(1) Within the framework of the new export credit refinancing business, the balance corresponded to a commitment of Caisse Française de Financement Local to finance its parent company (SFIL).

(2) The financing commitments on loans and lines of credit corresponded to contracts issued but not paid out as of December 31, 2015.

(3) This item concerned the amount of the overdraft authorized on the current account with SFIL, which totaled EUR 50 million as of December 31, 2015.

6.4 - OTHER COMMITMENTS

	12/31/2013	12/31/2014	12/31/2015
Commitments received	278	272	238

7. NOTES ON RISK EXPOSURE (EUR millions)

7.1 - FAIR VALUE

This note presents the fair value adjustments that are not accounted for in income or in equity, because they correspond to assets or liabilities valued at amortized cost in the IFRS financial statements.

These fair value adjustments take into account the characteristics of the assets and liabilities concerned (maturity, interest rate risk hedging, amortization profile, and for assets, the rating); they are also influenced by current market conditions, in particular in terms of liquidity and margin, for these very operations or operations to which they can be assimilated. The breakdown of assets and liabilities in function of the method used to determine their fair value is presented in note c. below; in fact, the great majority of the assets are valued according to a technique that accounts for the fact that significant parameters are not observable for the assets, since exposure mainly concerns loans, a commitment format that is not listed in liquid markets. To value liabilities, certain observable parameters are taken into account.

The production process of this data and some parameters have been adjusted since December 2014. If these changes had been applied in December 2014, the unrecognized fair value adjustment at this date would have been EUR -1.8 billion for the assets and EUR +0.3 billion for the liabilities.

These fair values provide interesting information, but it would not be relevant to draw conclusions about the value of the Company or the results it will achieve in the future. Indeed, assets and liabilities present good congruence in interest rates and maturities and are meant to be held on the balance sheet to maturity, because of the specialized business the Company does.

a. Composition of the fair value of the assets

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

	12/31/2015		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	2,496	2,496	-
Loans and advances due from banks	4,865	4,903	38
Loans and advances to customers	60,854	59,467	(1,387)
Financial assets available for sale	889	889	-
Derivatives	7,045	7,045	-
TOTAL	76,149	74,800	(1,349)

b. Composition of the fair value of the liabilities, excluding equity

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

	12/31/2015		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	5,520	5,542	22
Derivatives	12,015	12,015	-
Debt securities	57,142	57,665	523
TOTAL	74,677	75,222	545

c. Methods used to determine the fair value of financial instruments

The fair value of a financial instrument is determined on the basis of prices that can be observed in the market for the instrument itself or for a comparable instrument, or with the help of a technical evaluation utilizing observable market data. A hierarchy of the methods used to establish fair value has been drawn up. It is composed of the following three levels.

- Level 1 corresponds to the instruments considered to be liquid, i.e. that their valuation is based on the price observed in a liquid market, for which Caisse Française de Financement Local assured itself of the existence of a large number of contributors. Level 1 securities include in particular certain government bonds.
- Level 2 uses another method to determine the value of instruments for which Caisse Française de Financement Local can not observe market prices, but observes such for similar instruments by the same issuer or guarantor listed in the market. In this case, observable prices and other data observable in the market are used and an adjustment is made to account for the degree of the security's lack of liquidity.
- In level 3, when there is no active market or observable market data, the fair value of instruments is determined by using a valuation spread developed from an internal model. Derivatives are valued using these internal models.

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

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

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

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

Fair value of financial assets	12/31/2015			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Central banks	2,496	-	-	2,496
Loans and advances due from banks	4	4,899	-	4,903
Loans and advances to customers	1,525	623	57,319	59,467
Subtotal of assets at amortized costs	4,025	5,522	57,319	66,866
Financial assets available for sale	691	198	-	889
Derivatives	-	5,519	1,526	7,045
Subtotal of assets at fair value	691	5,717	1,526	7,934
TOTAL	4,716	11,239	58,845	74,800

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

Fair value of financial liabilities	12/31/2015			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Due to banks	-	5,542	-	5,542
Debt securities	-	57,665	-	57,665
Subtotal of liabilities at amortized costs	-	63,207	-	63,207
Derivatives	-	7,748	4,267	12,015
Subtotal of liabilities at fair value	-	7,748	4,267	12,015
TOTAL	-	70,955	4,267	75,222

d. Transfers between levels 1 and 2

	12/31/2014	12/31/2015
Level 1 to level 2	-	-
TOTAL	-	-

e. Level 3: analysis of flows

	12/31/2014	Total gains and losses through profit and loss	Total unrealized or deferred gains and losses	Total OCI unrealized or deferred gains and losses	Purchase	Sale	Direct Origination	Settlement	Transfer to activities available for sale	Transfer to level 3	Transfer out of level 3	Other variations	12/31/2015
Financial assets available for sale	343	-	-	-	-	-	-	(343)	-	-	-	-	-
Derivatives	2,031	6	(276)	-	64	-	-	-	-	-	(341)	42	1,526
TOTAL FINANCING ASSETS	2,374	6	(276)	-	64	-	-	(343)	-	-	(341)	42	1,526
Derivatives	5,228	(505)	48	-	185	44	-	-	-	44	(826)	49	4,267
TOTAL FINANCING LIABILITIES	5,228	(505)	48	-	185	44	-	-	-	44	(826)	49	4,267

7.2 - OFFSETTING FINANCIAL ASSETS AND LIABILITIES

a. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

	12/31/2014					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	8,363	-	8,363	(5,914)	(2,333)	116
Loans and advances due from banks	6,752	-	6,752	-	(1,856)	4,896
Loans and advances to customers	62,242	-	62,242	-	-	62,242
TOTAL	77,357	-	77,357	(5,914)	(4,189)	67,254

	12/31/2015					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	7,045	-	7,045	(5,631)	(1,312)	102
Loans and advances due from banks	4,865	-	4,865	-	(1,851)	3,014
Loans and advances to customers	60,854	-	60,854	-	-	60,854
TOTAL	72,764	-	72,764	(5,631)	(3,163)	63,970

b. Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

	12/31/2014					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial instruments pledged	
Derivatives (including hedging instruments)	13,512	-	13,512	(5,914)	-	7,598
Due to banks	6,228	-	6,228	-	-	6,228
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	19,740	-	19,740	(5,914)	-	13,826

(EUR millions)	12/31/2015					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial instruments pledged	
Derivatives (including hedging instruments)	12,015	-	12,015	(5,631)	-	6,384
Due to banks	5,520	-	5,520	-	-	5,520
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	17,535	-	17,535	(5,631)	-	11,904

7.3 - EXPOSURE TO CREDIT RISK

Exposure to credit risks, as presented to management, includes the following:

- for assets other than derivatives: the amount on the balance sheet (i.e. after deduction of specific provisions);
- for derivatives: the market value on the balance sheet plus an add-on representing a margin for future potential credit risks;
- for off-balance sheet commitments: the amount intact of financing commitment drawdowns, is stated in the notes to the financial statements.

Exposure to credit risk is broken down by region and by counterparty, taking into account the guarantees received. This signifies that when the credit risk is guaranteed by a third party whose weighted risk (in the sense of Basel regulations) is less than that of the direct borrower, exposure is included in the guarantor's region and business sector.

a. Breakdown of exposure to credit risks

Analysis of exposure by geographic region

	12/31/2014	12/31/2015
France	51,710	59,399
Belgium	214	200
Italy	6,912	6,610
Spain	471	285
Germany	897	627
United Kingdom	2,318	2,263
Switzerland	2,930	2,123
Other European Union countries	259	88
United States and Canada	641	700
Japan	25	39
Other	116	226
TOTAL EXPOSURE	66,493	72,560

Analysis of exposure by category of counterparty

	12/31/2014	12/31/2015
States	4,187	5,343
Local public sector	56,804	64,005
Other assets guaranteed by public sector entities	141	133
Financial institutions	5,361	3,079
TOTAL EXPOSURE	66,493	72,560

Exposure on financial institutions is primarily comprised of counterparties in hedging derivatives and replacement assets. As of December 31, 2015, Caisse Française de Financement Local had no asset-backed securities.

Analysis of exposure by category of instrument

	12/31/2014	12/31/2015
Debt securities	2,770	889
Loans and advances	63,503	71,131
Financing commitments on loans	150	518
Derivatives	70	22
TOTAL EXPOSURE	66,493	72,560

b. Evaluation of asset credit quality

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

This enables Caisse Française de Financement Local to present as of December 31, 2015, an analysis of its exposures, broken down by risk weighting, as used to calculate equity requirements. Credit weighting is mainly calculated on the basis of the probability of default of the counterparty and of the loss incurred in the event of default.

This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio. More than 76% of the portfolio has a weighting of less than 5% and 96% of the portfolio has a weighting that is less than or equal to 20%.

	Risk weighting (Basel III)				Total
	from 0 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	
Debt securities	25	188	676	-	889
Loans and advances	54,685	14,488	1,665	293	71,131
Financing commitments on loans	490	28	-	-	518
Derivatives	-	-	15	7	22
TOTAL EXPOSURE	55,200	14,704	2,356	300	72,560
SHARE	76.1%	20.3%	3.2%	0.4%	100.0%

Certain exposures do not yet benefit from an internal evaluation system validated by banking supervisors; in this case, their weighting is the one in the standard method, which is, for example, 20% for local governments.

7.4 - LIQUIDITY RISK: ANALYSIS BY TERM TO MATURITY

a. Analysis of assets

	12/31/2015						Total broken down
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	
Central banks	2,496	-	-	-	-	-	2,496
Derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	-	15	69	561	0	645
Loans and advances due from banks	4	112	2,275	1,199	1,251	-	4,841
Loans and advances to customers	6	2,120	2,971	15,888	33,902	-	54,887
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	108	108
Accruals and other assets	-	18	-	-	-	2	20
TOTAL	2,506	2,250	5,261	17,156	35,714	110	62,997

	12/31/2015					Total
	Total broken down	Accrued interest	Fair value adjustment	Impairment		
Central banks	2,496	-	-	-	-	2,496
Derivatives	-	570	6,475	-	-	7,045
Financial assets available for sale	645	8	236	-	-	889
Loans and advances due from banks	4,841	7	17	-	-	4,865
Loans and advances to customers	54,887	715	5,381	(129)	-	60,854
Fair value revaluation of portfolio hedge	-	-	2,784	-	-	2,784
Financial assets held to maturity	-	-	-	-	-	-
Tax assets	108	-	-	-	-	108
Accruals and other assets	20	-	-	-	-	20
TOTAL	62,997	1,300	14,893	(129)		79,061

b. Analysis of liabilities, excluding equity

	12/31/2015						Total broken down
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	
Central banks	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Due to banks	-	150	687	2,449	2,225	-	5,511
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	2,235	4,700	20,832	24,598	-	52,365
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	1	-	-	-	1
Accruals and other liabilities	-	1,448	-	56	80	-	1,584
Provisions	-	-	-	38	-	-	38
Subordinated debt	-	-	-	-	-	-	-
TOTAL	-	3,833	5,388	23,375	26,903	-	59,499

	12/31/2015			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Derivatives	-	749	11,266	12,015
Due to banks	5,511	9	-	5,520
Customer borrowings and deposits	-	-	-	-
Debt securities	52,365	942	3,835	57,142
Fair value revaluation of portfolio hedge	-	-	1,446	1,446
Tax liabilities	1	-	-	1
Accruals and other liabilities	1,584	-	-	1,584
Provisions	38	-	-	38
Subordinated debt	-	-	-	-
TOTAL	59,499	1,700	16,547	77,746

c. Net liquidity gap

	12/31/2015						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total not broken down
AMOUNT	2,506	(1,583)	(127)	(6,219)	8,811	110	(2,183)
							1,315

This table presents the balance sheet at the closing date; it does not take into account the management decisions that will make it possible to manage differences in maturity or the future production of assets and liabilities. Caisse Française de Financement Local's liquidity is provided by its refinancing agreement with SFIL. In addition, the Company may obtain funding from the Banque de France, by giving certain of these assets in guarantee. Caisse Française de Financement Local can thus obtain funding from the Banque de France enabling it to reimburse *obligations foncières* when they arrive at maturity; the assets given in guarantee are therefore excluded from the calculation of the over-collateralization ratio.

7.5 - RISK ON RESETTING OF INTEREST RATES: ANALYSIS BY TIME UNTIL NEXT INTEREST RATE RESET DATE

a. Analysis of assets

	12/31/2015						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central banks	2,496	-	-	-	-	-	2,496
Derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	-	15	69	561	-	645
Loans and advances due from banks	4	4,314	284	150	89	-	4,841
Loans and advances to customers	6	8,183	8,290	11,823	26,585	-	54,887
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	108	108
Accruals and other assets	-	20	-	-	-	-	20
TOTAL	2,506	12,517	8,589	12,042	27,235	108	62,997

	12/31/2015				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	2,496	-	-	-	2,496
Derivatives	-	570	6,475	-	7,045
Financial assets available for sale	645	8	236	-	889
Loans and advances due from banks	4,841	7	17	-	4,865
Loans and advances to customers	54,887	715	5,381	(129)	60,854
Fair value revaluation of portfolio hedge	-	-	2,784	-	2,784
Financial assets held to maturity	-	-	-	-	-
Tax assets	108	-	-	-	108
Accruals and other assets	20	-	-	-	20
TOTAL	62,997	1,300	14,893	(129)	79,061

b. Analysis of liabilities, excluding equity

	12/31/2015						Total broken down
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	
Central banks	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Due to banks	-	397	5,114	-	-	-	5,511
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	3,639	5,763	19,489	23,475	-	52,366
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	1	-	-	-	1
Accruals and other liabilities	-	1,584	-	-	-	-	1,584
Provisions	-	-	-	38	-	-	38
Subordinated debt	-	-	-	-	-	-	-
TOTAL	-	5,620	10,878	19,527	23,475	-	59,500

	12/31/2015			Total
	Total broken down	Accrued interest	Fair value adjustment	
Central banks	-	-	-	-
Derivatives	-	749	11,266	12,015
Due to banks	5,511	9	-	5,520
Customer borrowings and deposits	-	-	-	-
Debt securities	52,366	942	3,834	57,142
Fair value revaluation of portfolio hedge	-	-	1,446	1,446
Tax liabilities	1	-	-	1
Accruals and other liabilities	1,584	-	-	1,584
Provisions	38	-	-	38
Subordinated debt	-	-	-	-
TOTAL	59,500	1,700	16,546	77,746

c. Net balance sheet sensitivity gap

	12/31/2015						Total not broken down	Total
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity		
AMOUNT	2,506	6,897	(2,289)	(7,485)	3,760	108	(2,182)	1,315

7.6 - CURRENCY RISK

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

Classification by original currency	12/31/2015				Total
	EUR	Other European currencies	U.S. dollars	Other currencies	
Total assets	72,661	3,214	1,585	1,601	79,061
Total liabilities	72,661	3,214	1,585	1,601	79,061
NET BALANCE SHEET POSITION	-	-	-	-	-

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

7.7 - SENSITIVITY TO INTEREST RATE RISK

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

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

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

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

The sensitivity of residual positions that remain after the first stage and after the second level of hedges is monitored carefully and kept within strict limits. The set of limits on interest rate risk guarantees, with 99% probability, a maximum one year loss of less than EUR 80 million in the event of a change in interest rates of 200 basis point (bp), equivalent to the maximum loss that could have been incurred with the sensitivity limit previously set at EUR 40 million (3% of equity) for a fluctuation in interest rates of 100 bp. This calibration is based on a directional shift in rates corresponding to the 1% at one-year decile observed over the period 2005-2013, which was approximately 200 bp.

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 measures of sensitivity at the end of quarters for a change of 100 bp in interest rates are presented below.

Directional risk

Total sensitivity

End of quarter	Limit	1Q	2Q	3Q	4Q
Sensitivity	25.0	4.9	10.5	0.0	0.1

Risk of slope between two distant points on the rate curve

Sum of sensitivities

End of quarter	Limit	1Q	2Q	3Q	4Q
Short term	10.0	0.3	2.0	3.5	0.6
Medium term	10.0	5.1	5.6	(0.8)	(0.4)
Long term	10.0	6.8	6.3	(0.5)	1.9
Very long term	10.0	(7.3)	(3.4)	(2.2)	(2.0)

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

End of quarter	Limit	1Q	2Q	3Q	4Q
Short term	20.0	1.0	7.6	5.2	6.2
Medium term	20.0	7.8	13.4	8.4	4.5
Long term	20.0	4.1	8.9	4.9	3.7
Very long term	20.0	7.3	7.6	3.8	3.8

Statutory auditors' report on the financial statements established under IFRS

For the year ended December 31, 2015

To the Chairman of the Executive Board,

As statutory auditors of Caisse Française de Financement Local and at your request pursuant to the wish of your Company to provide more extensive financial information to investors, we have audited the accompanying financial statements of the Company for the year ended December 31, 2015, established in accordance with IFRS as adopted by the European Union.

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

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and significant accounting estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the assets and liabilities and the financial position of the Company as of year end, and the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

Without qualifying our opinion, in respect with this matter, we draw your attention to the matters set out in the note "1.1 – Context of publication" to the annual financial statements established under IFRS, which mentions the assumptions used by Caisse Française de Financement Local for the preparation of the financial statements as of December 31, 2015, and note 1.3.b. that outlines the first-time application of new standards, amendments and interpretations as of January 1, 2015.

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

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

Courbevoie and Neuilly-sur-Seine, March 29, 2016

The statutory auditors
French original signed by:

MAZARS
Anne Veaute

DELOITTE & ASSOCIÉS
Charlotte Vandeputte

French GAAP Financial Statements

Assets as of December 31, 2015

EUR millions	Notes	12/31/2013	12/31/2014	12/31/2015
Central banks	2.1	1,471	519	2,496
Government and public securities, eligible for central bank financing	2.2	4,983	6,025	3,866
Loans and advances due from banks	2.3	7,348	6,755	4,876
Loans and advances to customers	2.4	47,373	46,311	46,918
Bonds and other fixed income securities	2.5	4,368	4,590	3,562
Equities and other variable income securities		-	-	-
Investments in non-consolidated companies and other long-term investments		-	-	-
Investments in consolidated companies		-	-	-
Intangible assets		-	-	-
Property and equipment		-	-	-
Unpaid capital		-	-	-
Treasury stock		-	-	-
Other assets	2.6	13	0	19
Accruals and other assets	2.7	3,525	3,438	3,297
TOTAL ASSETS	2.8	69,081	67,638	65,034

Liabilities as of December 31, 2015

EUR millions	Notes	12/31/2013	12/31/2014	12/31/2015
Central banks	3.1	-	-	-
Due to banks	3.2	6,774	6,228	5,520
Customer borrowings and deposits		-	-	-
Debt securities	3.3	53,913	53,752	53,185
Other liabilities	3.4	2,699	2,520	1,570
Accruals and other liabilities	3.5	4,182	3,614	3,200
Provisions	3.6	134	137	203
General banking risks reserve		-	-	-
Subordinated debt		-	-	-
Equity		1,379	1,387	1,356
Share capital	3.7	1,315	1,315	1,315
Additional paid-in capital	3.7	-	-	-
Reserves and retained earnings	3.7	84	64	71
Net income	3.7	(20)	8	(30)
TOTAL LIABILITIES	3.8	69,081	67,638	65,034

Off-balance sheet items as of December 31, 2015

EUR millions	Notes	12/31/2013	12/31/2014	12/31/2015
COMMITMENTS GRANTED	4.1	228	150	893
Financing commitments		228	150	893
Guarantees granted		-	-	-
Other commitments granted		-	-	-
COMMITMENTS RECEIVED	4.2	11,816	11,795	8,679
Financing commitments		170	550	50
Guarantees received		11,646	11,245	8,629
Forward commitments		-	-	-
Other commitments received		-	-	-
Foreign currency transactions	4.3	23,012	20,799	16,030
Interest rate derivatives	4.4	148,666	139,550	148,022

Income statement

EUR millions	Notes	2013	2014	2015
Interest income	5.0	4,976	1,955	2,808
Interest expense	5.0	(4,816)	(1,797)	(2,622)
Income from variable income securities		-	-	-
Commission income		-	0	0
Commission expense	5.1	(24)	(28)	(26)
Net gains (losses) on held for trading portfolio		-	-	0
Net gains (losses) on placement portfolio	5.2	41	(2)	21
Other banking income		-	0	0
Other banking expense		-	(0)	(0)
NET BANKING INCOME		177	128	181
General operating expense	5.3	(79)	(93)	(96)
Depreciation and amortization		-	-	-
OPERATING INCOME BEFORE COST OF RISK		98	35	85
Cost of risk	5.4	(183)	(18)	(14)
INCOME FROM OPERATIONS		(85)	17	71
Income (loss) on fixed assets	5.5	-	-	(5)
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		(85)	17	66
Non-recurring items		-	-	-
Income tax	5.6	(5)	(9)	(96)
Net allocation to general banking risks reserve and regulated provisions		70	-	-
NET INCOME		(20)	8	(30)
Basic earnings per share		(1.56)	0.59	(2.30)
Diluted earnings per share		(1.56)	0.59	(2.30)

Equity

EUR millions	Amount
AS OF 12/31/2014	
Share capital	1,315
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	64
Net income for the year	8
Interim dividends	-
EQUITY AS OF 12/31/2014	1,387
MOVEMENTS FOR THE PERIOD	
Changes in share capital	-
Changes in additional paid-in capital	-
Changes in commitments to increase share capital and additional paid-in capital	-
Changes in reserves and retained earnings	7
Dividends paid (-)	-
Net income for the period	(30)
Other movements	-
AS OF 12/31/2015	
Share capital	1,315
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	71
Net income for the period	(30)
EQUITY AS OF 12/31/2015	1,356

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General Information

Cash flow statement

EUR millions	12/31/2013	12/31/2014	12/31/2015
NET INCOME BEFORE TAXES	(85)	17	66
+/- Depreciation and write-downs	186	44	39
+/- Expense / income from operating activities	81	28	141
+/- Expense / income from financing activities	(110)	(88)	(184)
+/- Other non cash items	26	(103)	130
= Non monetary elements included in net income before tax and other adjustments	183	(119)	126
+/- Cash from interbank operations	(474)	38	1,158
+/- Cash from customer operations (loans)	2,610	990	(772)
+/- Cash from customer financing assets	5,787	(1,183)	3,222
+/- Cash from hedging financial instruments	(1,012)	(265)	(1,258)
- Income tax paid	(14)	(3)	(35)
= Decrease / (increase) in cash from operating activities	6,897	(423)	2,315
CASH FLOW FROM OPERATING ACTIVITIES (A)	6,995	(525)	2,507
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-	-
+/- Cash from or for shareholders	-	-	-
+/- Other cash from financing activities	(3,417)	(430)	(540)
CASH FLOW FROM FINANCING ACTIVITIES (C)	(3,417)	(430)	(540)
EFFECT OF EXCHANGE RATES CHANGES ON CASH (D)	-	-	-
Increase / (decrease) in cash equivalents (A + B + C + D)	3,578	(955)	1,967
Cash flow from operating activities (A)	6,995	(525)	2,507
Cash flow from investing activities (B)	-	-	-
Cash flow from financing activities (C)	(3,417)	(430)	(540)
Effect of exchange rates on cash (D)	-	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	(2,090)	1,488	533
Central banks (assets and liabilities)	2,400	1,471	519
Interbank accounts (assets and liabilities) and loans / deposits at sight	(4,490)	17	14
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1,488	533	2,500
Central banks (assets and liabilities)	1,471	519	2,496
Interbank accounts (assets and liabilities) and loans / deposits at sight	17	14	4
NET CASH	3,578	(955)	1,967

Notes to the French GAAP financial statements

1. Significant accounting and valuation policies

1.1 - CONTEXT OF PUBLICATION

The financial statements as of December 31, 2015 were examined by the Executive Board on March 21, 2016.

Readers are reminded that in order to prepare its 2013 and 2014 annual financial statements, as well as its 2015 half year financial statements, Caisse Française de Financement Local took into account the hypothesis that the solutions announced by the government would in fact rapidly be made available. It was notably a question of defining a legal base for other structured loan agreements contracted by public sector entities (which took effect on July 30, 2014), creating a support fund for local governments and then for public hospitals and finally the measures taken in 2015 to counter the major rise in the exchange value of the Swiss franc decided by the Swiss National Bank 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 (rise in the two support funds and increase in the maximum rate of assistance granted).

1.2 - HIGHLIGHTS OF THE PERIOD

a. The covered bond market

The market for public sector issues of covered bonds in euros was active in 2015 with an offer in the primary market of EUR 146 billion (compared with EUR 117 billion in 2014). This dynamic activity was in part bolstered by investors' need to replace a large volume of bonds that had reached maturity in 2015 (EUR 147 billion), but also by the active presence of issuers outside the euro zone who found in this market favorable conditions for their long term financing. Canadian, Australian and British issuers thus accounted for approximately 18% of the offering, although German and French issuers remained the most dynamic with, overall, more than 30% of the offering.

A significant highlight of 2015 was the ECB's move to pursue its covered bond purchase program as part of the implementation of its unconventional monetary policy. Generally, with outstandings in its purchase program as of December 31, 2015, of almost EUR 144 billion, the Eurosystem demonstrated how important it considers this market, which it helped to build. The intervention of the Eurosystem resulted in a long decline in primary and secondary spreads. Then, since the month of September, the very abundant primary offering led investors to be more selective and demanding with regard to new issue premiums compared with the secondary market. Spreads thus tended to widen in the last quarter of 2015.

In such an environment, Caisse Française de Financement Local launched its annual program of financing via *obligations foncières* in good conditions of volume, spread and average life. This has made it possible to provide the long-term liquidity required for the development of the commercial offers of La Banque Postale to the public sector in France and for ongoing support of SFIL's policy to reduce loan sensitivity.

In 2016, investor demand should remain naturally sustained as large volumes reach maturity (approximately EUR 150 billion). In addition, the particularly favorable regulatory treatment in such an evolving environment (Basel III or Solvency 2) should encourage investors to choose covered bonds when allocating assets. Nevertheless, the net offering is expected to be almost nothing as in 2015.

b. Business of local government financing in 2015

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

With an excellent first half, La Banque Postale granted loans totaling EUR 4.0 billion in 2015, up approximately 20% from the previous year. Combined with the loans granted directly by Caisse Française de Financement Local, total production rose to EUR 6.3 billion and confirmed the leading role of LBP/SFIL in refinancing the local public sector (largest lender in terms of market share). For the fourth year of business, the organization that had been set up confirmed its efficiency after a progressive and regular ramp-up.

SFIL continued to implement the policy that consists in reducing the sensitivity of the structured loans of Caisse Française de Financement Local with a volume of EUR 1.4 billion of sensitive loans transformed into fixed rate contracts. Since the beginning of 2013, the total amount of outstanding structured loans was reduced by more than 44%, from EUR 8.5 billion to EUR 4.6 billion, and 300 customers definitively moved out of the "sensitive customer" category. Since the support funds initiated by the French State are fully operational, more than 100 legal settlements have been signed. The efforts to reduce sensitivity were generally accompanied by new loans of which EUR 1.7 billion were paid out in 2015.

By the end of 2015, half of the borrowers with loans indexed on EUR/CHF had been totally cleared of any sensitivity, and among them approximately 80% of small local governments and public hospitals that held such loans. At the same date, 92 borrowers, including 89 local governments, withdrew their suits. Litigation at the end of the year involved 131 plaintiffs compared with 210 at the end of 2014.

c. Events affecting the ratings of *obligations foncières*

The ratings of the *obligations foncières* issued by Caisse Française de Financement Local were 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 December 31, 2015, the ratings were as follows: AA+ by Standard and Poor's, Aaa by Moody's and AA by Fitch.

d. 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.

Decrease in outstanding sensitive structured loans

The policy applied by SFIL since its creation at the beginning of 2013 made it possible to effect a significant reduction in the size of the portfolio of sensitive structured loans of Caisse Française de Financement Local.

Creation of support funds contributing to the cost of sensitivity reduction

The two support funds created by the French government in 2013 and 2014 allow local governments and public hospitals eligible for this arrangement to finance the cost of doing away with their structured loans. These funds were fully operational as of 2015. In the second half, notifications of the amounts of assistance provided by the funds began to be sent to local governments and public hospitals that had requested such help. This made it possible to maintain a sustained pace of sensitivity reduction and resulted in a major decrease in the number of law suits.

The intervention capacity of these funds was significantly 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 customers holding loans indexed on the EUR/CHF exchange rate were still responsible would not be greater, after assistance from the funds, than they would have been before the decision of the Swiss National Bank (SNB) in January 2015 to put an end to the floor rate of exchange of 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 million to the hospital support fund decided in November 2015 in order to participate in the increase in these funds.

Significant decline in the number of suits

As of December 31, 2015, the number of borrowers who had brought suit totaled 131, down from 210 as of December 31, 2014, a decline of 79 borrower-plaintiffs.

The law that created a legal basis to secure structured loan agreements subscribed by public sector 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 initiated the first law suit to be decided, chose to put an end to the litigation within the framework of a financial agreement that made it possible to eliminate its debt sensitivity.

Since this first legal decision in February 2013, the Tribunal has decided a limited number of cases. Four decisions were handed down in 2014 before the law creating a legal basis to secure structured loan agreements subscribed by public entities took effect, which Dexia Credit Local and Caisse Française de Financement Local appealed, and three in 2015.

Of the three decisions of the Tribunal de grande instance de Nanterre handed down in 2015, a single decision condemned jointly and separately Dexia Credit Local and Caisse Française de Financement Local for the failure of Dexia Credit Local to provide adequate information and sufficient warning when it marketed the loan. This same decision condemned the 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.

As of December 31, 2015, all these decisions were being heard in appeal before the Cour d'appel de Versailles, except for litigation in which a financial agreement had been reached. At the same time, 88 borrowers who had brought suit signed a financial settlement agreement with SFIL, Caisse Française de Financement Local and Dexia Credit Local, thereby putting an end to legal litigation.

e. Tax assessment

In 2015, French tax authorities investigated the income declared and the tax paid for 2012 and 2013. Following the tax assessment, the tax authorities expressed their disagreement with the tax treatment of the following two points: the taxation in Ireland of the income from the Dublin branch of Dexia Municipal Agency, which has now been closed, and the deductibility of provisions for non-performing loans.

In order to take into account the risk of an unfavorable outcome in these proceedings, Caisse Française de Financement Local has recorded a provision for additional income tax in the amount of EUR 86 million in its financial statements according to French GAAP. Nonetheless, Caisse Française de Financement Local does not agree with the position of the tax authorities and will appeal within the framework of legal recourse allowed by current tax regulations.

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

Caisse Française de Financement Local prepares its annual financial statements in compliance with Regulation n° 2014-07 issued on November 26, 2014, related to the annual accounts for the banking sector.

The financial statements as of December 31, 2015, were prepared using the same accounting principles as those used in the financial statements as of December 31, 2014.

The financial statements have been prepared in accordance with French generally accepted accounting principles, respecting the principle of prudence, on the basis of the following assumptions:

- going concern principle,
- segregation of accounting periods,
- consistency of methods.

The accounts are in accordance with the indications of directive 86/635/EEC of the Council of European Communities.

1.4 - ACCOUNTING PRINCIPLES APPLIED TO THE FINANCIAL STATEMENTS

a. Loans and advances to banks and to customers

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

Loans and advances to customers comprise loans granted to local governments. They are recorded in the balance sheet net of impairment for possible loss. The undrawn portion of signed loan agreements is recorded as an off-balance sheet item. Interest on loans is recorded as Interest income, *pro rata temporis* for accrued amounts as is interest on past-dues.

Commissions received and transaction costs related to the granting or the acquisition of a loan, if they are significant, are amortized over the maturity of the loan. Other commission income is recorded in the income statement on a cash basis.

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

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

A loan is considered as non-performing when it presents one of the following characteristics:

- a probable or certain risk that it will not be repaid (past-due for more than nine months for local government borrowers, and for more than three months for the other counterparties);
- the existence of a factual counterparty risk (worsening of the financial situation, alert procedures);
- the existence of litigation.

Compromised non-performing loans are loans to borrowers whose recovery outlook is so downgraded that they are written off. Loans unpaid for more than one year are recorded in this category. Interest on these loans no longer contributes to the interest margin once they have been transferred to the category of compromised non-performing loans.

Impairment charges are recognized for non-performing and compromised non-performing loans. Risk management determines the percentage of impaired capital in function of expected losses. Interest income is fully impaired.

Impairment charges and reversals for credit risk are recognized as Cost of risk as well as the losses on non-recoverable loans and recuperations on amortized loans.

b. Securities

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

- government and public entity securities eligible for central bank refinancing;
- bonds and other fixed income securities.

The item Government and public entity securities eligible for central bank refinancing includes debt securities issued by public sector entities that may be refinanced through the European system of central banks.

The item Bonds and other fixed income securities includes the following categories of securities:

- debt securities issued by public sector entities that are not eligible for refinancing by central banks;
- debt securities guaranteed by public sector entities;
- debt securities issued by securitization structures.

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

Investment securities

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

Investment securities are recorded on the date of purchase at acquisition clean price excluding fees.

Accrued interest at the date of acquisition is recorded as other assets. Interest on these securities is recorded in income as Interest income on bonds and fixed income securities.

The positive or negative difference between the redemption value and the acquisition cost (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

At the end of the reporting period, unrealized gains are not recorded. Unrealized losses are not recognized except in the following cases:

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

Placement securities

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

They are recorded on the date of purchase at acquisition cost excluding fees. Accrued interest at the date of acquisition is recorded as other assets. Interest on these securities is recorded as Interest income on bonds and fixed income securities.

The positive or negative difference between the redemption value and the acquisition cost (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

At the end of the reporting period, in application of the principle of prudence, placement securities are recorded on the balance sheet at their acquisition cost or selling price at the end of the reporting period, whichever is lower, after accounting, when relevant, for the value of the micro-hedge swap.

If the market for a financial instrument is not active, valuation techniques are used to calculate the selling price (or market value as defined in the notes to the financial statements). The valuation model should take into account all the factors that market players would consider to value the asset. Within this framework, Caisse Française de Financement Local relies on its own valuation models, making every effort to take into account the market conditions at the date of the valuation as well as any changes in the credit risk quality of these financial instruments and market liquidity.

When the decrease in the value of the security exceeds the unrealized gain on the micro-hedge, the decrease in net value is recorded as asset impairment as well as impairment reversals and capital gains and losses on sales.

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

c. Debt due to banks

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

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

d. Debt securities

Debt securities include *obligations foncières* and other resources benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code. Pursuant to article L.513-12 of the Monetary and Financial Code and article 6 of CRBF standard 99-10 of July 27, 1999, total assets must at all times be greater than total liabilities benefiting from the privilege mentioned in article L.513-11 of the above-mentioned Monetary and Financial Code.

Obligations foncières

These debt securities are recorded at nominal value.

Redemption and issue premiums are amortized on a straight-line basis over the maturity of the securities *prorata temporis*. They are recorded on the balance sheet in the same categories as the corresponding debt. Amortization of these premiums is recorded in the income statement as Interest expense on bonds and other fixed income securities. If bonds are issued above par, amortization of issue premiums is deducted from interest expense on bonds and other fixed income securities.

Interest on bonds is recorded in the interest margin for accrued amounts calculated *prorata temporis*.

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

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

Registered covered bonds

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

e. Provisions

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

- Caisse Française de Financement Local has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources representing economic benefits will be required to settle the obligation;
- a reliable estimate of the amount of the obligation can be made.

f. Derivative transactions

Caisse Française de Financement Local engages in derivative transactions to hedge the interest rate and foreign exchange risks to which it is exposed in its activity. Depending on their purpose, these transactions are assigned to micro-hedge or macro-hedge portfolios. Valuation methods and accounting principles are determined according to the portfolio to which they are assigned.

Pursuant to article L.513-10 of the Monetary and Financial Code, these transactions benefit from the privilege defined in article L.513-11 of the Monetary and Financial Code provided that their purpose is to hedge the assets or debt benefiting from the privilege and the overall risk on the assets, liabilities and off-balance sheet items. The law stipulates that derivative transactions do not benefit from the privilege when related to sources of financing that do not benefit from the privilege. For Caisse Française de Financement Local, the only resources that do not benefit from the privilege comprise the SFIL debt, which is not hedged.

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

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

Micro-hedge transactions

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

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

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

- prior to January 1, 2005, the termination fee is amortized over the length of time remaining of the cancelled transaction;

- since January 1, 2005, the termination fee is recorded at cancellation; however, the termination fee paid by Caisse Française de Financement Local is charged against income only for the portion that exceeds gains not yet recorded in income in the symmetric position.

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

Macro-hedge transactions

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

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

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

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

Monitoring market risks

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

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

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

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

g. Foreign currency transactions

Caisse Française de Financement Local records foreign currency transactions in accounts opened and denominated in each of the currencies used.

Specific foreign exchange position accounts and foreign exchange position equivalent accounts are opened in each currency.

At the end of each reporting period, differences between the amounts resulting from a market price valuation of the foreign exchange position accounts and the amounts recorded in the foreign exchange position equivalent accounts are recorded in the income statement.

h. Foreign exchange transactions

In the course of systematic hedging of its foreign exchange risk, Caisse Française de Financement Local enters into currency swaps. These currency swaps are initiated to eliminate the risk of foreign exchange rate fluctuations that might affect an asset or liability as soon as such a risk is recognized. They are mainly used to hedge certain bond issues, debt securities and customer loans.

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

i. Non-recurring income and expense

Non-recurring income and expense result from events or transactions that do not relate to ordinary business operations or routine management of the Company's assets and liabilities.

Furthermore, the income or expense involved does not depend on decisions taken within the framework of usual management of the Company's activities or assets, but results from external events of a completely exceptional nature. Only items of this nature that have a significant impact on the period's net income are recorded as non-recurring income and expense.

j. Tax consolidation

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

k. Offices and activities in uncooperative states and territories

In application of article L.511-45 of the Monetary and Financial Code, it should be noted that Caisse Française de Financement Local has no offices in States that have not signed an administrative assistance agreement with France (subsidiaries, branches, including *ad hoc* entities, and equity interest in other entities over which the Company has exclusive or joint (or *de facto*) control).

l. Identity of the parent company consolidating the accounts of Caisse Française de Financement Local as of December 31, 2015

SFIL

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

2. NOTES TO THE ASSETS (EUR millions)

2.1 - CENTRAL BANKS

	12/31/2013	12/31/2014	12/31/2015
Mandatory reserves	-	-	-
Other deposits	1,471	519	2,496
TOTAL	1,471	519	2,496

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

a. Accrued interest included in this item: 56

b. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
-	20	417	3,373	3,810

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

	Amount as of 12/31/2013	Amount as of 12/31/2014	Amount as of 12/31/2015	Impairment as of 12/31/2015	Unrealized capital gain or loss as of 12/31/2015 ⁽²⁾
Listed securities ⁽¹⁾	4,481	5,629	3,501	-	(431)
Other securities	432	326	309	-	(14)
TOTAL	4,913	5,955	3,810	-	(445)

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

(2) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

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

Portfolio	Net amount as of 12/31/2013	Net amount as of 12/31/2014	Gross amount as of 12/31/2014	Increases	Decreases	Transfers ⁽¹⁾	Conversion differences	Impairment as of 12/31/2015	Net amount as of 12/31/2015	Unrealized capital gain or loss as of 12/31/2015 ⁽²⁾
Trading	-	-	-	-	-	-	-	-	-	-
Placement	756	2,363	2,363	-	(1,678)	-	(0)	-	685	(24)
Investment	4,157	3,592	3,592	-	(36)	(446)	15	-	3,125	(421)
TOTAL	4,913	5,955	5,955	-	(1,714)	(446)	15	-	3,810	(445)

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

(2) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

e. Impairment breakdown by country

See note 2.9

2.3 - LOANS AND ADVANCES DUE FROM BANKS**a. Sight loans and advances due from banks**

	12/31/2013	12/31/2014	12/31/2015
Sight accounts	18	14	4
Unallocated sums	-	-	0
TOTAL	18	14	4

b. Term loans and advances due from banks**b.1 Accrued interest included in this item: 7****b.2 Analysis by residual maturity excluding accrued interest**

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
112	2,275	1,198	1,280	4,865

b.3 Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2013	Net amount as of 12/31/2014	Gross amount as of 12/31/2015	Decrease in value as of 12/31/2015	Net amount as of 12/31/2015
Loans of less than 1 year	-	-	-	-	-
Loans of more than 1 year	7,308	6,724	4,865	-	4,865
TOTAL	7,308	6,724	4,865	-	4,865

b.4 Breakdown by counterparty

	12/31/2013	12/31/2014	12/31/2015
Swiss cantonal banks benefiting from their cantons' legal guarantee	684	598	355
Banks guaranteed by a local government, <i>crédits municipaux</i>	133	92	56
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	2,128	2,122	2,115
Loans to parent company	4,363	3,912	2,339
TOTAL	7,308	6,724	4,865
<i>of which replacement assets</i>	<i>4,363</i>	<i>3,912</i>	<i>2,339</i>

2.4 - CUSTOMER LOANS AND ADVANCES**a. Accrued interest included in this item: 643****b. Analysis by residual maturity excluding accrued interest**

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
1,346	2,663	14,279	27,987	46,275

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

Economic sector	12/31/2013	12/31/2014	12/31/2015
Public sector	43,373	42,605	43,480
Other sectors	3,280	3,025	2,795
TOTAL	46,653	45,630	46,275

d. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2013	Net amount as of 12/31/2014	Gross amount as of 12/31/2015	Impairment as of 12/31/2015	Net amount as of 12/31/2015
Loans of less than 1 year	2	5	6	-	6
Loans of more than 1 year	46,651	45,625	46,335	(66)	46,269
TOTAL	46,653	45,630	46,341	(66)	46,275

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

	Net amount as of 12/31/2013	Net amount as of 12/31/2014	Gross amount as of 12/31/2015	Impairment as of 12/31/2015	Net amount as of 12/31/2015
Performing commitments	46,418	45,224	45,682	-	45,682
Non-performing loans	193	290	288	(14)	274
Compromised non-performing loans	42	116	371	(52)	319
TOTAL	46,653	45,630	46,341	(66)	46,275

Assets considered as forborne by Caisse Française de Financement Local concern exposures to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (recognized or to come) that would not have been granted in other circumstances. These concessions may either be a waiver of a part of the debt, a rescheduling of the loan repayment, restructuring measures through an amendment to the loan contract, or a partial or full refinancing of the loan with a new contract, including for transactions aiming at reducing the sensitivity of the loan.

There were 69 forborne contracts as of December 31, 2015, with 46 borrowers, for a total of EUR 546 million.

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

	12/31/2013	12/31/2014	Allocations	Reversals	Transfers	12/31/2015
For non-performing loans						
On loans	(3)	(9)	(1)	8	-	(2)
On interest	(5)	(12)	(11)	11	-	(12)
For compromised non-performing loans						
On loans	(3)	(4)	(3)	3	-	(4)
On interest	(3)	(22)	(32)	6	-	(48)
TOTAL	(14)	(47)	(47)	28	-	(66)

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

g. Impairment breakdown by country

See note 2.9

2.5 - BONDS AND OTHER FIXED INCOME SECURITIES**a. Accrued interest included in this item: 23****b. Analysis by residual maturity excluding accrued interest**

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
5	20	652	2,862	3,539

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

	12/31/2013	12/31/2014	12/31/2015
Public sector	3,452	3,710	3,076
Other sectors (guaranteed by a State or by a local government)	890	856	463
TOTAL	4,342	4,566	3,539
- of which eligible for central bank refinancing	556	394	52

d. Replacement assets

None

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

	12/31/2013	12/31/2014	12/31/2015	Impairment as of 12/31/2015	Unrealized capital gain or loss as of 12/31/2015 ⁽¹⁾
Listed securities	1,904	2,208	1,345	-	49
Other securities	2,438	2,358	2,194	-	(152)
TOTAL	4,342	4,566	3,539	-	(103)

(1) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

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

Portfolio	Net amount as of 12/31/2013	Net amount as of 12/31/2014	Gross amount as of 12/31/2014	Increases	Decreases	Transfers ⁽¹⁾	Conversion differences	Impairment as of 12/31/2015	Net amount as of 12/31/2015	Unrealized capital gain or loss as of 12/31/2015 ⁽²⁾
Trading	-	-	-	-	-	-	-	-	-	-
Placement	1,012	946	946	-	(420)	-	44	-	570	13
Investment	3,330	3,620	3,620	-	(1,128)	446	31	-	2,969	(116)
TOTAL	4,342	4,566	4,566	-	(1,548)	446	75	-	3,539	(103)

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

(2) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

g. Impairment breakdown by country

See note 2.9

2.6 - OTHER ASSETS

	12/31/2013	12/31/2014	12/31/2015
Other receivables	13	0	19
TOTAL	13	0	19

2.7 - ACCRUALS AND OTHER ASSETS

	12/31/2013	12/31/2014	12/31/2015
Deferred losses on hedging transactions	2,079	1,997	1,873
Deferred charges on bond issues	44	41	41
Deferred charges on hedging transactions	148	197	223
Premiums on acquisition of loans	110	136	182
Other prepaid charges	-	1	0
Accrued interest not yet due on hedging transactions	1,141	1,064	977
Translation adjustments	-	-	-
Other deferred income	-	-	-
Other accruals	3	2	1
TOTAL	3,525	3,438	3,297

2.8 - TOTAL ASSETS

Analysis by original currency	Amount in original currency as of 12/31/2013	Amount in euros as of 12/31/2013	Amount in original currency as of 12/31/2014	Amount in euros as of 12/31/2014	Amount in original currency as of 12/31/2015	Amount in euros as of 12/31/2015
EUR	61,634	61,634	60,841	60,841	59,436	59,436
AUD	1,079	700	530	358	20	14
CAD	1,020	696	1,019	725	1,017	674
CHF	2,660	2,168	2,643	2,197	1,896	1,746
GBP	637	764	637	818	637	867
HKD	201	19	201	21	201	24
JPY	106,641	737	95,837	661	95,050	726
NOK	1,039	124	1,039	115	1,039	108
PLN	36	9	37	9	39	9
SEK	1,335	150	1,334	141	0	0
USD	2,868	2,080	2,125	1,752	1,556	1,430
TOTAL		69,081		67,638		65,034

2.9 - IMPAIRMENT BREAKDOWN BY COUNTRY

	12/31/2013	12/31/2014	12/31/2015
Government and public entity securities eligible for central bank refinancing - placement securities	(8)	-	-
Italy	(8)	-	-
Bonds and other fixed income securities - placement securities	0	0	-
Germany	0	0	-
Bonds and other fixed income securities - investment securities	-	-	-
Loans and advances to customers	(14)	(47)	(66)
France	(14)	(47)	(66)

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

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

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

	12/31/2015					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	584	-	-	584
TOTAL	-	-	584	-	-	584

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

	12/31/2015					
	Spain	Ireland	Italy	Portugal	Greece	Total
Investment securities	-	-	472	-	-	472
Placement securities	-	-	112	-	-	112
TOTAL	-	-	584	-	-	584

3. NOTES TO THE LIABILITIES (EUR millions)

3.1 - CENTRAL BANKS

This item includes refinancing obtained through Banque de France tenders. The use of such financing organized by tenders involved the pledge of eligible assets within the framework of a general guarantee management agreement (3G). This source of financing does not benefit from the privilege defined in article L.513-11 of the Monetary and Financial Code.

	12/31/2013	12/31/2014	12/31/2015
Overnight borrowing	-	-	-
Time borrowing	-	-	-
Accrued interest	-	-	-
TOTAL	-	-	-

3.2 - DUE FROM BANKS

At the end of December 2015, funding obtained from SFIL, within the framework of the financing agreement, was comprised of different loans with maturities initially between 26 days and 10 years, indexed on Euribor or Eonia.

	12/31/2013	12/31/2014	12/31/2015
Sight accounts	1	0	-
Current account - parent company	-	-	-
Interest accrued not yet due	-	-	-
Term borrowing - parent company	6,758	6,212	5,511
Interest accrued not yet due	15	16	9
Unallocated sums	0	-	-
TOTAL	6,774	6,228	5,520

Analysis by residual maturity excluding accrued interest

	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total as of 12/31/2015
Sight	-	-	-	-	-
Term	150	687	2,449	2,225	5,511
TOTAL	150	687	2,449	2,225	5,511

3.3 - DEBT SECURITIES

a. Debt securities (*obligations foncières*)

a.1. Accrued interest included in this item: 790

a.2. Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
<i>Obligations foncières</i>	2,244	4,690	20,512	18,661	46,107
of which issue premiums ⁽¹⁾	0	(1)	(32)	(32)	(65)

(1) The gross amount of issue premiums, positive or negative, totaled EUR -95 million before amortization.

a.3. Changes during the year excluding accrued interest

	12/31/2014	Increases	Decreases	Translation adjustments	12/31/2015
	47,249	5,535	(7,017)	340	46,107

b. Other bonds (registered covered bonds)

b.1. Accrued interest included in this item: 151

b.2. Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Registered covered bonds	2	12	348	5,775	6,137
of which issue premiums ⁽¹⁾	-	-	-	49	49

(1) The gross amount of issue premiums, positive or negative, totaled EUR 50 million before amortization.

b.3. Analysis by residual maturity excluding accrued interest

12/31/2014	Increases	Decreases	Translation adjustments	12/31/2015
5,486	651	-	-	6,137

3.4 - OTHER LIABILITIES

	12/31/2013	12/31/2014	12/31/2015
Cash collateral received	2,546	2,351	1,397
Accrued interest not yet due on cash collateral received	0	(0)	0
Taxes	3	10	11
Balances to pay on unwound hedging contracts	-	-	-
Contribution to the support funds ⁽¹⁾	150	158	162
Other creditors	-	1	-
TOTAL	2,699	2,520	1,570

(1) This item represents the commitments taken in 2013 by Caisse Française de Financement Local to contribute to the pluri-annual support funds:

- in 2013, for local governments in the amount of EUR 10 million for 15 years (EUR 150 million),

- in 2014 and 2015 for public hospitals in the amount of respectively EUR 18 million (EUR 6 million for three years) and EUR 20 million (EUR 10 million for two years).

3.5 - ACCRUALS AND OTHER LIABILITIES

	12/31/2013	12/31/2014	12/31/2015
Deferred gains on hedging transactions	-	-	-
Deferred income on hedging transactions	2,432	2,301	2,165
Deferred income on loans	195	172	166
Accrued interest not yet due on hedging transactions	1,040	916	836
Other accrued charges	45	22	15
Translation adjustments	462	202	18
Other accruals	8	1	-
TOTAL	4,182	3,614	3,200

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

	12/31/2013	12/31/2014	Increases	Decreases	Translation adjustments	12/31/2015
Loans commitments ⁽¹⁾	70	63	1	-	-	64
Financial instruments	35	45	-	(21)	-	24
Other provisions ⁽²⁾	29	29	86	-	-	115
TOTAL	134	137	87	(21)	-	203

(1) Caisse Française de Financement Local maintained a high level of collective provisions in the amount of EUR 64 million.

(2) In 2015, French tax authorities investigated the income declared and the tax paid for 2012 and 2013. Following the tax assessment, the tax authorities expressed their disagreement with the tax treatment of the following two points: the taxation in Ireland of the income from the Dublin branch of Dexia Municipal Agency, which has now been closed, and the deductibility of provisions for non-performing loans.

In order to take into account the risk of an unfavorable outcome in these proceedings, Caisse Française de Financement Local has recorded a provision for additional income tax in the amount of EUR 86 million in its 2015 financial statements according to French GAAP. Nonetheless, Caisse Française de Financement Local does not agree with the position of the tax authorities and will appeal within the framework of legal recourse allowed by current tax regulations.

3.7 - EQUITY

	12/31/2013	12/31/2014	12/31/2015
Share capital	1,315	1,315	1,315
Legal reserve	46	46	46
Retained earnings (+/-)	38	18	25
Net income (+/-)	(20)	8	(30)
TOTAL	1,379	1,387	1,356

On May 26, 2015, the Ordinary and Extraordinary Shareholders' Meeting decided to allocate the 2014 net income of EUR 7.7 million to retained earnings, constituting income for distribution of EUR 25 million, after allocation to the legal reserve.

Caisse Française de Financement Local's share capital totaled EUR 1,315 million, comprising 13,150,000 shares.

3.8 - TOTAL LIABILITIES

Analysis by original currency	Amount in original currency as of 12/31/2013	Amount in euros as of 12/31/2013	Amount in original currency as of 12/31/2014	Amount in euros as of 12/31/2014	Amount in original currency as of 12/31/2015	Amount in euros as of 12/31/2015
EUR	61,634	61,634	60,841	60,841	59,436	59,436
AUD	1,079	700	530	358	20	14
CAD	1,020	696	1,019	725	1,017	674
CHF	2,660	2,168	2,643	2,197	1,896	1,746
GBP	637	764	637	818	637	867
HKD	201	19	201	21	201	24
JPY	106,641	737	95,837	661	95,050	726
NOK	1,039	124	1,039	115	1,039	108
PLN	36	9	37	9	39	9
SEK	1,335	150	1,334	141	0	0
USD	2,868	2,080	2,125	1,752	1,556	1,430
TOTAL		69,081		67,638		65,034

3.9 - RELATED-PARTY TRANSACTIONS

Analysis by nature	Parent company ⁽¹⁾			Other related parties ⁽²⁾		
	12/31/2013	12/31/2014	12/31/2015	12/31/2013	12/31/2014	12/31/2015
ASSETS						
Loans and advances due from banks - sight	-	-	-	-	-	-
Loans and advances due from banks - term	4,368	3,916	2,341	-	-	-
Bonds and other fixed income securities	-	-	-	-	-	-
LIABILITIES						
Due to banks - sight	-	-	-	-	-	-
Due to banks - term	6,773	6,228	5,520	-	-	-
INCOME STATEMENT						
Interest income on loans and advances	16	23	11	(0)	(4)	(9)
Interest income on debt securities	-	-	-	-	-	-
Interest expense on borrowings	(65)	(61)	(37)	-	-	-
Net commissions	(19)	(22)	(19)	-	-	-
OFF-BALANCE SHEET						
Interest rate derivatives	13,900	16,492	17,499	-	-	-
Foreign exchange derivatives	5,180	4,606	4,137	-	-	-
Commitments and guarantees received	4,420	4,366	2,391	134	133	140
Commitments and guarantees given	-	-	600	-	-	-

(1) This item includes transactions with SFIL, the parent company of Caisse Française de Financement Local.

(2) This item includes transactions with Caisse des Dépôts et Consignations and La Banque Postale, shareholders of SFIL.

4. NOTES TO THE OFF-BALANCE SHEET ITEMS (EUR millions)**4.1 - COMMITMENTS GRANTED**

	12/31/2013	12/31/2014	12/31/2015
Financing commitments granted to credit institutions ⁽¹⁾	-	-	600
Financing commitments granted to customers ⁽²⁾	228	150	293
Other commitments given, assets assigned in guarantee	-	-	-
TOTAL	228	150	893

(1) Within the framework of the new export credit business, this amount corresponds to a commitment by Caisse Française de Financement Local to refinance its parent company, SFIL.

(2) Financing commitments on loans and advances correspond to contracts signed for loans not yet paid out to customers as of December 31, 2015.

4.2 - COMMITMENTS RECEIVED

	12/31/2013	12/31/2014	12/31/2015
Financing commitments received from credit institutions ⁽¹⁾	170	550	50
Currencies borrowed	-	-	-
Guarantees received from credit institutions ⁽²⁾	4,568	4,103	2,525
Guarantees received from local governments and asset transfers as guarantees of commitments on local governments	7,078	7,142	6,104
Other commitments received	0	-	-
TOTAL	11,816	11,795	8,679

(1) At the end of December 2015, this item corresponded to the amount of the overdraft, authorized in the current account agreement set up with SFIL, totaling EUR 50 million.

(2) As of December 31, 2015, the total was mainly composed of pledges of securities to the benefit of Caisse Française de Financement Local as a guarantee for the reimbursement of loans granted to SFIL.

4.3 - FOREIGN CURRENCY TRANSACTIONS

Cash and forward foreign exchange transactions are recorded at their value in foreign currencies translated at the exchange rate at the end of the period.

The items Currencies to receive and Currencies to deliver are composed of long currency swaps with intermediate payment flows corresponding to hedging transactions.

	12/31/2013	12/31/2014	12/31/2015	Fair value as of 12/31/2015
Currencies to receive	11,275	10,298	8,006	418
Currencies to deliver	11,737	10,501	8,024	(446)
TOTAL	23,012	20,799	16,030	(28)

4.4 - COMMITMENTS ON INTEREST RATE DERIVATIVES

Commitments on interest rate derivatives are recorded in accordance with CRB standards 88-02 and 90-15: amounts related to unconditional operations are recorded at the contractual notional value.

a. Analysis of over-the-counter interest rate transactions by residual maturity

Type of transaction	12/31/2014	Less than 1 year	1 year to 5 years	More than 5 years	Total
Unconditional transactions	139,550	54,537	36,690	56,795	148,022
of which deferred start	1,130	3,500	8,700	1,837	14,037

These hedging transactions include micro-hedge and macro-hedge transactions.

b. Analysis of interest rate transactions by product type

	12/31/2013	12/31/2014	12/31/2015
Interest rate swaps	148,666	139,550	148,022
Term contracts	-	-	-
Interest rate options	-	-	-
TOTAL	148,666	139,550	148,022

c. Analysis of interest rate swap transactions

	12/31/2013	12/31/2014	12/31/2015	Fair value as of 12/31/2015
Micro-hedge	69,996	69,999	69,794	(1,472)
Macro-hedge	78,670	69,551	78,228	(3,526)
TOTAL	148,666	139,550	148,022	(4,998)

d. Analysis of interest rate transactions by counterparty

	12/31/2013	12/31/2014	12/31/2015
Related parties	13,900	16,492	17,499
Other counterparties	134,766	123,058	130,523
TOTAL	148,666	139,550	148,022

5. NOTES TO THE STATEMENT OF INCOME (EUR millions)

5.0 - INTEREST AND RELATED INCOME / EXPENSE

	12/31/2014	12/31/2015
INTEREST AND RELATED INCOME	1,955	2,808
Due from banks	80	49
Due from customers	1,563	2,602
Bonds and other fixed income securities	115	92
Macro-hedge transactions	197	65
Other commitments	-	-
INTEREST AND RELATED EXPENSE	(1,797)	(2,622)
Due to banks	(65)	(39)
Due to customers	(627)	(1,727)
Bonds and other fixed income securities	(327)	(220)
Macro-hedge transactions	(778)	(636)
Other commitments	-	-
INTEREST MARGIN	158	186

5.1 - ANALYSIS OF COMMISSIONS PAID

	12/31/2014	12/31/2015
Commission for business brokerage and securities portfolio management	(4)	(5)
Commission paid on securities transactions	(2)	(2)
Rebilling by the parent company	(22)	(19)
TOTAL	(28)	(26)

5.2 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS

	12/31/2014	12/31/2015
Transactions on placement securities ⁽¹⁾	(2)	21
Transactions on investment securities	-	-
Transactions on interest rate derivatives	-	-
Foreign exchange transactions	-	-
TOTAL	(2)	21

(1) This item regroups capital gains and losses on sales and provisions and reversals on this portfolio; amount after swaps.

5.3 - GENERAL EXPENSES

Caisse Française de Financement Local has no salaried employees in accordance with article L.513-15 of the Monetary and Financial Code. The general management of the operations of Caisse Française de Financement Local has been entrusted by an agreement to its parent company, SFIL, a credit institution.

Specific individual agreements have been established with entities that have transferred assets to the *société de crédit foncier*, and continue to ensure management for their national clientele. At the end of 2015, there were agreements with the following entities: Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium), and Dexia Crediop (Italy). These agreements already existed in previous years.

Starting in 2015, management of new registered covered bonds (RCB) is entrusted to Landesbank Baden-Württemberg (LBBW). Dexia Kommunalbank Deutschland continues to manage registered covered bonds issued prior to 2015.

General expense can be broken down as follows:

	12/31/2014	12/31/2015
Taxes	(3)	(6)
Other general operating expense ⁽¹⁾	(90)	(90)
TOTAL	(93)	(96)

(1) of which EUR 87 million with SFIL.

5.4 - COST OF RISK

	12/31/2014	12/31/2015
Contribution to the support funds	(18)	(20)
Collective and specific impairments	(0)	6
TOTAL	(18)	(14)

5.5 - GAINS AND LOSSES ON FIXED ASSETS

	12/31/2014	12/31/2015
Transactions on investment securities	-	(5)
Other operations	-	-
TOTAL	-	(5)

5.6 - CORPORATE INCOME TAX

	12/31/2014	12/31/2015
Income tax for the year ⁽¹⁾	(9)	(10)
Deferred tax ⁽²⁾	-	(86)
TOTAL	(9)	(96)

(1) The corporate tax rate in France in 2015 was 38%.

(2) See note 3.6.

Statutory auditors' report on the financial statements for the year ended December 31, 2015

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended December 31, 2015, on:

- the audit of the accompanying financial statements of Caisse Française de Financement Local;
- the justification of our assessments;
- the specific verification and information required by law.

These financial statements have been approved by the Executive Board. Our role is to express an opinion on these financial statements based on our audit.

Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as of December 31, 2015 and of the results of its operations for the year then ended in accordance with French accounting principles.

Without qualifying our opinion, we draw your attention to the matter set out in Note "1.1 – Context of publication" to the financial statements which mentions the assumptions used by Caisse Française de Financement Local for the preparation of the financial statements as of December 31, 2015.

Justification of our assessments

In accordance with the requirements of article L.823-9 of the Code of Commerce (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

Credit risks provisions

As described in Note "1.4.a Loans and advances to banks and to customers" to the annual financial statements, your company records provisions to cover credit risks inherent in any banking activity. As part of our assessment of these accounting estimates, we examined the credit risk review process, the assessment of the non-recoverability risk and the adequacy of specific allowances for loan losses.

Valuation of financial instruments

As described in Note "1.4.b Securities" to the annual financial statements, your company uses internal models and methods to value financial instruments that are not listed on liquid markets, as well as for the recording of certain provisions. Our procedures consisted in reviewing the control procedures related to the illiquidity assessment of the market, the verification of the models and the determination of the data and assumptions used.

Tax assessment provision

Your company has recorded a provision to cover risks due to the control of the fiscal situation of the Caisse Française de Financement Local, as described in the Notes "1.2.e Tax Assessment" and "3.6 – Provisions for risks and charges, deferred tax liabilities and regulated provisions" to the annual financial statements. Based on the elements available at this time, our appreciation has been based upon the analysis of the data and assumptions used by your company to identify and evaluate these risks.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

Specific procedures and disclosures

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Executive Board and in the documents addressed to shareholders with respect to the financial position and the financial statements.

In accordance with French law, we inform you that the information given in accordance with the requirements of article L.225-102-1 of the Code of Commerce relating to remunerations and benefits received by the directors and any other commitments made in their favor, does not include the remunerations and benefits granted by the company controlling your company as per article L.223-16 of the Code of Commerce, for the reasons exposed in the paragraph "Compensation of members of management bodies" in the above-mentioned report. As a consequence, we cannot attest their fair presentation and accuracy.

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Courbevoie and Neuilly-sur-Seine, March 29, 2016

The statutory auditors
French original signed by:

MAZARS
Anne Veaute

DELOITTE & ASSOCIÉS
Charlotte Vandeputte

Supplemental Disclosures

Income for the last five years

	2011	2012	2013	2014	2015
FINANCIAL POSITION					
Share capital (EUR millions)	1,300	1,315	1,315	1,315	1,315
Number of shares	13,000,000	13,150,000	13,150,000	13,150,000	13,150,000
RESULTS OF OPERATIONS (EUR MILLIONS)					
Revenues ⁽¹⁾	3,269	2,182	2,287	1,177	2,172
Income before income tax, amortization, depreciation and contingencies net of reversals	91	119	94	63	71
Income tax	19	50	5	9	96
Income after income tax, before amortization, depreciation and contingencies net of reversals	5	37	(21)	8	(30)
Exceptional distribution	-	-	-	-	-
Dividend paid ⁽²⁾	15	37	-	-	-
PER SHARE RESULTS OF OPERATIONS (EUR)					
Revenues	251.49	165.96	173.89	89.54	165.16
Income after income tax, before amortization, depreciation and contingencies net of reversals	5.52	5.30	6.74	4.12	(1.92)
Income tax	1.50	3.76	0.42	0.69	7.34
Income after income tax, amortization, depreciation and contingencies net of reversals	0.42	2.83	(1.56)	0.59	(2.30)
Exceptional distribution	-	-	-	-	-
Dividend paid ⁽²⁾	1.16	2.80	-	-	-

(1) Revenues are comprised of the macro-hedging items:
 - interest and related income, netted of macro-hedging expense;
 - commission income;
 - net income on foreign exchange transactions;
 - other operating income.

(2) Proposed distribution for 2015

Over-collateralization ratio

Pursuant to articles L.513-12 and R.513-8 of the Monetary and Financial Code, the total of the assets of *sociétés de crédit foncier* must always exceed by at least 5% liabilities benefiting from the privilege referred to in article L.513-11 of the Monetary and Financial Code.

Assets covering liabilities benefiting from the privilege (weighted amounts in EUR millions)	12/31/2015
Exposures on public sector entities	55,960
Shares in funds or similar entities that meet the conditions of article L.513-5 of the Monetary and Financial Code	-
Replacement assets	2,351
Other assets	4,102
Operations deducted from the assets	-
TOTAL ASSETS	62,413
Liabilities benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code (weighted amounts in EUR millions)	12/31/2015
<i>Obligations foncières</i>	46,172
Other bonds benefiting from the privilege	6,088
Liabilities related to these securities	942
Amounts owed under the contract provided for in article L.513-15 of the Monetary and Financial Code	13
Amounts owed for derivatives benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code	2,250
Debt attributable to miscellaneous expense mentioned in the last section of article L.513-11 of the Monetary and Financial Code	0
TOTAL LIABILITIES	55,465
OVER-COLLATERALIZATION RATIO	112.5%

Statutory Auditors' fees in 2015

EUR thousands	Mazars				Deloitte & Associés			
	Amount including VAT		%		Amount including VAT		%	
	2014	2015	2014	2015	2014	2015	2014	2015
Audit services rendered								
Audit, certification, examination of company financial statements	298	305	100%	100%	309	332	100%	100%
Other audit tasks	-	-	-	-	-	-	-	-
Sub-total	298	305	100%	100%	309	332	100%	100%
Other services								
Legal, tax, labor issues	-	-	-	-	-	-	-	-
Internal audit	-	-	-	-	-	-	-	-
Other (to specify if > 10% of audit fees)	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-
TOTAL	298	305	100%	100%	309	332	100%	100%

List of bonds issued by Caisse Française de Financement Local

(obligations foncières, registered covered bonds)

Obligations foncières ISIN Code	Currency	Nominal amount in foreign currency	Balance	Redemption value*	Final due date	Next call date	Stock exchange
			EUR millions				
AU0000DXAHB0	AUD	20,000,000	13	11	16 Jan 26		Sydney
TOTAL	AUD	20,000,000	13	11			
FR0010172098	CAD	200,000,000	132	122	9 Mar 20		Luxembourg
FR0010443630	CAD	200,000,000	132	131	9 Mar 29		Luxembourg
FR0010443630	CAD	100,000,000	63	69	9 Mar 29		Luxembourg
FR0010477083	CAD	500,000,000	331	335	30 May 17		Luxembourg
TOTAL	CAD	1,000,000,000	659	658			
CH0023984815	CHF	200,000,000	184	129	9 Feb 16		Zurich
CH0023984815	CHF	180,500,000	166	139	9 Feb 16		Zurich
CH0032508563	CHF	165,000,000	152	100	9 Aug 17		Zurich
CH0032508563	CHF	135,000,000	125	81	9 Aug 17		Zurich
CH0032508563	CHF	100,000,000	92	62	9 Aug 17		Zurich
CH0033023216	CHF	200,000,000	185	121	28 Aug 19		Zurich
CH0105994203	CHF	250,000,000	230	165	2 May 18		Zurich
CH0105994203	CHF	160,000,000	149	109	2 May 18		Zurich
CH0106680777	CHF	143,000,000	132	95	12 Aug 19		Zurich
CH0106680777	CHF	125,000,000	115	95	12 Aug 19		Zurich
CH0111862063	CHF	100,000,000	93	70	23 Apr 30		Zurich
FR0010526376	CHF	20,000,000	18	12	15 Oct 27		Unlisted
FR0010555748	CHF	50,000,000	46	30	20 Dec 17		Unlisted
TOTAL	CHF	1,828,500,000	1,688	1,208			
FR0000473357	EUR	74,820,000	75	75	2 Apr 18		Luxembourg
FR0000480329	EUR	300,000,000	300	300	9 Aug 17		Luxembourg
FR0000480329	EUR	100,000,000	100	100	9 Aug 17		Luxembourg
FR0000480329	EUR	50,000,000	50	50	9 Aug 17		Luxembourg
FR0000480329	EUR	14,050,000	14	14	9 Aug 17		Luxembourg
FR0000480329	EUR	77,660,000	78	78	9 Aug 17		Luxembourg
FR0000480329	EUR	41,080,000	41	41	9 Aug 17		Luxembourg
FR0000488132	EUR	750,000,000	749	750	6 Feb 17		Luxembourg - Paris
FR0000488132	EUR	100,000,000	100	100	6 Feb 17		Luxembourg - Paris
FR0000488132	EUR	150,000,000	151	150	6 Feb 17		Luxembourg - Paris
FR0000488132	EUR	150,000,000	151	150	6 Feb 17		Luxembourg - Paris
FR0000488132	EUR	250,000,000	254	250	6 Feb 17		Luxembourg - Paris
FR0010033357	EUR	50,000,000	50	50	20 Nov 18		Luxembourg
FR0010034371	EUR	25,000,000	25	25	15 Dec 19		Luxembourg
FR0010034371	EUR	20,000,000	20	20	15 Dec 19		Luxembourg
FR0010034371	EUR	30,000,000	30	30	15 Dec 19		Luxembourg
FR0010039164	EUR	40,000,000	40	40	19 Feb 18		Luxembourg
FR0010051698	EUR	111,500,000	112	112	20 Feb 19		Luxembourg
FR0010053769	EUR	20,000,000	20	20	26 Feb 16		Luxembourg
FR0010060384	EUR	30,000,000	30	30	5 Mar 20		Luxembourg
FR0010061978	EUR	50,000,000	50	50	15 Mar 16		Luxembourg
FR0010061986	EUR	65,000,000	65	65	15 Mar 19		Luxembourg
FR0010063727	EUR	30,000,000	30	30	15 Mar 21		Luxembourg
FR0010068361	EUR	45,000,000	45	45	15 Apr 19		Luxembourg
FR0010068437	EUR	51,500,000	52	52	15 Apr 19		Luxembourg
FR0010070888	EUR	27,000,000	27	27	15 Apr 19		Luxembourg
FR0010071852	EUR	35,000,000	35	35	26 Apr 19		Luxembourg
FR0010081885	EUR	10,000,000	10	10	21 May 16		Luxembourg
FR0010089839	EUR	90,200,000	90	90	24 Jun 24		Luxembourg
FR0010092908	EUR	10,000,000	10	10	7 Jun 19		Luxembourg
FR0010093336	EUR	50,000,000	50	50	22 Jun 24		Luxembourg
FR0010108811	EUR	80,000,000	80	80	1 Sep 19		Luxembourg
FR0010114371	EUR	20,082,322	20	15	24 Sep 24		Luxembourg

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Obligations foncières ISIN Code	Currency	Nominal amount in foreign currency	Balance	Redemption value*	Final due date	Next call date	Stock exchange
			EUR millions				
FR0010125732	EUR	100,000,000	100	100	11 Oct 19		Luxembourg
FR0010130435	EUR	200,000,000	200	200	2 Dec 19		Luxembourg
FR0010134577	EUR	120,000,000	120	120	3 Dec 24		Luxembourg
FR0010160911	EUR	20,000,000	20	20	28 Jan 25		Luxembourg
FR0010163394	EUR	230,000,000	224	230	10 Feb 25		Luxembourg
FR0010165696	EUR	45,000,000	45	45	17 Feb 20		Luxembourg
FR0010165696	EUR	15,000,000	15	15	17 Feb 20		Luxembourg
FR0010167304	EUR	50,000,000	50	50	7 Mar 20		Luxembourg
FR0010167312	EUR	50,000,000	50	50	2 Mar 20		Unlisted
FR0010170589	EUR	31,000,000	31	31	10 Mar 20		Unlisted
FR0010170597	EUR	30,000,000	30	30	15 Mar 20		Luxembourg
FR0010170696	EUR	20,000,000	20	20	4 Mar 20		Luxembourg
FR0010172031	EUR	50,000,000	50	50	11 Mar 20		Luxembourg
FR0010172106	EUR	30,000,000	30	30	14 Mar 17		Luxembourg
FR0010175844	EUR	140,000,000	140	140	24 Mar 20		Unlisted
FR0010175869	EUR	76,000,000	76	76	30 Mar 20		Unlisted
FR0010185892	EUR	100,000,000	100	100	29 Apr 22		Luxembourg
FR0010186163	EUR	155,000,000	155	155	6 May 20		Luxembourg
FR0010190066	EUR	100,000,000	100	100	6 May 22		Luxembourg
FR0010190181	EUR	25,000,000	25	25	20 May 20		Luxembourg
FR0010190199	EUR	150,000,000	150	150	27 Apr 20		Luxembourg
FR0010190231	EUR	100,000,000	100	100	13 May 22		Luxembourg
FR0010190264	EUR	25,000,000	25	25	20 May 20		Luxembourg
FR0010194506	EUR	100,000,000	100	100	20 May 22		Luxembourg
FR0010194522	EUR	60,000,000	60	60	19 May 20		Luxembourg
FR0010199984	EUR	10,000,000	10	10	8 Jun 20		Luxembourg
FR0010208587	EUR	10,000,000	10	10	24 Jun 20		Luxembourg
FR0010209940	EUR	15,000,000	15	15	29 Jun 20		Luxembourg
FR0010210005	EUR	10,000,000	10	10	6 Jul 20		Luxembourg
FR0010212977	EUR	22,000,000	22	22	8 Aug 25		Luxembourg
FR0010224402	EUR	50,000,000	50	50	8 Sep 20		Luxembourg
FR0010224410	EUR	50,000,000	50	50	8 Sep 20		Luxembourg
FR0010237081	EUR	55,000,000	55	55	3 Oct 20		Luxembourg
FR0010245738	EUR	30,000,000	30	30	26 Oct 22		Unlisted
FR0010261412	EUR	277,500,000	278	278	15 Dec 20		Luxembourg
FR0010261412	EUR	155,500,000	156	156	15 Dec 20		Luxembourg
FR0010261412	EUR	100,000,000	100	100	15 Dec 20		Luxembourg
FR0010261412	EUR	98,500,000	99	99	15 Dec 20		Luxembourg
FR0010261412	EUR	35,000,000	35	35	15 Dec 20		Luxembourg
FR0010261412	EUR	20,000,000	20	20	15 Dec 20		Luxembourg
FR0010261412	EUR	30,000,000	30	30	15 Dec 20		Luxembourg
FR0010261529	EUR	50,000,000	50	50	4 Jan 26		Luxembourg
FR0010265488	EUR	100,000,000	100	100	5 Jan 16	5 Jan 16	Luxembourg
FR0010279109	EUR	41,864,214	42	42	24 Jan 34		Luxembourg
FR0010289322	EUR	21,500,000	22	22	16 Feb 26		Unlisted
FR0010289397	EUR	15,000,000	15	15	16 Feb 26		Luxembourg
FR0010301796	EUR	15,000,000	15	15	23 Mar 16		Luxembourg
FR0010306373	EUR	4,900,000	5	5	31 Mar 16		Luxembourg
FR0010306456	EUR	10,000,000	10	10	7 Apr 25		Unlisted
FR0010306472	EUR	10,000,000	10	10	6 Apr 20		Unlisted
FR0010306480	EUR	20,000,000	20	20	6 Apr 20		Unlisted
FR0010306498	EUR	10,000,000	10	10	7 Apr 25		Unlisted
FR0010306506	EUR	5,000,000	5	5	7 Apr 26		Unlisted
FR0010306514	EUR	5,000,000	5	5	6 Apr 27		Unlisted
FR0010306522	EUR	5,000,000	5	5	5 Apr 30		Unlisted
FR0010306605	EUR	50,000,000	50	50	19 Apr 18		Luxembourg
FR0010318410	EUR	50,000,000	50	50	24 Apr 26		Unlisted
FR0010322792	EUR	65,000,000	65	65	5 May 36		Luxembourg
FR0010333534	EUR	60,000,000	60	60	9 Jun 16		Luxembourg
FR0010342378	EUR	10,000,000	10	10	21 Jun 21		Luxembourg
FR0010342519	EUR	10,000,000	10	10	12 Jul 18		Luxembourg
FR0010359943	EUR	100,000,000	100	100	16 Aug 18		Luxembourg
FR0010363325	EUR	200,000,000	200	200	22 Aug 22		Luxembourg
FR0010363325	EUR	31,000,000	31	31	22 Aug 22		Luxembourg

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			EUR millions				
FR0010369231	EUR	50,000,000	50	50	11 May 16		Unlisted
FR0010369330	EUR	50,000,000	50	50	27 Sep 18		Luxembourg
FR0010369546	EUR	50,000,000	50	50	3 Oct 21		Luxembourg
FR0010369645	EUR	30,000,000	30	30	20 Sep 18		Unlisted
FR0010379073	EUR	50,000,000	50	50	10 Oct 21		Luxembourg
FR0010385930	EUR	50,000,000	50	50	27 Oct 21		Unlisted
FR0010386078	EUR	50,000,000	50	50	7 Nov 16		Luxembourg
FR0010386086	EUR	5,000,000	5	5	7 Nov 16		Luxembourg
FR0010391110	EUR	12,000,000	12	12	21 Nov 18		Luxembourg
FR0010398115	EUR	848,700,000	848	849	24 Nov 16		Luxembourg
FR0010398115	EUR	30,000,000	30	30	24 Nov 16		Luxembourg
FR0010398115	EUR	25,000,000	25	25	24 Nov 16		Luxembourg
FR0010398115	EUR	35,000,000	35	35	24 Nov 16		Luxembourg
FR0010398115	EUR	65,000,000	65	65	24 Nov 16		Luxembourg
FR0010412577	EUR	10,000,000	10	10	29 Dec 21		Luxembourg
FR0010428003	EUR	20,500,000	21	21	15 Feb 22		Luxembourg
FR0010428185	EUR	1,000,000,000	999	1,000	7 Feb 19		Luxembourg
FR0010428185	EUR	150,000,000	148	150	7 Feb 19		Luxembourg
FR0010428185	EUR	150,000,000	148	150	7 Feb 19		Luxembourg
FR0010428185	EUR	20,000,000	19	20	7 Feb 19		Luxembourg
FR0010428185	EUR	125,000,000	123	125	7 Feb 19		Luxembourg
FR0010428185	EUR	150,000,000	149	150	7 Feb 19		Luxembourg
FR0010428185	EUR	25,000,000	25	25	7 Feb 19		Luxembourg
FR0010428185	EUR	200,000,000	201	200	7 Feb 19		Luxembourg
FR0010492025	EUR	1,128,506,000	1,128	1,129	3 Jul 17		Luxembourg
FR0010492025	EUR	150,000,000	150	150	3 Jul 17		Luxembourg
FR0010492025	EUR	20,000,000	20	20	3 Jul 17		Luxembourg
FR0010492025	EUR	30,000,000	30	30	3 Jul 17		Luxembourg
FR0010500413	EUR	50,000,000	50	50	17 Jan 17		Unlisted
FR0010501825	EUR	200,000,000	200	200	20 Jul 22		Luxembourg
FR0010504761	EUR	45,000,000	45	45	2 Aug 32		Luxembourg
FR0010505008	EUR	50,000,000	50	50	27 Apr 16		Unlisted
FR0010524488	EUR	50,000,000	50	50	27 Feb 17		Unlisted
FR0010539734	EUR	1,312,162,000	1,310	1,312	13 Nov 17		Luxembourg
FR0010539734	EUR	15,000,000	15	15	13 Nov 17		Luxembourg
FR0010539734	EUR	35,000,000	35	35	13 Nov 17		Luxembourg
FR0010584581	EUR	10,000,000	10	10	21 Feb 18		Luxembourg
FR0010594374	EUR	47,500,000	48	48	8 Aug 25		Luxembourg
FR0010614644	EUR	50,000,000	50	50	16 May 23		Luxembourg
FR0010631762	EUR	153,000,000	153	153	26 Jun 23		Luxembourg
FR0010760769	EUR	10,500,000	11	11	22 May 29	22 May 19	Luxembourg
FR0010762039	EUR	1,500,000,000	1,499	1,500	2 Jun 21		Luxembourg
FR0010762039	EUR	150,000,000	155	150	2 Jun 21		Luxembourg
FR0010766923	EUR	10,000,000	10	10	7 Mar 26		Luxembourg
FR0010775486	EUR	1,898,000,000	1,897	1,898	8 Jul 24		Luxembourg
FR0010775486	EUR	17,000,000	17	17	8 Jul 24		Luxembourg
FR0010775486	EUR	85,000,000	85	85	8 Jul 24		Luxembourg
FR0010781591	EUR	15,000,000	15	15	16 Feb 26		Unlisted
FR0010801068	EUR	1,000,000,000	1,000	1,000	16 Sep 16		Luxembourg
FR0010801068	EUR	735,000,000	735	735	16 Sep 16		Luxembourg
FR0010801068	EUR	250,000,000	250	250	16 Sep 16		Luxembourg
FR0010801068	EUR	15,000,000	15	15	16 Sep 16		Luxembourg
FR0010806752	EUR	25,000,000	25	25	29 Mar 19		Luxembourg
FR0010810424	EUR	50,000,000	50	50	7 Oct 19		Luxembourg
FR0010821074	EUR	10,000,000	10	10	12 Nov 18		Luxembourg
FR0010840108	EUR	150,000,000	150	150	23 Dec 24		Luxembourg
FR0010850982	EUR	932,000,000	931	932	26 Jan 22		Luxembourg
FR0010850982	EUR	500,000,000	512	500	26 Jan 22		Luxembourg
FR0010850982	EUR	200,000,000	198	200	26 Jan 22		Luxembourg
FR0010850982	EUR	200,000,000	195	200	26 Jan 22		Luxembourg
FR0010850982	EUR	18,000,000	18	18	26 Jan 22		Luxembourg
FR0010850982	EUR	10,000,000	10	10	26 Jan 22		Luxembourg
FR0010850982	EUR	40,000,000	40	40	26 Jan 22		Luxembourg
FR0010857797	EUR	100,000,000	100	100	16 Feb 18		Luxembourg

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Obligations foncières ISIN Code	Currency	Nominal amount in foreign currency	Balance	Redemption value*	Final due date	Next call date	Stock exchange
			EUR millions				
FR0010859777	EUR	1,000,000,000	999	1,000	26 Feb 18		Luxembourg
FR0010859777	EUR	277,000,000	275	277	26 Feb 18		Luxembourg
FR0010859777	EUR	23,000,000	23	23	26 Feb 18		Luxembourg
FR0010878264	EUR	15,000,000	15	15	26 Mar 19		Luxembourg
FR0010898338	EUR	300,000,000	300	300	21 May 20		Luxembourg
FR0010912824	EUR	200,000,000	200	200	21 Jun 20		Luxembourg
FR0010923920	EUR	10,000,000	10	10	23 Jul 25		Luxembourg
FR0010925073	EUR	24,000,000	24	24	27 Jul 29		Luxembourg
FR0010945956	EUR	1,250,000,000	1,250	1,250	25 Jan 16		Luxembourg - Paris
FR0010945964	EUR	705,848,000	702	706	24 Sep 20		Luxembourg - Paris
FR0010945964	EUR	265,000,000	255	265	24 Sep 20		Luxembourg - Paris
FR0010945964	EUR	200,000,000	193	200	24 Sep 20		Luxembourg - Paris
FR0010945964	EUR	35,000,000	34	35	24 Sep 20		Luxembourg - Paris
FR0010963959	EUR	11,000,000	11	11	2 Dec 25		Luxembourg
FR0010998039	EUR	977,000,000	972	977	26 Jan 21		Luxembourg - Paris
FR0010998039	EUR	300,000,000	298	300	26 Jan 21		Luxembourg - Paris
FR0010998039	EUR	150,000,000	148	150	26 Jan 21		Luxembourg - Paris
FR0010998039	EUR	300,000,000	300	300	26 Jan 21		Luxembourg - Paris
FR0010998039	EUR	250,000,000	250	250	26 Jan 21		Luxembourg - Paris
FR0010998039	EUR	23,000,000	23	23	26 Jan 21		Luxembourg - Paris
FR0011006907	EUR	67,000,000	67	67	15 Feb 23		Luxembourg
FR0011019462	EUR	12,000,000	12	12	29 Mar 21		Luxembourg
FR0011037977	EUR	10,000,000	10	10	19 Apr 16		Luxembourg
FR0011049782	EUR	1,000,000,000	1,000	1,000	18 May 16		Luxembourg - Paris
FR0011053222	EUR	450,000,000	450	450	1 Feb 16		Luxembourg
FR0011072826	EUR	250,000,000	249	250	1 Jul 23		Luxembourg
FR0011536093	EUR	880,000,000	878	880	16 Jul 20		Luxembourg - Paris
FR0011536093	EUR	120,000,000	120	120	16 Jul 20		Luxembourg - Paris
FR0011546886	EUR	50,000,000	46	50	2 Aug 33		Luxembourg
FR0011547744	EUR	50,000,000	50	50	5 Aug 24		Luxembourg
FR0011548791	EUR	455,000,000	452	455	7 Aug 25		Luxembourg
FR0011548866	EUR	165,000,000	164	165	7 Aug 33		Luxembourg
FR0011549997	EUR	331,000,000	329	331	9 Aug 28		Luxembourg
FR0011549997	EUR	20,000,000	20	20	9 Aug 28		Luxembourg
FR0011549997	EUR	29,000,000	29	29	9 Aug 28		Luxembourg
FR0011580588	EUR	500,000,000	498	500	2 Oct 28		Luxembourg - Paris
FR0011580588	EUR	500,000,000	522	500	2 Oct 28		Luxembourg - Paris
FR0011686401	EUR	987,000,000	979	987	17 Jan 24		Luxembourg - Paris
FR0011686401	EUR	13,000,000	13	13	17 Jan 24		Luxembourg - Paris
FR0011701044	EUR	40,000,000	40	40	27 Jan 34	27 Jan 29	Luxembourg
FR0011737956	EUR	51,750,000	52	52	14 Feb 49	14 Feb 29	Luxembourg
FR0011907963	EUR	114,000,000	113	114	16 May 34	16 May 28	Luxembourg
FR0011916220	EUR	110,000,000	110	110	22 May 36		Luxembourg
FR0012159507	EUR	1,250,000,000	1,247	1,250	16 Sep 19		Luxembourg - Paris
FR0012159507	EUR	150,000,000	152	150	16 Sep 19		Luxembourg - Paris
FR0012169910	EUR	100,000,000	100	100	20 Mar 26		Luxembourg
FR0012467942	EUR	440,000,000	434	440	22 Jan 35		Luxembourg - Paris
FR0012467942	EUR	150,000,000	150	150	22 Jan 35		Luxembourg - Paris
FR0012467942	EUR	60,000,000	59	60	22 Jan 35		Luxembourg - Paris
FR0012568228	EUR	100,000,000	100	100	25 Feb 25		Luxembourg
FR0012572725	EUR	10,000,000	10	10	25 Aug 23		Luxembourg
FR0012686111	EUR	82,000,000	82	82	28 Mar 30		Luxembourg
FR0012686145	EUR	26,000,000	26	26	30 Jul 30		Luxembourg
FR0012688208	EUR	800,000,000	798	800	27 Apr 23		Luxembourg - Paris
FR0012688208	EUR	150,000,000	143	150	27 Apr 23		Luxembourg - Paris
FR0012688208	EUR	60,000,000	60	60	27 Apr 23		Luxembourg - Paris
FR0012688208	EUR	140,000,000	140	140	27 Apr 23		Luxembourg - Paris
FR0012722973	EUR	15,000,000	15	15	12 Nov 24		Luxembourg
FR0012806859	EUR	10,000,000	10	10	25 Jun 18		Luxembourg
Fr0012857548	EUR	250,000,000	250	250	17 Jul 18		Luxembourg - Paris
Fr0012857548	EUR	250,000,000	251	250	17 Jul 18		Luxembourg - Paris
FR0012857548	EUR	455,000,000	455	455	17 Jul 18		Luxembourg - Paris
FR0012857548	EUR	45,000,000	45	45	17 Jul 18		Luxembourg - Paris
FR0012857548	EUR	150,000,000	151	150	17 Jul 18		Luxembourg - Paris

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EUR millions							
FR0012939882	EUR	940,000,000	939	940	9 Sep 25		Luxembourg - Paris
FR0012939882	EUR	60,000,000	60	60	9 Sep 25		Luxembourg - Paris
FR0012968451	EUR	25,000,000	25	25	22 Sep 32		Luxembourg
FR0013019510	EUR	1,000,000,000	996	1,000	26 Jan 23		Luxembourg - Paris
FR0013019510	EUR	150,000,000	150	150	26 Jan 23		Luxembourg - Paris
FR0013029220	EUR	10,000,000	10	10	20 Mar 34	20 Mar 25	Luxembourg
FR0013081049	EUR	30,000,000	30	30	28 Dec 35	28 Dec 25	Luxembourg
TOTAL	EUR	40,724,122,535	40,660	40,719			
FR0000470775	GBP	189,000,000	257	300	22 Nov 17		Unlisted
FR0000486581	GBP	125,000,000	169	205	16 Jul 26		Luxembourg
FR0000487738	GBP	215,000,000	293	345	14 Dec 16		Unlisted
FR0010306803	GBP	100,000,000	136	143	19 Apr 16		Luxembourg
TOTAL	GBP	629,000,000	856	993			
FR0000471195	HKD	200,000,000	24	26	5 Dec 17		Luxembourg
TOTAL	HKD	200,000,000	24	26			
FR0000486821	JPY	3,000,000,000	23	28	8 Aug 16		Luxembourg
FR0010199802	JPY	10,000,000,000	76	74	14 Jun 17		Unlisted
FR0010225433	JPY	10,000,000,000	76	74	1 Sep 20		Unlisted
FR0010279240	JPY	1,000,000,000	8	7	30 Jan 26		Unlisted
FR0010347930	JPY	5,000,000,000	38	34	20 Jul 21		Unlisted
FR0010412742	JPY	5,000,000,000	38	32	18 Jan 17		Unlisted
FR0010468652	JPY	50,000,000,000	382	308	9 May 17		Luxembourg
FR0010526475	JPY	5,000,000,000	38	31	18 Oct 17		Unlisted
FR0010629592	JPY	5,000,000,000	38	31	25 Jun 18		Unlisted
TOTAL	JPY	94,000,000,000	718	619			
FR0011006642	NOK	500,000,000	52	64	18 Feb 21		Luxembourg
FR0011056654	NOK	500,000,000	52	64	7 Jun 21		Luxembourg
TOTAL	NOK	1,000,000,000	104	128			
FR0010306548	PLN	37,622,910	9	9	12 Apr 25		Unlisted
TOTAL	PLN	37,622,910	9	9			
FR0000470239	USD	20,000,000	18	20	12 Sep 17		Luxembourg
FR0010096982	USD	139,200,000	128	115	1 Jul 19		Luxembourg
FR0010437368	USD	888,670,000	817	682	16 Feb 17		Luxembourg
FR0010571109	USD	200,000,000	184	135	18 Dec 17		Unlisted
FR0010572552	USD	250,000,000	230	168	22 Jan 18		Luxembourg
TOTAL	USD	1,497,870,000	1,376	1,120			
TOTAL OBLIGATIONS FONCIÈRES			46,107	45,491			

Registered covered bonds	Currency	Nominal amount in foreign currency	Balance	Redemption value*	Final due date	Next call date	Stock exchange
			EUR millions				
RCB 2006-1	EUR	37,735,849	38	38	15 Aug 24		Unlisted
RCB 2006-4	EUR	21,951,220	22	22	15 Aug 33		Unlisted
RCB 2006-5	EUR	21,428,571	21	21	15 Nov 33		Unlisted
RCB 2006-6	EUR	37,735,849	38	38	15 Feb 24		Unlisted
RCB 2006-7	EUR	15,000,000	15	15	15 May 25		Unlisted
RCB 2006-10	EUR	23,684,211	24	24	15 Feb 33		Unlisted
RCB 2006-11	EUR	22,500,000	23	23	16 May 33		Unlisted
RCB 2006-12	EUR	37,735,849	38	38	15 May 24		Unlisted
RCB 2006-13	EUR	37,735,849	38	38	15 Nov 24		Unlisted
RCB 2006-14	EUR	15,000,000	15	15	17 Feb 25		Unlisted
RCB 2006-15	EUR	15,000,000	15	15	15 Aug 25		Unlisted
RCB 2006-16	EUR	15,000,000	15	15	17 Nov 25		Unlisted
RCB 2006-17	EUR	21,000,000	21	21	21 Oct 41	21 Oct 16	Unlisted
RCB 2006-18	EUR	10,000,000	10	10	24 Oct 16		Unlisted
RCB 2006-19	EUR	100,000,000	100	100	6 Nov 23		Unlisted
RCB 2006-20	EUR	30,000,000	30	30	6 Nov 24		Unlisted
RCB 2006-21	EUR	15,000,000	15	15	26 Nov 29		Unlisted
RCB 2006-22	EUR	15,000,000	15	15	26 Nov 29		Unlisted
RCB 2006-23	EUR	15,000,000	15	15	22 Nov 21		Unlisted
RCB 24	EUR	10,000,000	10	10	17 Jan 24		Unlisted
RCB 25	EUR	50,000,000	50	50	17 Jan 24		Unlisted

* Value determined by the interest rate and currency swaps contracted to hedge the issue of obligations foncières and registered covered bonds.

Registered covered bonds	Currency	Nominal amount in foreign currency	Balance Redemption value*		Final due date	Next call date	Stock exchange
			EUR millions				
RCB 26	EUR	15,000,000	15	15	22 Jan 27		Unlisted
RCB 27	EUR	50,000,000	50	50	15 Feb 27		Unlisted
RCB 28	EUR	50,000,000	50	50	15 Feb 27		Unlisted
RCB 29	EUR	50,000,000	50	50	26 Feb 27		Unlisted
RCB 30	EUR	50,000,000	50	50	26 Feb 27		Unlisted
RCB 31	EUR	20,000,000	20	20	28 Feb 17		Unlisted
RCB 32	EUR	10,000,000	10	10	17 Mar 42	17 Mar 17	Unlisted
RCB 33	EUR	10,000,000	10	10	17 Mar 42	17 Mar 17	Unlisted
RCB 34	EUR	20,000,000	20	20	16 Apr 17		Unlisted
RCB 35	EUR	10,000,000	10	10	23 Apr 27		Unlisted
RCB 36	EUR	20,000,000	20	20	24 Apr 17		Unlisted
RCB 37	EUR	15,000,000	15	15	9 May 42	9 May 17	Unlisted
RCB 38	EUR	15,000,000	15	15	9 May 42	9 May 17	Unlisted
RCB 39	EUR	20,000,000	20	20	25 May 27		Unlisted
RCB 40	EUR	15,000,000	15	15	4 Jun 27		Unlisted
RCB 41	EUR	10,000,000	10	10	12 Jun 17		Unlisted
RCB 42	EUR	10,000,000	10	10	12 Jun 17		Unlisted
RCB 43	EUR	2,000,000	2	2	12 Jun 17		Unlisted
RCB 44	EUR	50,000,000	50	50	11 Jun 27		Unlisted
RCB 45	EUR	50,000,000	50	50	11 Jun 27		Unlisted
RCB 46	EUR	20,000,000	20	20	28 Nov 17		Unlisted
RCB 47	EUR	10,000,000	10	10	28 Nov 17		Unlisted
RCB 48	EUR	10,000,000	10	10	26 Jun 17		Unlisted
RCB 49	EUR	10,000,000	10	10	26 Jun 17		Unlisted
RCB 50	EUR	10,000,000	10	10	9 Jul 27		Unlisted
RCB 51	EUR	75,000,000	75	75	14 Aug 26		Unlisted
RCB 52	EUR	10,000,000	10	10	23 Oct 47	23 Oct 17	Unlisted
RCB 53	EUR	1,000,000	1	1	23 Oct 47	23 Oct 17	Unlisted
RCB 54	EUR	1,500,000	2	2	23 Oct 47	23 Oct 17	Unlisted
RCB 55	EUR	1,500,000	2	2	23 Oct 47	23 Oct 17	Unlisted
RCB 56	EUR	1,000,000	1	1	23 Oct 47	23 Oct 17	Unlisted
RCB 57	EUR	20,000,000	20	20	19 Nov 47	19 Nov 17	Unlisted
RCB 58	EUR	10,000,000	10	10	19 Nov 47	19 Nov 17	Unlisted
RCB 59	EUR	1,000,000	1	1	19 Nov 47	19 Nov 17	Unlisted
RCB 60	EUR	25,000,000	25	25	7 Dec 47	7 Dec 17	Unlisted
RCB 61	EUR	25,000,000	25	25	7 Dec 47	7 Dec 17	Unlisted
RCB 62	EUR	11,000,000	11	11	14 Jan 48	14 Jan 18	Unlisted
RCB 63	EUR	5,000,000	5	5	14 Jan 48	14 Jan 18	Unlisted
RCB 64	EUR	2,000,000	2	2	14 Jan 48	14 Jan 18	Unlisted
RCB 65	EUR	2,000,000	2	2	14 Jan 48	14 Jan 18	Unlisted
RCB 66 tranche 1	EUR	15,000,000	15	15	24 Jan 48	24 Jan 18	Unlisted
RCB 66 tranche 2	EUR	5,000,000	5	5	24 Jan 48	24 Jan 18	Unlisted
RCB 67	EUR	10,000,000	10	10	24 Jan 48	24 Jan 18	Unlisted
RCB 68	EUR	10,000,000	10	10	7 Feb 48	7 Feb 18	Unlisted
RCB 69	EUR	7,002,735	7	7	15 May 28		Unlisted
RCB 70	EUR	10,000,000	10	10	20 May 48	20 May 18	Unlisted
RCB 71	EUR	10,000,000	10	10	20 May 48	20 May 18	Unlisted
RCB 72	EUR	10,000,000	10	10	16 Jun 23		Unlisted
RCB 73	EUR	50,000,000	50	50	23 Jun 20		Unlisted
RCB 74	EUR	20,000,000	20	20	19 Jun 48	19 Jun 18	Unlisted
RCB 75	EUR	50,000,000	50	50	30 Jul 18		Unlisted
RCB 76	EUR	25,000,000	25	25	6 Aug 25		Unlisted
RCB 78	EUR	10,000,000	10	10	11 Dec 23		Unlisted
RCB 79	EUR	20,000,000	20	20	11 Dec 23		Unlisted
RCB 80	EUR	15,000,000	15	15	20 Dec 24		Unlisted
RCB 81	EUR	5,000,000	5	5	25 Feb 29	25 Feb 19	Unlisted
RCB 82	EUR	1,000,000	1	1	25 Feb 29	25 Feb 19	Unlisted
RCB 83	EUR	14,000,000	14	14	25 Feb 29	25 Feb 19	Unlisted
RCB 84	EUR	2,000,000	2	2	5 Mar 27	5 Mar 18	Unlisted
RCB 85	EUR	10,000,000	10	10	5 Mar 27	5 Mar 18	Unlisted
RCB 86	EUR	8,000,000	8	8	5 Mar 27	5 Mar 18	Unlisted
RCB 87	EUR	20,000,000	20	20	5 Mar 19		Unlisted
RCB 88	EUR	10,000,000	10	10	5 Mar 19		Unlisted
RCB 89	EUR	20,000,000	20	20	17 Mar 26	17 Mar 19	Unlisted

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			EUR millions				
RCB 90	EUR	65,200,000	65	65	1 Apr 24		Unlisted
RCB 91	EUR	5,000,000	5	5	8 Apr 22		Unlisted
RCB 92	EUR	5,000,000	5	5	8 Apr 22		Unlisted
RCB 93	EUR	5,000,000	5	5	8 Apr 22		Unlisted
RCB 94	EUR	5,000,000	5	5	8 Apr 22		Unlisted
RCB 95	EUR	5,000,000	5	5	8 Apr 22		Unlisted
RCB 96	EUR	5,000,000	5	5	8 Apr 22		Unlisted
RCB 97	EUR	50,000,000	50	50	22 Apr 26		Unlisted
RCB 98	EUR	10,000,000	10	10	22 Apr 26		Unlisted
RCB 99	EUR	50,000,000	50	50	6 May 22		Unlisted
RCB 100	EUR	50,000,000	50	50	5 May 23		Unlisted
RCB 101	EUR	25,000,000	25	25	5 May 23		Unlisted
RCB 102	EUR	10,000,000	10	10	5 May 23		Unlisted
RCB 103	EUR	50,000,000	50	50	19 May 26		Unlisted
RCB 104	EUR	50,000,000	50	50	19 May 25		Unlisted
RCB 105	EUR	20,000,000	20	20	19 May 26		Unlisted
RCB 106	EUR	20,000,000	20	20	19 May 25		Unlisted
RCB 107	EUR	10,000,000	10	10	19 May 26		Unlisted
RCB 108	EUR	50,000,000	50	50	28 May 27		Unlisted
RCB 109	EUR	25,000,000	25	25	28 May 27		Unlisted
RCB 110	EUR	50,000,000	50	50	26 May 28		Unlisted
RCB 111	EUR	50,000,000	50	50	9 Jun 23		Unlisted
RCB 112	EUR	25,000,000	25	25	9 Jun 23		Unlisted
RCB 113	EUR	15,000,000	15	15	9 Jun 23		Unlisted
RCB 114	EUR	50,000,000	50	50	24 Jun 19		Unlisted
RCB 115	EUR	10,000,000	10	10	24 Jun 19		Unlisted
RCB 116	EUR	50,000,000	50	50	8 Jul 26		Unlisted
RCB 117	EUR	25,000,000	25	25	8 Jul 26		Unlisted
RCB 118	EUR	10,000,000	10	10	8 Jul 26		Unlisted
RCB 119	EUR	50,000,000	50	50	10 Jul 28		Unlisted
RCB 120	EUR	25,000,000	25	25	10 Jul 28		Unlisted
RCB 121	EUR	10,000,000	10	10	10 Jul 28		Unlisted
RCB 122	EUR	20,000,000	20	20	10 Jul 28		Unlisted
RCB 123	EUR	10,000,000	10	10	21 Jul 25		Unlisted
RCB 124	EUR	15,000,000	15	15	21 Jul 25		Unlisted
RCB 125	EUR	50,000,000	50	50	22 Jul 27		Unlisted
RCB 126	EUR	10,000,000	10	10	22 Jul 27		Unlisted
RCB 127	EUR	20,000,000	20	20	20 Jul 29		Unlisted
RCB 128	EUR	15,000,000	15	15	29 Jul 27		Unlisted
RCB 129	EUR	10,000,000	10	10	29 Jul 27		Unlisted
RCB 130	EUR	10,000,000	10	10	31 Jul 23		Unlisted
RCB 131	EUR	15,000,000	15	15	30 Jul 26		Unlisted
RCB 132	EUR	10,000,000	10	10	30 Jul 27		Unlisted
RCB 133	EUR	10,000,000	10	10	12 Aug 24		Unlisted
RCB 134	EUR	50,000,000	50	50	12 Aug 27		Unlisted
RCB 135	EUR	50,000,000	50	50	14 Aug 28		Unlisted
RCB 136	EUR	25,000,000	25	25	14 Aug 28		Unlisted
RCB 137	EUR	15,000,000	15	15	14 Aug 28		Unlisted
RCB 138	EUR	10,000,000	10	10	14 Aug 28		Unlisted
RCB 139	EUR	15,000,000	15	15	14 Aug 24		Unlisted
RCB 140	EUR	10,000,000	10	10	23 Sep 26		Unlisted
RCB 141	EUR	50,000,000	50	50	27 Aug 29		Unlisted
RCB 142	EUR	25,000,000	25	25	27 Aug 29		Unlisted
RCB 143	EUR	50,000,000	50	50	31 Aug 29		Unlisted
RCB 144	EUR	50,000,000	50	50	31 Aug 29		Unlisted
RCB 145	EUR	50,000,000	50	50	31 Aug 29		Unlisted
RCB 146	EUR	5,500,000	6	6	30 Aug 24		Unlisted
RCB 147	EUR	14,500,000	15	15	7 Sep 29		Unlisted
RCB 148	EUR	15,000,000	15	15	14 Sep 21		Unlisted
RCB 149	EUR	50,000,000	50	50	14 Sep 27		Unlisted
RCB 150	EUR	15,000,000	15	15	14 Sep 27		Unlisted
RCB 151	EUR	10,000,000	10	10	14 Sep 27		Unlisted
RCB 152	EUR	5,000,000	5	5	14 Sep 27		Unlisted
RCB 153	EUR	20,000,000	20	20	16 Sep 24		Unlisted

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Registered covered bonds	Currency	Nominal amount in foreign currency	Balance	Redemption value*	Final due date	Next call date	Stock exchange
			EUR millions				
RCB 154	EUR	10,000,000	10	10	17 Sep 29		Unlisted
RCB 155	EUR	5,000,000	5	5	17 Sep 29		Unlisted
RCB 156	EUR	20,000,000	20	20	24 Sep 31		Unlisted
RCB 157	EUR	20,000,000	20	20	26 Sep 33		Unlisted
RCB 158	EUR	10,000,000	10	10	9 Oct 24		Unlisted
RCB 159	EUR	5,000,000	5	5	9 Oct 24		Unlisted
RCB 160	EUR	10,000,000	10	10	22 Oct 24		Unlisted
RCB 161	EUR	20,000,000	20	20	25 Oct 21		Unlisted
RCB 162	EUR	8,000,000	8	8	26 Oct 29		Unlisted
RCB 163	EUR	15,000,000	15	15	21 Dec 28		Unlisted
RCB 164	EUR	10,000,000	10	10	24 May 17		Unlisted
RCB 165	EUR	30,000,000	30	30	21 Jan 30		Unlisted
RCB 166	EUR	100,000,000	100	100	28 Jan 30		Unlisted
RCB 167	EUR	15,000,000	15	15	28 Jan 30		Unlisted
RCB 168	EUR	50,000,000	50	50	28 Jan 30		Unlisted
RCB 169	EUR	25,000,000	25	25	28 Jan 30		Unlisted
RCB 170	EUR	110,000,000	108	110	18 Feb 28		Unlisted
RCB 171	EUR	10,000,000	10	10	27 Dec 33	27 Dec 23	Unlisted
RCB 172	EUR	10,000,000	10	10	26 Feb 30		Unlisted
RCB 173	EUR	5,000,000	5	5	26 Feb 30		Unlisted
RCB 174	EUR	30,000,000	30	30	26 Feb 30		Unlisted
RCB 175	EUR	15,000,000	15	15	26 Feb 30		Unlisted
RCB 176	EUR	20,000,000	20	20	1 Apr 30		Unlisted
RCB 177	EUR	20,000,000	20	20	1 Apr 30		Unlisted
RCB 178	EUR	7,000,000	7	7	3 May 29		Unlisted
RCB 179	EUR	3,000,000	3	3	3 May 29		Unlisted
RCB 180	EUR	5,000,000	5	5	4 Jun 40	4 Jun 20	Unlisted
RCB 181	EUR	10,000,000	10	10	11 Jun 25		Unlisted
RCB 182	EUR	1,000,000	1	1	11 Jun 25		Unlisted
RCB 183	EUR	1,000,000	1	1	11 Jun 25		Unlisted
RCB 184	EUR	10,000,000	10	10	16 Sep 32		Unlisted
RCB 185	EUR	10,000,000	10	10	20 Mar 29		Unlisted
RCB 186	EUR	10,000,000	10	10	28 Feb 21		Unlisted
RCB 187	EUR	40,000,000	40	40	28 Feb 31		Unlisted
RCB 188	EUR	4,000,000	4	4	28 Feb 31		Unlisted
RCB 189	EUR	3,000,000	3	3	28 Feb 31		Unlisted
RCB 190	EUR	27,500,000	28	28	28 Feb 31		Unlisted
RCB 191	EUR	1,000,000	1	1	28 Feb 31		Unlisted
RCB 192	EUR	23,000,000	23	23	28 Feb 31		Unlisted
RCB 193	EUR	28,000,000	28	28	28 Feb 31		Unlisted
RCB 194	EUR	20,000,000	20	20	28 Feb 31		Unlisted
RCB 195	EUR	2,000,000	2	2	28 Feb 31		Unlisted
RCB 196	EUR	500,000	1	1	28 Feb 31		Unlisted
RCB 197	EUR	1,000,000	1	1	28 Feb 31		Unlisted
RCB 198	EUR	10,000,000	10	10	29 Mar 21		Unlisted
RCB 199	EUR	5,000,000	5	5	17 Mar 31		Unlisted
RCB 200	EUR	5,000,000	5	5	17 Mar 31		Unlisted
RCB 201	EUR	10,000,000	10	10	31 Mar 21		Unlisted
RCB 202	EUR	5,000,000	5	5	7 Apr 26		Unlisted
RCB 203	EUR	5,000,000	5	5	7 Apr 26		Unlisted
RCB 204	EUR	5,000,000	5	5	7 Apr 31		Unlisted
RCB 205	EUR	5,000,000	5	5	7 Apr 31		Unlisted
RCB 206	EUR	500,000	0	1	7 Apr 31		Unlisted
RCB 207	EUR	5,000,000	5	5	7 Apr 31	7 Apr 21	Unlisted
RCB 208	EUR	5,000,000	5	5	20 May 30		Unlisted
RCB 2013-1	EUR	7,000,000	7	7	12 Aug 33		Unlisted
RCB 2013-2	EUR	3,000,000	3	3	12 Aug 33		Unlisted
RCB 2013-3	EUR	40,000,000	40	40	23 Aug 33		Unlisted
RCB 2013-4	EUR	10,000,000	10	10	23 Aug 33		Unlisted
RCB 2013-4	EUR	20,000,000	20	20	23 Aug 33		Unlisted
RCB 2013-5	EUR	30,000,000	30	30	23 Aug 33		Unlisted
RCB 2013-6	EUR	10,000,000	10	10	6 Sep 33		Unlisted
RCB 2013-7	EUR	100,000,000	100	100	30 Aug 33		Unlisted
RCB 2013-8	EUR	5,000,000	5	5	30 Aug 33		Unlisted

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			EUR millions				
RCB 2013-9	EUR	5,000,000	5	5	30 Aug 33		Unlisted
RCB 2013-10	EUR	5,000,000	5	5	30 Aug 33		Unlisted
RCB 2013-11	EUR	2,000,000	2	2	30 Aug 33		Unlisted
RCB 2013-12	EUR	1,000,000	1	1	30 Aug 33		Unlisted
RCB 2013-13	EUR	500,000	1	1	30 Aug 33		Unlisted
RCB 2013-14	EUR	20,000,000	20	20	26 Sep 25		Unlisted
RCB 2013-15	EUR	75,000,000	75	75	26 Sep 25		Unlisted
RCB 2013-16	EUR	5,000,000	5	5	26 Sep 25		Unlisted
RCB 2013-17	EUR	3,000,000	3	3	1 Oct 25		Unlisted
RCB 2013-18	EUR	40,000,000	40	40	1 Oct 25		Unlisted
RCB 2013-19	EUR	1,000,000	1	1	1 Oct 25		Unlisted
RCB 2013-20	EUR	40,000,000	40	40	1 Oct 25		Unlisted
RCB 2013-21	EUR	1,000,000	1	1	1 Oct 25		Unlisted
RCB 2013-22	EUR	2,000,000	2	2	1 Oct 25		Unlisted
RCB 2013-23	EUR	10,000,000	10	10	1 Oct 25		Unlisted
RCB 2013-24	EUR	9,000,000	9	9	1 Oct 25		Unlisted
RCB 2013-25	EUR	10,000,000	10	10	1 Oct 25		Unlisted
RCB 2013-26	EUR	2,000,000	2	2	1 Oct 25		Unlisted
RCB 2013-27	EUR	2,000,000	2	2	1 Oct 25		Unlisted
RCB 2014-1	EUR	3,000,000	3	3	9 Jan 26		Unlisted
RCB 2014-2	EUR	34,000,000	34	34	9 Jan 26		Unlisted
RCB 2014-3	EUR	1,000,000	1	1	9 Jan 26		Unlisted
RCB 2014-4	EUR	4,000,000	4	4	9 Jan 26		Unlisted
RCB 2014-5	EUR	30,000,000	30	30	9 Jan 26		Unlisted
RCB 2014-6	EUR	5,000,000	5	5	9 Jan 26		Unlisted
RCB 2014-7	EUR	4,000,000	4	4	9 Jan 26		Unlisted
RCB 2014-8	EUR	1,000,000	1	1	9 Jan 26		Unlisted
RCB 2014-9	EUR	15,000,000	15	15	9 Jan 26		Unlisted
RCB 2014-10	EUR	10,000,000	10	10	9 Jan 26		Unlisted
RCB 2014-11	EUR	10,000,000	10	10	9 Jan 26		Unlisted
RCB 2014-12	EUR	3,000,000	3	3	9 Jan 26		Unlisted
RCB 2014-13	EUR	25,000,000	25	25	23 Jan 34		Unlisted
RCB 2014-14	EUR	19,000,000	19	19	24 Jan 34		Unlisted
RCB 2014-14	EUR	6,000,000	6	6	24 Jan 34		Unlisted
RCB 2014-15	EUR	25,878,750	26	26	3 Feb 49	3 Feb 34	Unlisted
RCB 2014-16	EUR	3,105,450	3	3	3 Feb 49	3 Feb 34	Unlisted
RCB 2014-17	EUR	22,773,300	23	23	3 Feb 49	3 Feb 34	Unlisted
RCB 2014-18	EUR	5,000,000	5	5	14 Feb 34		Unlisted
RCB 2014-19	EUR	10,000,000	10	10	22 Feb 44	20 Feb 30	Unlisted
RCB 2014-20	EUR	25,000,000	25	25	28 Feb 29		Unlisted
RCB 2014-21	EUR	26,000,000	26	26	17 Mar 36		Unlisted
RCB 2014-22	EUR	26,000,000	26	26	17 Mar 37		Unlisted
RCB 2014-23	EUR	26,000,000	26	26	17 Mar 38		Unlisted
RCB 2014-24	EUR	26,000,000	26	26	17 Mar 39		Unlisted
RCB 2014-25	EUR	20,000,000	20	20	14 Mar 34		Unlisted
RCB 2014-26	EUR	22,000,000	22	22	29 Mar 29		Unlisted
RCB 2014-27	EUR	3,000,000	3	3	29 Mar 29		Unlisted
RCB 2014-28	EUR	1,000,000	1	1	29 Mar 29		Unlisted
RCB 2014-29	EUR	20,642,000	21	21	2 May 44	2 May 34	Unlisted
RCB 2014-30	EUR	30,963,000	31	31	2 May 44	2 May 34	Unlisted
RCB 2014-31	EUR	10,000,000	10	10	11 Apr 29		Unlisted
RCB 2014-32	EUR	5,000,000	5	5	11 Apr 29		Unlisted
RCB 2014-33	EUR	20,000,000	20	20	2 May 34		Unlisted
RCB 2014-34	EUR	15,000,000	15	15	9 May 34		Unlisted
RCB 2014-35	EUR	15,000,000	15	15	9 May 34		Unlisted
RCB 2014-36	EUR	7,000,000	7	7	9 May 34		Unlisted
RCB 2014-37	EUR	3,000,000	3	3	9 May 34		Unlisted
RCB 2014-38	EUR	38,000,000	38	38	25 Nov 36		Unlisted
RCB 2014-38	EUR	7,000,000	7	7	25 Nov 36		Unlisted
RCB 2014-39	EUR	50,000,000	50	50	16 May 44	16 May 29	Unlisted
RCB 2014-40	EUR	40,000,000	40	40	24 May 40		Unlisted
RCB 2014-41	EUR	33,000,000	33	33	25 Apr 39		Unlisted
RCB 2014-41	EUR	7,000,000	7	7	25 Apr 39		Unlisted
RCB 2014-42	EUR	25,000,000	25	25	20 May 26		Unlisted
RCB 2014-43	EUR	60,000,000	60	60	22 May 34		Unlisted

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Registered covered bonds	Currency	Nominal amount in foreign currency	Balance Redemption value*		Final due date	Next call date	Stock exchange
			EUR millions				
RCB 2014-44	EUR	5,000,000	5	5	3 Aug 26		Unlisted
RCB 2014-45	EUR	27,000,000	54	27	11 Sep 34		Unlisted
RCB 2014-46	EUR	27,000,000	53	27	18 Sep 34		Unlisted
RCB 2015-1	EUR	100,000,000	100	100	8 Jan 35		Unlisted
RCB 2015-2	EUR	50,000,000	50	50	27 Feb 40		Unlisted
RCB 2015-3	EUR	40,000,000	40	40	29 Oct 40		Unlisted
RCB 2015-4	EUR	25,000,000	25	25	27 Nov 40		Unlisted
RCB 2015-5	EUR	25,000,000	25	25	20 Feb 47	20 Feb 35	Unlisted
RCB 2015-6A	EUR	20,000,000	20	20	27 Feb 40		Unlisted
RCB 2015-6B	EUR	10,000,000	10	10	27 Feb 40		Unlisted
RCB 2015-7	EUR	10,000,000	10	10	15 Mar 30		Unlisted
RCB 2015-8A	EUR	30,000,000	30	30	19 Mar 35		Unlisted
RCB 2015-8B	EUR	20,000,000	20	20	19 Mar 35		Unlisted
RCB 2015-9	EUR	30,000,000	30	30	26 Mar 40		Unlisted
RCB 2015-10	EUR	20,000,000	20	20	24 Apr 36		Unlisted
RCB 2015-11	EUR	15,000,000	15	15	26 Jul 35		Unlisted
RCB 2015-12	EUR	50,000,000	50	50	14 May 46	14 May 27	Unlisted
RCB 2015-12 B	EUR	5,000,000	5	5	14 May 46	14 May 27	Unlisted
RCB 2015-13	EUR	30,000,000	30	30	28 Jun 38		Unlisted
RCB 2015-14	EUR	40,000,000	40	40	17 Jul 35		Unlisted
RCB 2015-15 A	EUR	10,000,000	10	10	27 Jul 35		Unlisted
RCB 2015-15 B	EUR	5,000,000	5	5	27 Jul 35		Unlisted
RCB 2015-16	EUR	20,000,000	20	20	20 Nov 45		Unlisted
RCB 2015-17	EUR	50,000,000	50	50	18 Dec 45	18 Dec 30	Unlisted
RCB 2015-18	EUR	20,000,000	20	20	28 Dec 35	28 Dec 25	Unlisted
RCB 2015-19	EUR	25,000,000	25	25	27 Dec 40	27 Dec 30	Unlisted
TOTAL	EUR	6,088,072,633	6,137	6,088			
TOTAL REGISTERED COVERED BONDS			6,137	6,088			
TOTAL ISSUED BONDS			52,243	51,579			

* Value determined by the interest rate and currency swaps contracted to hedge the issue of obligations foncières and registered covered bonds.

Report on internal control by the Chairman of the Supervisory Board

prepared in accordance
with article L.225-68 of the Code of Commerce

The report presents:

- the conditions of preparation and organization of the deliberations of the Supervisory Board, by examining in detail the role and composition of the Board and its governance;
- the principles of internal control and risk management applied by the Company, by examining especially the procedures that are used to prepare and process accounting and financial information for the annual financial statements.

To prepare this report, as a credit institution, Caisse Française de Financement Local refers to:

- the *arrêté* of November 3, 2014, on the internal control of companies in the banking sector, as well as in payment and investment services subject to the control of the Autorité de contrôle prudentiel et de résolution (hereafter “*arrêté* of November 3, 2014”), which defines the missions, principles and organization of internal control;
- the reference framework published by the French Financial Markets Authority (AMF).

This report of the Chairman of the Supervisory Board of Caisse Française de Financement Local was prepared by the Executive Board, which gathered the necessary information from internal audit and all the operating departments of SFIL in charge of the management of the operations of Caisse Française de Financement Local, and from support functions concerned, in particular the risks and permanent control division and the finance division of SFIL. This report presents and describes all the principles and procedures applied during the year 2015 at Caisse Française de Financement Local and SFIL, its parent company.

1. Conditions of preparation and organization of the Supervisory Board's governance

Caisse Française de Financement Local operates within the framework of the organization of financing for local governments and public healthcare facilities in France set up by the French State. Its mission is to refinance public sector commitments by issuing *obligations foncières* and raising other funds benefiting from the same privilege.

In 2015, the French State entrusted SFIL and Caisse Française de Financement Local with the responsibility to refinance large export credits with the guarantee of the State. The objective is to enable large export credits as well as French local governments and public hospitals to benefit from optimal financing conditions through a high rating and irreproachable risk management.

1.1 – SUPERVISORY BOARD

The Supervisory Board exercises permanent control of the Company's management by the Executive Board. The members of the Board are appointed by the Annual Shareholders' Meeting on the basis of their expertise and the contribution they can make to the Company, and their term of office is six years. There are six members. The Supervisory Board meets at least every three months; the two auditors and the Specific Controller of the *société de crédit foncier* also attend the meetings. In advance of the meeting, the Chairman of the Supervisory Board and the Chairman of the Executive Board send the Board members an agenda and a file with reports or documents relating to the subjects to be discussed. The Board met five times in 2015. The rate of assiduity was 100%.

The agenda respects a regular format: minutes, business review of the previous quarter and of current trends including issuance conditions, the presentation of the financial statements, and the development of projects to purchase assets from La Banque Postale and the business of refinancing large export credits. Specific topics are added at different times of the year: the report on internal control and the report on risk assessment and surveillance in application of articles 258 and following of the *arrêté* of November 3, 2014; information to be published relating to the quality of assets as well as the level and sensitivity of the interest rate position in application of article 13 of CRBF standard 99-10.

The information and documents provided to the members enable the Board to have a full, clear and accurate view of the Company's position, profitability and development. During Supervisory Board meetings, the Executive Board develops the points on the agenda by comments and synthetic presentations. The Board advises on strategic choices, makes recommendations and, if necessary, requests specific analyses, which are examined in subsequent meetings. The Board pays special attention to issuance programs as well as to acquisitions of public sector assets from La Banque Postale by Caisse Française de Financement Local.

It closely monitors the performance of Caisse Française de Financement Local's *obligations foncières* in the primary and secondary markets. The Supervisory Board considers that, independently of market conditions, the optimization of Caisse Française de Financement Local's issuance conditions is linked to investors' perception of the excellent quality of the Company's assets beyond the ratings by Standard and Poor's, Moody's and Fitch, and its very low risk profile with regard to customer and market counterparties, interest rates and liquidity. The Supervisory Board pays particular attention to the reports submitted by the Executive Board on these subjects, and to the transparency of communication to investors. In addition, the Supervisory Board is kept informed of measures required by regulators as well as the responses provided by the Company's management.

In 2015, in addition to the questions related to the management of the Company that are under its responsibility, the Supervisory Board paid particular attention in its governance to the issuance strategy, to issue ratings, to the follow-up of

litigation, to the ongoing application of its strategy to reduce the sensitivity of structured loans with the effective implementation of the support funds for local governments and public hospitals, to the purchase of public sector loans from La Banque Postale, to the assistance rendered by its servicer and parent company, and to risks especially with the review for approval of the recovery plan. During the year, the Supervisory Board was also particularly interested in the launch of the activity of export credit refinancing.

The Board called an ordinary and extraordinary shareholders' meeting on April 10, 2015. Its purpose was, for the ordinary shareholders' meeting, to ratify the transfer of the Company's headquarters to Issy-les-Moulineaux, and for the extraordinary shareholders' meeting, to adopt the acronym CAFFIL and to update the Company's by-laws in response to recent regulatory changes. It also called a shareholders' meeting on May 28, 2015, to discuss the financial statements and the regulated agreements.

In keeping with regulatory provisions, since SFIL is the parent company of Caisse Française de Financement Local, the Financial Statements Committee and the Risks and Internal Control Committee, created by the break-up of the Audit and Risks Committee at the end of 2014, deal with topics that concern Caisse Française de Financement Local. The documents presenting these issues are generally included in the files of the Supervisory Board.

In addition, since the Monetary and Financial Code allows an entity to refer to the Nomination and Compensation Committees of its parent company to define its nomination and compensation policy, the Supervisory Board of Caisse Française de Financement Local decided not to create a specific committee at the level of Caisse Française de Financement Local and to rely on that of SFIL.

Information concerning compensation and other advantages granted to members of the supervisory and management bodies is presented in the section of the management report entitled "Compensation of members of supervisory and management bodies". None of them receive compensation for the work they do for Caisse Française de Financement Local.

The Supervisory Board has taken note of the legal requirements⁽¹⁾ concerning the balanced representation of men and women on the Board and has committed to implement the law's provisions.

1.2 - CAISSE FRANÇAISE DE FINANCEMENT LOCAL'S SPECIFIC ORGANIZATION

Caisse Française de Financement Local is a legally independent company with its own Supervisory Board and Executive Board. However, in order to preserve the privilege enjoyed by holders of *obligations foncières* and other privileged debt securities, the law stipulates that a *société de crédit foncier* is not allowed to employ staff directly and must entrust the management of all its operations to a credit institution with which it signs an agreement (article L.513-15 of the Monetary and Financial Code). This is because employees would have a priority that would supersede any other claim in the event of bankruptcy or liquidation, whereas the management agreement, which benefits from the privilege granted by the law on *sociétés de crédit foncier*, is *pari passu* with the holders of *obligations foncières* and other privileged debt securities. Caisse Française de Financement Local entrusted the management of its operations to SFIL, its shareholder on January 31, 2013. There are divisions, departments and units at SFIL that handle transactions conducted in the name of Caisse Française de Financement Local. The management of Caisse Française de Financement Local is, therefore, subject to the procedures and controls usually applicable to SFIL, in addition to the procedures and controls specific to the legal standards and rules that govern the management of Caisse Française de Financement Local.

In terms of governance, and in areas that concern it, Caisse Française de Financement Local applies the practices of its parent company. The latter has decided to refer to the AFEP/MEDEF code of governance, specifying that certain of its provisions would be applied progressively or not at all if their application proved not to be possible or advisable (specificity of the shareholding structure, obligations linked to applicable legal provisions, etc.).

In 2015, in application of these practices, every member of the Supervisory Board was asked to answer a questionnaire to evaluate the organization and operation of the Board. The results were presented to the Supervisory Board, together with suggested areas of improvement. Fundamentally, the members of the Board were generally satisfied with the composition of the Board, the frequency of meetings, the level of information (including that related to the Company's strategy), the quality of the work papers and minutes. Areas for improvement pinpointed training and the independence of the members.

Given the organization of the SFIL Group and the legal status of Caisse Française de Financement Local, which entrusts its operational management to SFIL, the situation of the Board is currently not consistent with the AFEP/MEDEF code with regard to the following points: the length of the term of the members is set at six years, a period that is longer than the time recommended, the presence of independent members of the Board, and the balanced representation of men and women on the Board. A proposal of reduction of the term of the members of the Board to four years will be presented to the shareholders' meeting of May 25, 2016, which will make it possible to comply, on this point, with AFEP/MEDEF recommendations.

(1) Law 2011-103 of January 27, 2011

2. Internal control

2.1 – ORGANIZATION OF INTERNAL CONTROL

a. Responsibilities of internal control and the general architecture of internal control

SFIL, with its subsidiary Caisse Française de Financement Local, is one of the large banks under the direct supervision of the European Central Bank since November 2014 in the framework of the Single Supervisory Mechanism (SSM). In addition, as a *société de crédit foncier*, Caisse Française de Financement Local is subject to special and additional oversight by the Autorité de contrôle prudentiel et de résolution (ACPR).

Since it manages Caisse Française de Financement Local, SFIL has been delegated to exercise the functions of internal control for Caisse Française de Financement Local pursuant to its management agreement. Consequently, internal control at SFIL also meets the regulatory obligations of Caisse Française de Financement Local in this regard. Likewise, the organization also takes into consideration the servicing activities exercised by SFIL for La Banque Postale (LBP) within the framework of the servicing agreement signed by SFIL and LBP.

The objectives and organization of SFIL's internal control are defined within the framework set by the Monetary and Financial Code, and by the *arrêté* of November 3, 2014. According to these articles, the internal control system requires that different control procedures are applied to provide:

- a control system for operations and internal procedures;
- an organization of financial and accounting data;
- systems to measure risks and results;
- systems to monitor and control risks;
- a system for documentation and information;
- surveillance of flows of cash and securities.

This internal control system is a process put into practice by the Executive Committee and all the employees of SFIL, at the initiative of its Board of Directors. The organization is designed to provide reasonable but not absolute assurance with regard to the achievement of the objectives that SFIL set in terms of performance, profitability and protection of its financial assets. It addresses the four responsibilities which its shareholders entrusted to the Company:

- refinancing loans granted by La Banque Postale,
- supplying support services for La Banque Postale,
- conducting a responsible and proactive policy to reduce the sensitivity of loans,
- refinancing large French export credits.

Specifically, the objectives assigned to internal control in effect at SFIL on behalf of Caisse Française de Financement Local aim to:

- verify the efficiency of the risk control system. The risk control system aims to guarantee the Executive Committee of SFIL that the risks taken by the Company are in line with the policy defined by the Supervisory Board and the Executive Board and do not exceed an agreed-upon level of risk;
- ensure that the financial and accounting data produced is reliable and relevant. The main objective of the financial information is to give a true and fair view of the position of Caisse Française de Financement Local in a regular, complete and transparent manner;
- monitor compliance with internal and external rules and practices of business ethics. The diligent operation of Caisse Française de Financement Local implies strict respect of legislative and regulatory obligations, in particular with regard to corporate governance and compliance;
- monitor the effectiveness and operational efficiency of processes, in order to ensure that operations are carried out properly while guaranteeing efficient management of available resources.

In order to allow the accomplishment of the objectives set, and in compliance with the *arrêté* of November 3, 2014, the general architecture of the internal control system of SFIL is based on three levels of control.

- The first level of control takes place in the operating teams. It is exercised by each employee and the corresponding chain of command who ensure that the operations for which they are responsible are consistent with the internal procedures in effect.
- The second level of control involves permanent control activities. Specific controls are performed by a network of correspondents designated in the operational divisions, who for these responsibilities report to the operational risks and permanent control division, which depends on the risk division. These controls are complemented by those conducted especially for risks of non-compliance (non-respect of legislation, regulations, regulatory instructions, professional and ethical standards and management directives) by the compliance division, which reports to the General Secretary.
- The third level of control concerns periodic control conducted by an independent team, the internal audit and inspection division, which reports to the Chairman and CEO of SFIL and which exercises periodic oversight of the efficient and effective application of the first two levels of control described above.

The different functions in charge of internal control (Operational Risks and Permanent Control division, Compliance division and Internal Audit and Inspection division) meet every two months in an internal control committee in order to share information about the risks each division has identified in its field of competence, to coordinate internal control initiatives to remedy risk situations and analyze the conclusions in their respective control plan.

Within this framework, a common IT tool provides continuous automated management so that the teams can monitor risks, controls, recommendations and action plans for the full range of internal control functions at SFIL.

These different levels of control are deployed under the aegis of the supervisory and management bodies of SFIL and Caisse Française de Financement Local.

b. Executive Board of Caisse Française de Financement Local

The Executive Board of Caisse Française de Financement Local is the front-ranking guarantor of the efficient operation of the Company's internal control procedures. In light of the structure of Caisse Française de Financement Local and of the management agreement which binds it to its parent company, the Executive Board relies on the governance and organization of internal control in effect at SFIL.

- The Risks and Internal Control Committee, which is composed of the members of the Board of Directors of SFIL, is responsible, in keeping with the Code of Commerce and the *arrêté* of November 3, 2014, for ensuring the efficiency of internal control and risk management systems, for giving an appreciation of the quality of internal control, in particular the coherence of measurement, surveillance and risk control systems, and for suggesting, if need be, any additional action. This committee is also responsible for monitoring permanent control, compliance and periodic control at SFIL. It likewise examines, with the Company's auditors, any risks weighting on their independence.
- The Chairman and Chief Executive Officer of SFIL and the deputy Chief Executive Officer are considered as accountable officers by banking regulators. They guarantee the efficient operation of the bank's internal control system. They allocate the resources required to carry out the missions of the different divisions in charge of control, verify that the objectives are attained and that the internal control system is adapted to the needs of SFIL and Caisse Française de Financement Local. To this end, they regularly receive activity reports and the results of the controls carried out in terms of permanent control, compliance and periodic control. These reports are also presented and discussed at meetings of SFIL's Executive Committee, and the issues raised engender action and decisions in order to ensure continuous improvement in internal control.

c. Operating divisions

As the first level of the internal control system, employees and managers of SFIL's operating divisions are in charge of analyzing the risks involved in all the transactions they have initiated, organizing and conducting basic controls for such operations, verifying that internal control procedures in their division are adapted to such risks and contributing to their development. To this end, they apply basic principles, which are spelled out in all the activities of SFIL, i.e. policies, procedures, limits, indicators and a clear separation of functions between the launch of operations and their validation, control or settlement. These principles are defined by several specialized committees, composed of operating, support and control staff and chaired by a member of the Executive Committee of SFIL, such as the Risks Committee, the New Products Committee and the Operational Risks and Permanent Control Committee.

d. The Risks division

At their creation in February 2013, SFIL and Caisse Française de Financement Local set up a full-blown risk management system to identify, monitor, manage and measure risks using defined methods, making it possible to set limits, decide the appropriate amount of provisions and alert the competent committees of potential risks.

The level of risk that is acceptable for SFIL and Caisse Française de Financement Local is defined by the Executive Committee and the Risks Committee at SFIL. It is approved by the Risks and Internal Control Committee. It is then approved by the Executive Board and presented to the Supervisory Board of Caisse Française de Financement Local, which is asked to give its opinion. Within this framework, policies are defined for all the activities performed as well as limits and rules that govern the delegation of decisions. The Risks division is in charge of monitoring these limits and if required proposing measures to the Executive Committee of SFIL and the Executive Board of Caisse Française de Financement Local to ensure these limits are respected.

A quarterly risks review is presented to the Risks and Internal Control Committee every quarter by the head of risks at SFIL, who is also in charge of risks at Caisse Française de Financement Local. It provides a synthetic view of the main risks at SFIL and Caisse Française de Financement Local and their development during the quarter (credit risks, market and ALM risks, operational risks) as well as changes in regulations over the period. Items concerning Caisse Française de Financement Local are also presented by the Executive Board to the Supervisory Board of Caisse Française de Financement Local.

e. Committees

All operations conducted by Caisse Française de Financement Local are subject to control by different committees set up by SFIL as detailed below. This oversight takes into account the particular rules and limits applicable to Caisse Française de Financement Local.

The Risks division relies on several committees, the missions and composition of which have been approved by the Risks and Internal Control Committee of SFIL. These committees may be cross-divisional - Risks Committee, Committee on the Validation of Methods and Models, New Products Committee - or specialized on credit risks, market risks and operational risks as described below.

The Risks Committee defines the risk profile of SFIL and Caisse Française de Financement Local, validates risk control dispositions and ensures their respect. In particular, it is in charge of defining delegations in the granting of credit and approving the risk policies of SFIL concerning all types of risks and the limits defined by the Risks division.

The committees on the Validation of Methods and Models (Market Validation Committee, Credit Cross-divisional Models Validation Committee) are in charge of validating market risk and pricing models as well as implementing the internal rating systems that make it possible to calculate capital needs.

The New Products Committee examines all new products and management processes or any transformation of a pre-existing product or process. This committee also studies new products intended for financing, refinancing or hedging risks, as well as the development of any existing product or service to the extent that it substantially modifies the risk profile or the internal processes of the Company.

f. Permanent control excluding compliance

Permanent control excluding compliance at Caisse Française de Financement Local is the responsibility of the head of operational risks and permanent control at SFIL.

It constitutes the second level of internal control.

1. Organization and governance

Permanent control excluding compliance ensures the efficiency and reliability of the system of risk control, the efficiency of the control of operations and internal procedures, the quality of accounting and financial information and the quality of information systems. Permanent control measures apply to all divisions and all activities of the bank.

Permanent control excluding compliance is under the responsibility of the head of operational risks and permanent control who reports to the head of Risks. The goal is to maintain synergies between permanent control and the monitoring of operational risks, IT security and the business continuity plan. Permanent control is supported by a network of correspondents in the operating divisions who are in charge of deployment and follow-up.

2. Activities

The management principles governing permanent control are described in the management policy for operational risks and permanent control. Permanent control is based on a control plan which is prepared with the operating divisions and covers the main business processes. It is reviewed every year. The objective is to adapt the controls to the situation at SFIL by taking into account:

- the results of controls carried out during the year (their match with the risks to be covered, their efficiency, the appropriateness of their formalization and the pertinence of related measurement indicators);
- a review of incidents noted;
- internal audit recommendations;
- new products and processes at SFIL.

This approach also makes it possible to improve the control plan by modifying existing controls and even by adding and/or eliminating controls.

The correspondents conduct or evaluate controls of their division or sector every quarter, and for some of them once every six months or every year. The evaluation is documented by a commentary and a document justifying the result of the control. All the results are reviewed by the Operational Risks and Permanent Control division, which may validate or refuse the evaluation of the control, particularly if the documentation is considered to be unsatisfactory. In this latter case, action plans are launched to obtain a satisfactory result for subsequent periods. These action plans are regularly monitored and a quarterly report is submitted to the Operational Risks and Permanent Control Committee.

In 2015, the permanent control plan was enriched as it went from 149 items controlled at the end of 2014 to 158 items controlled at the end of 2015.

3. Reporting

The accountable officers, according to banking regulations, the members of the Executive Committee and the members of the Board of Directors of SFIL are regularly informed of permanent control activities. The same is true for the Executive and Supervisory Boards of Caisse Française de Financement Local.

The Operational Risks and Permanent Control division publishes a quarterly report presented to the Operational Risks and Permanent Control Committee. This Committee is chaired by the Deputy CEO of SFIL and is made up of all the members of SFIL's Executive Committee, as well as the heads of the Strategic IT Projects and Information Systems divisions. The Chairman of the Executive Board of Caisse Française de Financement Local also takes part. The committee meets quarterly. It examines the results of permanent controls (results of evaluations of permanent controls, monitoring of action plans, monitoring of permanent control plans, additions, eliminations or modifications of controls). It also looks at the main issues linked to permanent control and at areas of anticipated improvements.

A detailed presentation of key items and corrective measures that have been introduced or should be so in the area of permanent control is organized annually before the same committee. Specific points concerning permanent control may also be discussed, if required, in the Quarterly Risk Review.

The Risks and Internal Control Committee of January 21, 2016, and the Executive Board of February 25, 2016, were informed in detail of permanent control activities in 2015.

g. Compliance

Compliance control is an integral part of the internal control system of banks and investment firms.

Compliance is autonomous, independent of all operating divisions and particularly of any commercial activity. At Caisse Française de Financement Local, it is the responsibility of the General Secretary in charge of compliance, who is a member of the Executive Committee of SFIL and has been designated as the compliance contact for the Autorité de contrôle prudentiel et de résolution (ACPR) at SFIL and Caisse Française de Financement Local. In her function, she is assisted by two Compliance officers. The General Secretary also acts as the TRACFIN correspondent within the framework of the obligations of banks in the fight against money laundering and the financing of terrorist activities.

Compliance contributes to the respect for all legal and regulatory requirements. It guarantees the consistency and the efficiency of controls of non-compliance risk at SFIL and Caisse Française de Financement Local. The Compliance division thus ensures within the bank respect for all rules involving integrity and good business ethics: respect for legal and regulatory requirements, professionalism, loyalty and mutual respect. Its objective is to identify, evaluate and deal with risks of non-compliance and the risks of reputation that are linked to such issues.

The year 2015 was marked by the launch of a new business, the refinancing of export credits, which required the adaptation of non-compliance risk management. The basic procedures were also updated.

In line with the reorganization of the fight against money laundering and the financing of terrorism, internal control procedures were adapted, and in particular the methods employed to map non-compliance risks and the related annual control plan. Mapping the risks of non-compliance presents an aggregate view of the risk of non-compliance in order to ensure oversight. The control plan of SFIL and Caisse Française de Financement Local was redefined on this new basis for the year 2016.

Compliance covers all the activities of SFIL and Caisse Française de Financement Local. It addresses the main issues – the fight against money laundering and the financing of terrorist activities, business ethics (the prevention of market abuses, personal transactions, conflict of interest, the independence of auditors), the protection of data and professional discretion, the internal alert process, training and increasing awareness.

A priori, Caisse Française de Financement Local is not generally exposed to the risk of money laundering with regard to its assets, for which its counterparties are public sector entities. Concerning investors in the liabilities, precautions are taken with bank counterparties who act as dealers in the placement of Caisse Française de Financement Local issues. As intermediaries between Caisse Française de Financement Local and investors, they commit, in the documentation of the EMTN program or other programs, if such are launched, and issue-by-issue in private placements or in stand-alone issues, to obtain and record reliable information on the identity of subscribers, in compliance with the requirements of the anti-money laundering directive, or in compliance with equally strict requirements for those not governed by the European directive. These counterparties commit to alert their respective oversight authorities if they learn or suspect that subscribers are engaged in money laundering or the financing of terrorist activities.

In addition to the deployment of the compliance system, Compliance also monitors regulatory developments that may impact SFIL and Caisse Française de Financement Local in terms of compliance. Within this framework, in 2015, this team participated actively in the operational application of the European Market Infrastructure Regulation and the Foreign Account Tax Compliance Act in dedicated pluridisciplinary project structures.

The Compliance division trains, informs and heightens the awareness of all of the bank's staff on compliance issues. Within this framework, Compliance works with Human Resources to organize a training program for all employees over a period of two years. In line with this plan, by the end of 2015, half of the staff had been trained in compliance.

h. Periodic control

The periodic control of Caisse Française de Financement Local, which is ensured by SFIL, involves internal audit and inspection.

1. Organization and governance of periodic control

Periodic control, in the sense of the *arrêté* of November 3, 2014, is exercised by internal audit⁽¹⁾ and inspection⁽²⁾, under the responsibility of the General Auditor. The scope of this function covers all the activities, operating processes and systems of the SFIL Group with no reserve or exception, including externalized essential activities and anti-fraud techniques.

The independence and efficiency of the internal audit and inspection function are guaranteed by several factors:

- the General Auditor's direct reporting to SFIL's Chairman and Chief Executive Officer;
- the absence of involvement in the operating management of SFIL's activities;
- unconditional, immediate access to all information, documents, premises, systems or persons its activities require;
- the resources made available by management to carry out these missions;
- the respect of the principles of integrity, objectivity, confidentiality and competence (through a permanent training plan to inculcate audit techniques and regulatory developments) on the part of the staff of the internal audit division.

(1) Internal audit is an independent and objective activity which assures SFIL of the degree of control of its operations, contributes advice on how to improve, and creates value added. It helps the organization to reach its objectives by applying a systematic and methodical approach to evaluate its risk management, control and governance processes and by making proposals to reinforce their efficiency.

(2) In the SFIL Group, inspection activities work in an independent and objective manner to enhance control of the risk of fraud.

These principles are reflected in the internal audit charter and the inspection charter, which were approved by SFIL's Audit and Risks Committee in 2013 and announced to all the employees of SFIL.

More specifically, the General Auditor of SFIL exercises a particular function concerning Caisse Française de Financement Local, as spelled out in article 5.8 of the management agreement between Caisse Française de Financement Local and SFIL. SFIL's Internal Audit division audits all of the transactions and procedures of Caisse Française de Financement Local. It also provides periodic control in Caisse Française de Financement Local's internal control.

It ensures that all the risks incurred by Caisse Française de Financement Local are covered by:

- the identification of these risks and the periodic evaluation of the internal control environment;
- the planning and accomplishment of internal audit missions;
- the coordination of regulatory authorities' audits;
- the follow-up on recommendations;
- investigations (preventive measures, sensitivity to and detection of fraud).

The General Auditor has direct access to the Chairman of the Supervisory Board of Caisse Française de Financement Local.

As of January 31, 2016, the Internal Audit and Inspection division counted nine people (plus two alternates), including six auditors and audit managers. The General Auditor supervises all audit activities and reports issued by the department. The General Auditor is assisted by a deputy, who is in charge of the team of auditors and oversees the audit missions carried out by the auditors under the responsibility of the audit managers. In addition, every auditor and audit manager is responsible for a specific field through permanent documentation, risk surveillance and the monitoring of recommendations for SFIL's operating divisions.

2. Activities of Internal Audit and Inspection

Activities in this area are described in an internal audit brochure that is regularly updated and based on the reference framework of the professional internal audit practices of IFACI⁽¹⁾. The last update of this manual dates from October 2015. In order to monitor the efficiency and performance of these activities and to identify opportunities for improvement, quantitative and qualitative indicators were introduced and are regularly measured.

Internal Audit and Inspection has adopted a top down approach for the annual evaluation of risks, in line with the recommendations of the Institute of Internal Auditors. It is based on the identification of SFIL's objectives, then on a study of risks that are critical to the success of such goals.

In 2015, an annual assessment of risks was carried out in the second half and it gave rise to a map of the major risks of SFIL and Caisse Française de Financement Local. This map was compared to the similar information culled in 2014. Based on this mapping, Internal Audit and Inspection prepared its 2016 and multi-year audit and inspection plan which was approved by the Risks and Internal Control Committee on January 21, 2016, and by the Executive Board on February 4, 2016. The Supervisory Board is also informed of the mapping of the major risks on a yearly basis.

SFIL's multi-year audit plan, which is reviewed every year, is broken down into audit missions that are conducted throughout the year on the basis of a pre-established schedule and budget, in function of audit resources. These different missions include four main stages (phases of preparation, accomplishment, conclusion and finalization). Audit missions are carried out using the methods described in a Company brochure on internal audits that is regularly updated and based on the reference framework of the professional internal audit practices of IFACI. The latest update of this manual dates from October 2015. The audit missions are summed up in a report that is presented to the Executive Committee, which comprises:

- a general appreciation of the mission's theme;
- an evaluation of residual risks, so that the Executive Committee may validate the match with the risk profile of SFIL;
- recommendations to improve the efficiency of the processes and internal controls.

In 2015, the internal audit missions addressed issues related to accounting and financial information (suspense accounts, balance sheet management), to certain key operating processes (procurement, monitoring of unpaid installments and default), to risk surveillance and internal models (monitoring of the international portfolio, valuation models for derivatives), to the information system (management of IT incidents), to internal control structures (business continuity plan) and to outsourced services. In 2015, the audit plan was 83% completed, exceeding the initial objective of 80%. In addition to the recommendations made, the conclusions of each of these missions were presented to the Executive Committee of SFIL for discussion and decision, as well as to the Risks and Internal Control Committee on January 21, 2016, and to the Executive Board of Caisse Française de Financement Local on February 4, 2016.

The follow-up on recommendations made after the missions organized by Internal Audit and Inspection, oversight bodies or the Company auditors, as is the case, is carried out in a continuous and automated process to monitor the deployment of action plans resulting from these recommendations. Responsibility for the appropriate implementation of the recommendations is incumbent on identified managers. The follow-up of this implementation is under the responsibility of the auditors and audit managers in function of their field of competence. The validation of the stage of progress or accomplishment of these action plans is the responsibility of the Supervisor and the General Auditor. All of these recommendations prompted continuous monitoring in 2015 and official reports based on the situations as of March 31 and September 30, 2015, as well as presentations to the Executive Committee (in May and December 2015) and the Risks and Internal Control Committee on May 26, 2015, and January 21, 2016.

⁽¹⁾ Institut Français de l'Audit et du Contrôle Interne (IFACI).

The conclusions of the audit mission on the monitoring of recommendations at Caisse Française de Financement Local, integrated into the 2014 audit plan of SFIL and Caisse Française de Financement Local, were presented to the Executive Board on September 17, 2015, and February 4, 2016.

Internal Audit and Inspection is also in charge of the preparation, organization and follow-up of the missions regulatory authorities carry out at SFIL. It also coordinates the preparation of responses to reports and the monitoring of action plans subsequent to the recommendations made. In 2015, Internal Audit and Inspection worked on a mission of the ACPR under the aegis of the ECB on IT risks and on a mission of the Cour des Comptes concerning management practices at SFIL and Caisse Française de Financement Local.

In addition, under the aegis of the Chairman of the Financial Statement Committee and the Risks and Internal Control Committee, Internal Audit and Inspection ensured the organization of all the meetings of these committees. It oversees the respect of deadlines in the transmission and communication of information and files required for decision-making. It monitors the annual program of works set out by the Chairman of these committees. It also provides the minutes that are drawn up at each of the meetings in close cooperation with the Chairman of the committee. Lastly, it has responsibility for the safe storage of the minutes. In 2015, Internal Audit and Inspection organized six meetings for the Risks and Internal Control Committee and four for the Financial Statement Committee.

Finally, Internal Audit and Inspection is also in charge of inspection at SFIL. The purpose of this function is to play a role in the prevention, detection and investigation of fraud and to propose corrective measures in the event of dysfunctions. This unit may also respond to particular requests from the Company's legal division to provide information that may serve corporate interests. SFIL's management may also solicit the function of inspection to carry out missions and address certain specific issues. In 2015, inspection services focused on the rules governing the staff's use of SFIL's resources, access to sensitive computer applications and directories, and expense accounts.

3. Reporting on internal audit and inspection activities

SFIL's Executive Committee is kept regularly informed of internal audit and inspection activities. In particular, the audit plan is presented every year for information after discussion with SFIL's Chairman and Chief Executive Officer.

Every audit mission is discussed (scope, objectives, planning, etc.) for information and commentary before it effectively takes place, and its conclusions are presented for discussion and decision. A report on the follow-up of the recommendations of internal audit, inspection, oversight bodies and statutory auditors as well as the implementation of related action plans is likewise presented every six months.

The internal audit charter and the charter of inspection activities are submitted for validation to the Risks and Internal Control Committee. The audit and inspection plan is also submitted annually to this committee for validation. This committee is informed every six months of the results of the follow-up recommendations of internal audit, inspection, oversight bodies and statutory auditors and of the progress made in related action plans. Regular reports of activity are also presented for study. In addition, the annual report on internal control at SFIL and Caisse Française de Financement Local (articles 258 and following of the *arrêté* of November 3, 2014) is presented every year for review. A synthesis of these different reports is presented to SFIL's Board of Directors by the Chairman of the Risks and Internal Control Committee and to the Executive Board and the Supervisory Board of Caisse Française de Financement Local.

i. Specific Controller

The Specific Controller of Caisse Française de Financement Local is a French professionally certified auditor named by the Company's Supervisory Board. The Specific Controller carries out controls pursuant to articles L.513-23 and L.513-24 and articles R.513-15 and R.513-16 of the Monetary and Financial Code as well as CRBF standard 99-10. He is responsible for ensuring that the Company respects its exclusive corporate purpose and prudential standards. He conducts appropriate audits in cooperation with the Statutory Auditors and is completely independent vis-à-vis the Company's officers. He is also liable for the negative consequences of any error or negligence committed in the exercise of his functions. The Specific Controller has access to all information from management, internal control units and internal audit. In addition, operating services and internal control units have been instructed to provide specified information in order to allow the Specific Controller to monitor the over-collateralization ratio, the nature of assets, interest rate risk management, the gap in the average life of assets and privileged liabilities, coverage of cash needs over 180 days, and the coverage plan of privileged liabilities by the assets. For every Caisse Française de Financement Local issue contract or on the basis of a quarterly issuance program, he affirms compliance with legal and regulatory standards concerning the over-collateralization ratio of the privileged liabilities by the assets, once the issue has been settled. The Specific Controller certifies that the documents the Company sends to the ACPR meet legal and regulatory requirements for *sociétés de crédit foncier*. At the request of the Banque de France, the Specific Controller annually issues a certificate in support of the statement submitted by Caisse Française de Financement Local concerning the composition of the cover pool. He submits an annual report on his activity to the Supervisory Board of Caisse Française de Financement Local, and a copy is addressed to the Autorité de contrôle prudentiel et de résolution (ACPR).

2.2 - PREPARATION OF ACCOUNTING AND FINANCIAL INFORMATION

a. Financial statements

A company's annual financial statements, in addition to all the financial data produced by the accounting department should give a true and fair view of its assets, financial position and results. For credit institutions, the *arrêté* of November 3, 2014, on internal control, highlights in its accounting chapter that the organization adopted should guarantee the existence of procedures called audit tracks. They make it possible to establish a link between accounting data and the original justification, and vice-versa. All these items should make it possible to reconstitute, justify and explain any and all financial items produced for accounting or regulatory purposes. This principle grounds the organization of accounting practices in the SFIL Group and also applies to both SFIL and Caisse Française de Financement Local.

In 2015, the main innovations introduced aimed to bolster cross-division cooperation in the organization of SFIL. This approach was designed to secure the financial information produced as well as to share what would facilitate the analysis of data in the teams participating in the preparation of the financial statements. In addition, within the framework of the analysis of its processes, SFIL identifies the improvements that could be taken into account when replacing or improving management tools in an effort to increase the use of automated processes. The approach serves to reduce operational risks associated with manual entries.

1. Role and organization of Accounting

Accounting data is produced at Caisse Française de Financement Local by the accounting department of SFIL, within the framework of the management agreement between the two companies. Accounting at SFIL reports to the Chief Financial Officer (CFO), who oversees financial steering functions, including the oversight of balance sheets, management control and procurement, as well as accounting. Accounting plays a central role in the piloting of SFIL and in financial management, thereby making it possible to benefit from this central viewpoint.

Accounting produces basic accounting data for the financial statements of Caisse Française de Financement Local. It is also responsible for producing the consolidated financial statements of the SFIL Group and ensuring all regulatory and prudential standards are respected. It also provides accounting data for La Banque Postale within the framework of the business at hand.

Accounting has a role of analysis and verification of accounting data. It relies on the reconciliation of a set of figures with that of other teams in Finance. This approach is used to explain the formation of the results, but also to confirm the information on the Company's balance sheet, and in particular entries to risk bases used to calculate prudential indicators.

To carry out its mission, Accounting participates in committees that may impact its activity and has access to a broad spectrum of information either directly or through the CFO. It participates in the development of IT systems, and relies on a cross-division team within the Strategic IT Project division to improve, secure and ensure long life to its IT system. This division is in charge of accounting and regulatory tools as well as ALM, control and financial communication tools. It has the mission to participate actively in the development and the improvement of the tools used by SFIL's operating divisions. This system makes it possible to ensure continuous improvement in terms of quality, process efficiency and the reliability of financial information.

2. Preparation of the financial statements

In the preparation of the financial statements, the accounting system of Caisse Française de Financement Local is in large measure automatically supplied by upstream management systems that manage transactions with customers and market counterparties as well as operating expenses. When data is entered into one of the management systems, it is automatically recorded in accounting according to a pre-defined plan, and complemented by manual entries for certain types of operations. Caisse Française de Financement Local can record operations in a single accounting system based on a double set of accounting standards (French GAAP and EU IFRS). The synthesis of this data is thus obtained automatically using parameterized publication tools.

The internal control system in the operating divisions guarantees the completeness and accuracy of accounting entries. The team in charge of accounting standards ensures compliance with standards, validates automated accounting procedures and examines complex or unusual operations. When certain operations can not be completely incorporated into the management tools available, they are processed using specific internal control procedures.

A first level of control is conducted by accounting teams that are specialized by business line, in particular by analyzing accounting/management data reconciliation, bank reconciliation and technical suspense accounts. Monthly comparisons with management data and reconciliations of micro-hedges make it possible to ensure the correct transcription of financial operations. In order to verify the coherence of interest expense and income from one period to another, this data is compared with average outstandings in order to produce average rates that are easier to compare from one period to the next. Finally, these teams also prepare a synthetic memorandum on the work done which points out areas that need attention and improvement for the processes to be used in future financial statements.

Complementary controls are carried out by other teams from Accounting at the monthly, quarterly and annual closings. Through specific reviews, the teams in charge of preparing the financial statements check the quality of the work done by the teams responsible for first-level control. These teams also reconcile the accounting data from net banking income with management data produced by separate teams. This cross referencing is done at least once a quarter and consistency from one period to the next is verified using analytical controls. The main changes deserve an explanation. The work and means expended during the year made it possible to stabilize the management data collected both for the validation of the results and for the estimates required within the framework of the forecasts requested by the Finance division. These analyses are synthesized in a quarterly report that is submitted to the Chairman of the Executive Board of Caisse Française de Financement Local.

To ensure a thorough implementation of its control plan, Accounting has a monitoring tool at its disposal with which it can verify the deployment of key controls and their validation. This information and any comments on discrepancies are subject to review by the head of Accounting with the main team members.

The preparation of the financial statements is carried out by the aggregation of the accounts thus produced according to an automated and standardized process. This function requires parameters administered by a dedicated and independent team. Stability in reporting, which represents a key point in terms of communication, is thereby verified. Notes to the consolidated and financial statements are generally produced based on accounting data that may be enhanced by management information. Qualitative analyses are then carried out through cross-referenced controls of synthetic data in accounting as well as with the contribution of the teams in charge of monitoring the Group's balance sheet. Cross-referenced controls are also conducted between the financial statements and the notes to the financial statements. Throughout this process, reviews and controls are carried out according to the hierarchical delegations that exist.

3. Approval of the financial statements

The financial statements, balance sheet, income statement and notes are subject to particular scrutiny during the preparatory phase and in their final form by a delegated member of Caisse Française de Financement Local's Executive Board. The Executive Board of Caisse Française de Financement Local approves the yearly and half-yearly financial statements at a meeting attended by the two Statutory Auditors and the accounting department. The principal issues in the period's management report are also examined on this occasion. These annual and half-year financial statements are subject to an audit and a review (respectively) by the Statutory Auditors. Since 2014, there are no more quarterly financial statements, although quarterly activity reports are prepared and published.

The annual financial report is prepared by Caisse Française de Financement Local's Executive Board in liaison with units of SFIL, in particular the CAFFIL Coordination division, Accounting, Back Office, Risks and the General Secretary. The Company's Statutory Auditors verify the information it contains. This document is presented to Caisse Française de Financement Local's Supervisory Board, and then to the annual shareholders' meeting.

The Supervisory Board is also informed of its Chairman's report on internal control, which is presented at the annual shareholders' meeting. The calling of shareholders' meetings and the right to attend such meetings are described in articles 27 and 28 of the Company's bylaws.

4. Publication of the financial statements of Caisse Française de Financement Local

This accounting and financial information is made public in several ways. In addition to the regulatory publication in the BALO, in 2015, the half-year and annual financial statements, together with the corresponding management reports, are posted on the Internet site www.caffil.fr and www.caissefrancaisedefinancementlocal.fr. Half-year and annual financial reports are posted on the site of a financial information wire (HUGIN) registered with the French Financial Markets Authority (AMF) as concerns regulatory information. Moreover, unaudited activity reports are drawn up to describe the situation as of March 31 and September 30. They are available to the public on the Company's Website.

Some of this information is also available, with differences in presentation, in the report on the quality of the assets that is submitted to regulatory authorities and posted on the Internet site of Caisse Française de Financement Local, in compliance with CRBF instruction 2011-I-07.

5. Role of Statutory Auditors

Both SFIL and Caisse Française de Financement Local are audited by two auditing firms working together.

The Statutory Auditors review the financial statements only on a yearly and half-yearly basis. They are consulted throughout the process of preparation of the financial statements in order to ensure efficiency and transparency. In due diligence, they analyze accounting procedures and evaluate current internal control systems to determine the nature, period and extent of their controls of the principal areas of risk. They may make recommendations on internal control procedures and systems that could improve the quality of financial and accounting information produced.

They have access to all memoranda and notes produced by staff that is in charge of accounting principles and standards, and they also review the accounting manuals, as well as the analyses conducted by the Accounting teams. They consult internal audit and inspection reports. They verify the consistency of the data in the management report with the accounting information, as well as the conformity of the management report and the financial statements with all the items they have reviewed and audited. Their contribution includes a review of all the agreements that are regulated. They provide an exhaustive and accurate summary of regulated agreements in the special report they submit at the end of their annual mission. They employ due diligence to obtain reasonable assurance that the financial statements are free of any material misstatement.

b. Management reporting

The financial statements (balance sheet, off-balance sheet, income statement, cash flow statement and notes) that Caisse Française de Financement Local communicates to its shareholder and to the general public are completed by quarterly activity reports. These documents are then included in Caisse Française de Financement Local's EMTN program documentation.

This management information also includes items related to loans originated by La Banque Postale and acquired by Caisse Française de Financement Local, as well as updates on the reduction of the sensitivity of structured loans and to the new business of refinancing large export credits. This data, accompanied by forecasts and evaluations of risks, directly supplied by the operating or the Risks division, is incorporated into the annual financial report. Their accuracy is therefore guaranteed by the internal control system of the divisions concerned.

New loans are granted solely in France as concerns LBP's marketing activity and the efforts to reduce the sensitivity of structured loans, as well as the business of refinancing large export credits. A geographic breakdown of borrowers who are French residents and those who are domiciled in another country is presented in the Management Report. This data is prepared by the Accounting and Finance divisions based on management and accounting data.

Since, at the same time, SFIL manages Caisse Française de Financement Local and acts as servicer for La Banque Postale, analytical accounting of costs has been adopted to ensure proper billing of financial services rendered.

2.3 - IDENTIFICATION OF MAIN RISKS AND THEIR SPECIFIC INTERNAL CONTROL PROCEDURES

Because the Company is an issuer of covered bonds, the risks authorized for Caisse Française de Financement Local are strictly selected and limited. When the Company was created, a distinction was made between risks that are compatible and risks that are not compatible with the legal and regulatory framework of *sociétés de crédit foncier* and with the specific nature of Caisse Française de Financement Local's bylaws and its license granted by the Comité des établissements de crédit et des entreprises d'investissement (CECEI), now merged into the Autorité de contrôle prudentiel et de résolution (ACPR).

The criteria of the rating agencies define restrictions or limits for risks compatible with the Company's activity.

The general approach decided by the Executive Board of Caisse Française de Financement Local and applied in every unit of SFIL in charge of the operations concerned involves monitoring that:

- risks not compatible with the activity of Caisse Française de Financement Local are not taken by the Company or are eliminated from the start;
- risks compatible with the activity are maintained exactly within authorized limits;
- controls are defined by the Risks division and realized at the level of the front and middle offices of SFIL,
 - the results of the controls are reported to the Executive Board of Caisse Française de Financement Local,
 - any anomalies discovered during such controls are reported to the Supervisory Board and, finally,
 - these results are transmitted to the Specific Controller and that the data is made available for his review.

Risks compatible with the activity of Caisse Française de Financement Local are subject to the supervision and monitoring of limits. SFIL makes available to Caisse Française de Financement Local the resources and oversight it needs to manage these risks in practice, on a daily basis as well as in exceptional circumstances.

a. Credit risk

Credit risk represents the potential loss that may affect Caisse Française de Financement Local by reason of a counterparty's downgraded financial position.

The Risks division defines the policies, guidelines and procedures relating to credit risk. It is responsible for developing the decision-making process (principally the granting of loans) and the framework of delegations and for supervising the analysis and rating process.

Within the framework of its surveillance of credit risk, the Risks division and more particularly the different teams in charge of credit risk are responsible for:

- the definition of credit risk policies in conformity with the risk appetite of SFIL and Caisse Française de Financement Local;
- the definition of limits by type of counterparty setting the maximum exposure considered to be acceptable for a given counterparty;
- the proactive monitoring of limits which the Risks division may change at any moment in function of trends in related risks;
- the definition of delegations by type of counterparty and the monitoring of respect for the rules governing the lending process;
- the management of the lending process both for new commitments and rescheduled loans through credit analyses and internal ratings (by using either the internal rating systems or expert advice);
- the monitoring of credit risk in all the portfolios of SFIL and Caisse Française de Financement Local (local public sector in France, international, bank counterparty, export financing, etc.) by generating credit analyses and reviewing ratings annually;
- the identification of assets with downgraded risks susceptible to be put on the watchlist;
- the proposal of specific or segment-based impairment for the portfolio.

The Risks division is also in charge of maintaining and developing internal rating systems for the French and Italian local public sector, for banks and sovereign, as well as the Pillar 2 models (economic capital). It finally deals with statistical models linked to the different stress scenarios.

The Risks division relies on several specialized committees, described below.

- The Credit Committee approves new commitments by SFIL and Caisse Française de Financement Local (loans and swaps) and the rescheduled loan agreements on the balance sheet of Caisse Française de Financement Local. It sets credit limits when certain predefined thresholds are exceeded. Each file presented to the Credit Committee contains an independent analysis conducted by the Risks division. At each meeting, the Credit Committee is also informed of commitments made within the framework of delegations granted to the Risks division, to the Debt Portfolio Management division or the commercial teams of La Banque Postale. This committee meets on a weekly basis;
- The Watchlist Committee is in charge of monitoring assets kept under particular scrutiny because of the downgrade of risk and it may propose specific impairment. This committee meets quarterly;
- The Default Committee decides whether a file should be given default status or be upgraded, and it qualifies debt due as real default, operational debt due or technical debt due. This committee meets quarterly;
- Every quarter, the Impairment Committee sets the amount of collective impairment and finalizes the calculation of specific impairment on the basis of the provision rate decided by the Watchlist Committee;
- The Rating Committee ensures the proper application of the internal rating systems and the appropriateness of the rating processes. This committee meets quarterly. Although it is an integral part of the credit risk management process, the committee is organized by the head of the Validation and Quality Control team, which reports directly to the head of Risks in order to guarantee the independence of the control process;
- The Non-Performing Exposures and Forbearance Committee quarterly approves the list of counterparties with non-performing exposures and a second list for counterparties that benefited from financial concessions due to their financial difficulties.

Moreover, within the framework of the purchase of assets by Caisse Française de Financement Local, the control of eligibility is organized at two successive levels.

- The CAFFIL Coordination division within SFIL pilots the process of asset acquisition and associated controls of eligibility prepared by the different divisions of SFIL; the definitive portfolio is validated by the Executive Board after approval by the Credit Committee.
 - The customer back-office division carries out permanent controls daily on outstanding assets.
- These controls are standardized by procedures.

In addition, the Specific Controller makes an in-depth and regular verification *a posteriori* of the eligibility of the assets.

b. Market risk

By reason of its nature, Caisse Française de Financement Local does not carry market risks in the regulatory sense of the term. Market risks are limited to risks engendered by a change in the valuation of a small number of swaps that no longer qualify for IFRS hedging relationships. As of December 31, 2015, it concerned four swaps for a Mark to Market of EUR 2 million. Market risks are subject to continuous supervision by SFIL's Market and ALM Risks division, which is responsible for:

- the definition of policies, guidelines and procedures related to the monitoring of market risks;
- the definition of limits;
- the definition of calculation and assessment methods for these risks;
- the control of the accounting valuation of derivatives and the monitoring of the amount of cash collateral called;
- the valuation of balance sheet items (assets, liabilities, AFS reserve);
- monitoring market risks.

The governance of market risks is built around the Market Risks Committee, which conducts a quarterly review of risk indicators for the different market and ALM activities (sensitivity, changes in Mark to Market for structured swaps hedging loans to customers in default, interest rate VaR 99% 10 days, monitoring of AFS reserves, provisions on placement securities in French GAAP, limits, cash collateral, etc.). This committee is in charge of the approval of policies, guidelines and procedures regarding market risks before they are submitted to the Risks Committee.

c. Structural risk: interest rate, foreign exchange and liquidity

In the Finance division, the ALM team is in charge of the implementation of ALM policies drawn up for SFIL and Caisse Française de Financement Local within the limits set by management and current regulation.

The Market and ALM Risks division is in charge of defining the general policy concerning ALM risks, calibrating and monitoring the limits on ALM indicators and performing second level controls on these indicators.

1. Definition of ALM policy

As a defense against interest rate risk, this policy is designed to protect the value of the Group's equity. ALM consists in neutralizing changes in the value of the Company in the event of a shift in the interest rates. To this end, Caisse Française de Financement Local uses swaps to micro-hedge appropriate balance sheet items – securities, structured loans, bond issues, etc. Vanilla commercial loans or securities are macro-hedged against interest rate risks. This macro-hedge is framed by three indicators subject to limit restricting the loss to 6% of stockholders' equity for a change in rates by 200 bp, with 99% probability, i.e. EUR 80 million. These three indicators aim to limit losses in value in the event of a directional shock or a deformation in the interest rate curve either for points far from one another or for points close to one another (sloping/rotation).

ALM policy is also designed to limit as much as possible liquidity risk in static, dynamic and under stress scenarios by monitoring liquidity gaps, be they short-term (1 day to three months), medium-term (up to three months) or very long-term (up to the maturity of operations). Regulatory restrictions are taken into account (Liquidity Coverage Ratio, need for cash at 180 days, regulatory limit of 1.5 years of the gap between the average life of the liabilities and that of the assets capped at 105% of liabilities), and so are the over-collateralization requirements expressed by the regulator and rating agencies. Moreover, Caisse Française de Financement Local has a ceiling on its transformation capacity by limiting to three years the maximum duration gap between the assets and the resources benefiting from the privilege, and limits the volume of debt arriving at maturity in a year with reference to the assets maturing the same year.

Finally, the ALM policy avoids any foreign exchange risk.

2. Committees

ALM policy is organized around three committees. The ALM Committee is composed of members of the ALM division, the Market and ALM Risks division and other SFIL divisions involved. This committee decides ALM strategy and oversees deployment through the use of management indicators. The ALM Committee works with the ALM Interest Rate and ALM Liquidity Committees which prepare and implement its decisions.

3. Operational management

In its interest rate management, ALM manages:

- the overall interest rate risk linked to fixed rate assets and liabilities with no micro-hedges;
- the basis risk linked to imbalances between assets and liabilities in each tenor index (primarily Eonia, Euribor three months, Euribor six months, for Caisse Française de Financement Local);
- the residual fixing risk, after hedging of the basis risk, linked to the difference in fixing dates for assets and liabilities with the same tenor index.

These different types of risks are monitored, analyzed and managed through the production of reports on fixed rate, basis and fixing gaps, which make it possible to determine the nature and the amount of hedges to be negotiated. Only fixed rate interest risk (contractual or after the fixing date) is bordered by an indicator of sensitivity in net present value subject to limit. In the case of Caisse Française de Financement Local, these hedges may be done either directly in the market or through SFIL acting as an intermediary, which then trades in the market for itself. The sensitivity to interest rate risk of Caisse Française de Financement Local in 2015 remained well under fixed limits.

ALM manages the liquidity of Caisse Française de Financement Local respecting ratios of regulatory and internal liquidity as well as specific restrictions in legislation on *sociétés de crédit foncier*. To this end, it uses a static analysis of balance sheet and off-balance sheet items likely to influence the liquidity trend – changes in available liquidity reserves, sensitivity of cash collateral on derivatives, off-balance sheet commitments, etc. It is also based on a dynamic analysis of liquidity needs by completing the static scenario of hypotheses related to a commercial policy (asset acquisition, reduction in sensitivity) and to the strategy of refinancing. Stressed liquidity forecasts are also performed. This policy aims to define the amounts and maturity of the different sources of financing that may be raised by each entity. For Caisse Française de Financement Local, these sources are the issue of *obligations foncières* and refinancing by its parent company SFIL, and for SFIL, drawdowns from liquidity lines of its shareholders (Caisse des dépôts et consignations and La Banque Postale) or the issue of short-term debt securities.

With regard to the management of foreign exchange risk, the issues and assets denominated in foreign currencies give rise once they enter the balance sheet to the signing of a cross currency swap against the euro. Outstanding and interest margins denominated in foreign currencies connected with these operations are thus fully transformed into euros, thereby ensuring perfect foreign exchange coverage for the nominal and the rate attached to these balance sheet items. ALM guarantees the absence of foreign exchange risks via the net foreign exchange position in each currency, calculated on the basis of total commitments, loans and accrued interest not yet due denominated in foreign currency on the balance sheet.

d. Operational risks

Operational risk represents the risk of loss resulting from the lack of adaptation or failure on the part of internal processes, staff, systems and also external events. It includes the risks linked to the security of IT systems, as well as legal and compliance risks, but it excludes strategic risks. This definition is in line with the formulation of the Basel Committee. Management procedures for operational risks apply to all of the operating divisions of SFIL in charge of the management of Caisse Française de Financement Local.

1. Organization and monitoring

Within the framework of operational risk, SFIL opted for the standard approach to determine its capital requirements and introduced an organization, procedures and a management tool to monitor and control its risks.

The Operational Risks and Permanent Control division defines the management policy to be used for operational risks, as well as the methods employed to identify and limit them. It pilots operational risk management and relies on a network of correspondents designated in each operating division. Their role is to collect operating incidents and losses, to assess risks and measure key risk indicators with the help of the staff of the Operational Risk and Permanent Control division. The involvement of business line managers strengthens the system's effectiveness.

The policy applied involves three main processes: the collection of operating incidents, the mapping of operational risks, and the monitoring of key operational risk indicators.

SFIL has defined a process of collection of operating incidents and losses with a directive and procedures. Various collection thresholds have been defined and communicated to SFIL's different operating divisions. The threshold of the mandatory declaration is EUR 2,500. The identification and the analysis of the incidents are the responsibility of the operating risks correspondents with the support of the Operational Risks and Permanent Control division. To this end, SFIL uses an operational risk management tool and in particular a module for incident collection. In function of the results of this analysis, corrective or preventive measures are taken in order to reduce exposure to operational risk.

In addition to the information collected on the incidents and losses, the mapping of operational risks represents a yearly evaluation of risks, drawn up by SFIL's operating divisions together with the Operational Risks and Permanent Control. It provides regular insights into the different risks run in the operating divisions, to identify the attenuation factors for existing risks (systems and controls) and to determine the residual impact, be it financial or not, in order to decide on their acceptance. If they are not accepted, improvement measures should be launched (bolstering of organization and procedures, strengthening of permanent control plan, introduction of new surveillance and risk management systems). Operational risk mapping was updated in 2015, except for information systems (now in process).

The Operational Risks and Permanent Control division also set up, with SFIL's operating divisions, key risk indicators associated with warning levels. These indicators act as signals (i) of growth in the level of operational risk, (ii) of the decline in process performance, or (iii) of the dysfunction of the internal control system. They make it possible to survey in a continuous and dynamic manner the development of operational risk, together with operational risk mapping, which periodically gives a snapshot of SFIL's risk profile.

The operational risk profile in the different operating divisions is presented *a minima* every year in the Operational Risks and Permanent Control Committee. This committee is chaired by SFIL's Deputy CEO, and its members are the whole Executive Board, including the chairman of the Executive Board of Caisse Française de Financement Local, as well as the heads of Strategic IT Projects and Information Systems. It meets quarterly. This committee studies the major operational risks so identified and key risk indicators that have exceeded their alert threshold. It decides as to whether they are acceptable or not and what corrective measures should be taken. It also validates management policies and methods with regard to the management of operational risks. It examines operating incidents that have occurred in the quarter and monitors risk prevention and improvement proposals (permanent control, operational risk management, information security, backup, etc.).

A synthesis of highlights is presented every quarter to the Risks and Internal Control Committee within SFIL's Board of Directors, and to the Supervisory Board of Caisse Française de Financement Local in the form of a quarterly risks review. A detailed presentation of action plans, areas for improvement and corrective measures proposed or already implemented to limit operational risk was also organized for the Risks and Internal Control Committee on January 21, 2016, and for the Executive Board on February 25, 2016.

2. IT security

The IT security policy is an integral part of operational risk management. The Operational Risks and Permanent Control division set up a system with a policy and directives based on ISO standard 27000, which is applicable to all of SFIL's operating divisions. It is designed to protect information data from any attack on confidentiality, integrity or availability.

This policy and these directives define the principles applicable by category of security as well as the roles and responsibilities of the different security players. It comprises operational rules, procedures and processes determined with the Information System division, especially those involving the management of authorizations to access SFIL's IT applications and systems. In addition, a three-year information systems security plan has been defined in order to improve the existing system. A campaign to heighten awareness was also launched in 2015.

Developments in this field are piloted on a quarterly basis by the Information Systems Security and Business Continuity Plan Committee. They are validated by the Operational Risks and Permanent Control Committee.

A synthesis of highlights is presented every quarter to the Risks and Internal Control Committee and the Supervisory Board of Caisse Française de Financement Local in the form of a quarterly risks review. A detailed presentation of action plans, areas for improvement and corrective measures was also organized for the Operating Risks and Internal Control Committee on January 21, 2016, and for the Executive Board on February 25, 2016.

3. Business continuity

Together with all the operating divisions, SFIL drew up a business continuity plan and an IT backup plan. These measures cover the activities of Caisse Française de Financement Local. The first is the responsibility of the Operational Risks and Permanent Control division, and the second of the Information Systems division. Contingency locations have been chosen to ensure backup for SFIL's activities. Operating procedures have been defined. They are regularly updated and tested.

New developments in security and business continuity are monitored quarterly by the Information Systems Security and Business Continuity Plan Committee and validated by the Operating Risks and Permanent Control Committee.

A synthesis of highlights is presented regularly to the Risks and Internal Control Committee and to the Supervisory Board of Caisse Française de Financement Local in the form of a quarterly risks review. A detailed presentation of the general organization to ensure business continuity and IT recovery is also organized on a yearly basis. It last took place for the Risks and Internal Control Committee on January 21, 2016, and for the Executive Board on February 25, 2016.

4. Insurance of operational risks

The reduction in operational risks to which SFIL is exposed is also taken into consideration when insurance policies are signed. SFIL insures against traditional risks for its offices, IT systems and business liability. SFIL has also subscribed insurance policies to cover the liability of the members of its management bodies, professional liability and fraud. Since 2013, these policies cover SFIL and Caisse Française de Financement Local.

e. Legal risk

Caisse Française de Financement Local's monitoring of legal risks focuses on the prevention of litigation, the anticipation of legal developments and the respect of governance principles. Legal risk control is under the responsibility of the General Secretary through six main activities, i.e. internal legal advice, drafting and control of legal documents, the management of litigation, legal, legislative and regulatory watch in its areas of reference, the legal secretariat of SFIL and Caisse Française de Financement Local and the monitoring of delegations of signatures. A detailed presentation of legal risks and litigation is included in the management report of this annual financial report.

A review of files on litigation is presented weekly to a specialized committee (Sensitivity Reduction Committee). The Executive Committee and the Board of Directors of SFIL, the Executive Board and the Supervisory Board of Caisse Française de Financement Local are informed regularly.

f. Risks of non-compliance

Article 10-p of the *arrêté* of November 3, 2014, defines the risk of non-compliance as the risk of a legal, administrative or disciplinary sanction, of a significant financial loss or of a denigration of reputation caused by the non-respect of procedures specific to banking and financial activities, whether they be of legislative or regulatory nature, or that it is a question of professional and ethical standards or executive instructions, in particular those taken in application of the orientations of the strategy-defining body.

Pursuant to the articles of this standard, SFIL for itself and for Caisse Française de Financement Local monitors and controls the risk of non-compliance by mapping risks and developing a control plan. This risk is managed by the Compliance team under the responsibility of the General Secretary. This analysis was presented to the Executive Board of Caisse Française de Financement Local on February 18, 2016.

Philippe Mills
Chairman of the Supervisory Board

Statutory Auditors' report

prepared in accordance with Article L.225-235 of Code of Commerce (Code de commerce) on the report prepared by the Chairman of the Supervisory Board of the company

*This is a free translation into English of the statutory auditors' report issued in French prepared in accordance with Article L.225-235 of the Code of Commerce on the report prepared by the Chairman of the Supervisory Board on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information issued in French and is provided solely for the convenience of English-speaking users.
This report should be read in conjunction and construed in accordance with French law and the relevant professional standards applicable in France.*

To the Shareholders,

In our capacity as Statutory Auditors of Caisse Française de Financement Local and in accordance with Article L.225-235 of the Code of Commerce, we hereby report on the report prepared by the Chairman of your company in accordance with Article L.225-68 of the Code of Commerce for the year ended December 31, 2015.

It is the Chairman's responsibility to prepare, and submit to the Supervisory Board for approval, a report on the internal control and risk management procedures implemented by the company and containing the other disclosures required by Article L.225-68 of the Code of Commerce, particularly in terms of corporate governance.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information, and
- to attest that this report contains the other disclosures required by Article L.225-68 of the Code of Commerce, it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Supervisory Board in accordance with Article L.225-68 of the Code of Commerce.

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by Article L.225-68 of the Code of Commerce.

Courbevoie and Neuilly-sur-Seine, March 29, 2016

The statutory auditors
French original signed by:

MAZARS
Anne Veaute

DELOITTE & ASSOCIÉS
Charlotte Vandeputte

Shareholders' Meeting of May 25, 2016

Statutory Auditors' special report on regulated agreements and commitments Shareholders' meeting for the approval of the financial statements for the year ended December 31, 2015

To the Shareholders,

In our capacity as your company's statutory auditors, we hereby report to you on regulated agreements and commitments.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions and reasons that justify the interest of the company to set the agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of article R.225-58 of the Code of Commerce, it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable, it is also our responsibility to provide shareholders with the information required by article R.225-58 of the Code of Commerce in relation to the implementation during the year of agreements and commitments already approved by the Shareholders' Meeting.

We performed the procedures that we deemed necessary in accordance with the guidance issued by the French Institute of statutory auditors (Compagnie nationale des commissaires aux comptes) for this type of engagement.

AGREEMENTS AND COMMITMENTS SUBMITTED TO THE APPROVAL OF THE SHAREHOLDERS' MEETING

We have been informed of no agreements and commitments authorized during the last year and requiring the approval of the Shareholders' Meeting by virtue of article L.225-86 of the Code of Commerce.

AGREEMENTS AND COMMITMENTS PREVIOUSLY APPROVED BY THE SHAREHOLDERS' MEETING

We have not been informed of any agreements or commitments approved in prior years and which remained current during the last year.

Paris La Défense and Neuilly-sur-Seine, March 29, 2016

The Statutory Auditors
French original signed by:

MAZARS
Anne Veaute

DELOITTE & ASSOCIÉS
Charlotte Vandeputte

Observations of the Supervisory Board

Pursuant to the provisions of article L.225-68 of the Code of Commerce, we hereby state that we have no comment to make on the management report of the Executive Board or on the financial statements for the year ended December 31, 2015.

The Supervisory Board wishes to thank the Executive Board for the initiatives taken and the results achieved during the year ended December 31, 2015.

The Supervisory Board

Resolutions proposed to the Ordinary and Extraordinary Shareholders' Meeting of May 25, 2016

To the Extraordinary Shareholders' Meeting

First resolution: reduction of the term of office of the members of the Supervisory Board and correlative change in the bylaws

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for extraordinary shareholders' meetings,

- decides to reduce the term of office of the members of the Supervisory Board from six years to four years,
- decides that the reduction in the term of office of the members of the Supervisory Board applies immediately to the current terms of office of the members of the Supervisory Board, and
- consequently, decides to modify as follows the first paragraph of article 18, Term of office and vacancy, of the Company's bylaws,

"Article 18: Term of Office and Vacancy

The term of office of the members of the Supervisory Board is four years. Their mandate comes to an end after the ordinary shareholders' meeting called to approve the financial statements of the year just ended and held in the year during which the mandate of the member of the Supervisory Board expires.",

the rest of the article remains unchanged.

To the Ordinary Shareholders' Meeting

Second resolution: renewal of the mandate of a member of the Supervisory Board

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, noting that as a result of the previous resolution reducing the term of office of the members of the Supervisory Board, the mandate of Béatrice Gosserez as a member of the Supervisory Board expires today, decides to renew her mandate for a period of four years, which will come to an end after the ordinary shareholders' meeting to be held in the year 2020 to approve the financial statements of the year ending December 31, 2019.

Third resolution: approval of the financial statements

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, after hearing the reports of the Executive Board, the Chairman of the Supervisory Board and the Statutory Auditors, as well as the observations of the Supervisory Board, approves the financial statements for the year ended December 31, 2015, as presented, with all the transactions that generated these financial statements or are mentioned in the above reports, showing a net loss of EUR 30,262,597.76.

The Shareholders' Meeting notes that no expense mentioned in article 39, 4 of the French General Tax Code, non-deductible from corporate income tax, was recorded in the year ended December 31, 2015.

Fourth resolution: allocation of net result

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, resolves to allocate the net loss for the year ended December 31, 2015, in the amount of EUR 30,262,597.76, to Retained earnings, which subsequent to this allocation will show a negative balance of EUR 4,922,988,81.

The Shareholders' Meeting recalls, pursuant to article 243 bis of the French General Tax Code, that no dividend was paid in the previous three years.

Fifth resolution: approval of regulated agreements and commitments

After hearing the Statutory Auditors' special report on regulated agreements and commitments, governed by article L.225-86 of the Code of Commerce, the Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, notes, under the conditions of article L.225-88 of the same code, that no agreement was mentioned with reference to the year ended December 31, 2015.

Sixth resolution: discharge to members of the management bodies

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, gives full discharge to the management bodies for the performance of their duties during the year ended December 31, 2015.

Seventh resolution: certification of the financial statements

In application of article L.822-14 of the Code of Commerce, the Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, takes note that the financial statements for the year ended December 31, 2015, were certified by the Statutory Auditors:

- Anne Veaute, Partner, representing the firm Mazars on the one hand,
- Charlotte Vandeputte, Partner, representing the firm Deloitte & Associés, on the other hand.

Eighth resolution: powers

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, gives full powers to the bearer of an original, a copy or an excerpt of the minutes of this meeting to carry out all legal formalities, in particular to notify the Clerk of the Tribunal de Commerce de Nanterre of any changes in registration.

General Information

Legal and administrative information

Corporate name

Caisse Française de Financement Local

Acronym

CAFFIL

Registered office

Since December 1, 2014, the Company's registered office is located at
1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux

Legal structure

Société anonyme à Directoire et Conseil de Surveillance, a joint-stock corporation with an Executive Board and a Supervisory Board.

Official approval

The Company was approved by the Comité des établissements de crédit et des entreprises d'investissement (CECEI) on July 23, 1999, as a *société financière – société de crédit foncier*. This approval became definitive on October 1, 1999. *Ordonnance* 2013-544 of June 27, 2013, modified the legal status of *sociétés de crédit foncier* (article L.513-2 of the Monetary and Financial Code). Since January 1, 2014, *sociétés de crédit foncier* are no longer financial companies (*sociétés financières*), but specialized credit institutions (*établissements de crédit spécialisés*).

Applicable legislation

A corporation under the provisions of articles L.210-1 and following of the Code of Commerce, articles L.511-1 and following of the Monetary and Financial Code and articles L.513-2 and following of the Monetary and Financial Code.

Incorporation date

The company was created on December 29, 1998, for a period of 99 years.

Corporate purpose (article 2 of the bylaws)

The Company's exclusive purpose is:

- to grant or acquire exposures on public sector entities as defined in article L.513-4 of the Monetary and Financial Code as well as shares and units of assets considered as exposures on public sector entities as defined in article L.513-5 of the same code;
- to hold assets, securities and deposits according to the conditions defined by decree to be considered as replacement assets;
- in order to finance the above-mentioned exposures, to issue *obligations foncières* benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code and finance and raise other funds, for which the contract or document intended for the general public in the sense of article L.412-1 of the Monetary and Financial Code, or any equivalent document required for admission to foreign regulated markets mentions this privilege.

The Company may also fund the above-mentioned activities by issuing bonds or other sources of financing that do not benefit from the privilege defined in article L.513-11 of the Monetary and Financial Code.

The Company may mobilize, in accordance with articles L.211-36 to L.211-40 of the Monetary and Financial Code or in accordance with articles L.313-23 to L.313-35 of the Monetary and Financial Code, all or part of the assets it holds, whatever the nature, be it professional or not, of these assets.

Within the framework of the achievement of the exclusive purpose mentioned above, the Company may conduct all related operations linked directly or indirectly to its activities or contributing to this exclusive objective, as long as these operations are carried out in accordance with the terms of articles L.513-2 and following and R.513-1 and following of the Monetary and Financial Code related to *sociétés de crédit foncier*.

Company registration and APE business identification code

Caisse Française de Financement Local is registered as a corporate entity under the designation NANTERRE 421 318 064 (Registre du Commerce et des Sociétés). Its APE code is 6492Z.

Availability of information

Legal documents concerning Caisse Française de Financement Local may be consulted at the Company's registered office:
1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux

Fiscal year (article 38 of the bylaws)

The Company's fiscal year begins on January 1 and ends on December 31.

Exceptional events and legal proceedings

See the section on litigation in this annual financial report, pages 11 – 12.

Allocation of income (article 39 of the bylaws)

Income available for distribution comprises net income for the year minus any prior year losses and any allocations to reserves pursuant to current legislation, plus any retained earnings carried forward from previous years.

From the available surplus, the Ordinary Shareholders' Meeting, voting on a recommendation of the Executive Board, may allocate all or a part of the remaining income to retained earnings.

There are no priority shares or priority dividends.

Annual Shareholders' Meetings**Calling of meetings (article 27 of the bylaws)**

Annual shareholders' meetings are called as required by current legislation. They are held at the Company's registered office or any other location specified in the notice of meeting.

All shareholders have the right to obtain copies of the documents required to make an informed decision concerning the overall management and control of the Company.

The types of documents concerned and the terms of their availability and dispatch are determined by applicable legislation and regulations.

Right to attend annual shareholders' meetings

Legal rights apply.

Voting rights (article 31 of the bylaws)

The voting rights attached to the shares are proportional to the percentage of capital the shares represent. Each share conveys one voting right. At annual shareholders' meetings, the number of votes that may be cast by each shareholder corresponds to the number of shares held plus the number of shares for which the shareholder holds proxy.

Capital and shares**Amount of the capital**

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

There are no other securities that grant rights to shares in the capital of Caisse Française de Financement Local.

Capital in the last five years

Date of the Shareholders' Meeting	Date of the capital increase	Amount of the capital increase EUR	Cumulated capital EUR
5/26/2011	6/7/2011	110,000,000	1,300,000,000
5/24/2012	5/30/2012	15,000,000	1,315,000,000
5/24/2013	-	-	1,315,000,000
5/22/2014	-	-	1,315,000,000
5/26/2015	-	-	1,315,000,000

Breakdown of capital	2011	2012	2013	2014	2015
Dexia Credit Local	99.99%	99.99%	-	-	-
SFIL	-	-	99.99%	99.99%	99.99%
French and/or Belgian individual and/or corporate investors	0.01%	0.01%	0.01%	0.01%	0.01%

Since January 31, 2013, Caisse Française de Financement Local is 99.99%-owned by SFIL (formerly Société de Financement Local), and 0.01% of its capital is in the hands of private investors (individuals, members of the Supervisory Board, to whom SFIL has lent shares).

Declaration of financial support

On January 31, 2013, SFIL (formerly Société de Financement Local) signed a declaration of financial support for its subsidiary Caisse Française de Financement Local.

“Société de Financement Local acquired Caisse Française de Financement Local, formerly Dexia Municipal Agency, a société de crédit foncier, governed by articles L.515-13⁽¹⁾ and following of the Monetary and Financial Code.

Société de Financement Local will hold more than 99% of the capital of Caisse Française de Financement Local on a long-term basis.

Société de Financement Local and the French State, its reference shareholder, will ensure that Caisse Française de Financement Local always be able to pursue its activity in an ongoing manner and honor its financial commitments, in compliance with the requirements of banking regulations currently in effect.”

(1) Now article L.513-2 of the Monetary and Financial Code in application of ordinance 2013-544 of June 27, 2013.

Statement by the person responsible

I, Gilles Gallerne, Chairman of the Executive Board of Caisse Française de Financement Local, hereby affirm that to the best of my knowledge, the financial statements have been prepared in conformity with applicable accounting standards and present fairly, in all material aspects, the assets and liabilities, financial position and results of Caisse Française de Financement Local, and that the management report presents a fair image of trends in the Company's business, results and financial position, as well as a description of the main risks and uncertainties it faces.

Issy-les-Moulineaux, March 29, 2016

Gilles Gallerne
Chairman of the Executive Board

Caisse Française de Financement Local
Société anonyme à directoire et conseil de surveillance
A French credit institution with an Executive Board and a Supervisory Board
Capital of EUR 1,315,000,000
R.C.S. NANTERRE 421 318 064

Headquarters
1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux
Tel. (33) 1 73 28 90 99
www.caissefrancaisedefinancementlocal.fr

Investor relations
E-mail: investorrelations@sfil.fr
Ralf Berninger
Tel. (33) 1 73 28 88 07
E-mail: ralf.berninger@sfil.fr

This annual financial report is available in French and in English at
www.caissefrancaisedefinancementlocal.fr
www.caffil.fr

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