

CAFFIL

Public sector assets – *Obligations foncières...*



...to support the French economy.

ANNUAL FINANCIAL REPORT 2016

Caisse Française de Financement Local

CAFFIL

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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*.

Caisse Française de Financement Local and its parent company have been tasked by the French State:

- to finance loans to French local governments and public hospitals granted by La Banque Postale;
- to refinance large export credits 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, its reference shareholder, 20% by Caisse des Dépôts et Consignations (CDC) and 5% by La Banque Postale (LBP). 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.

CAFFIL 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 legal provisions,
- they are rated AA+/Aaa/AA by Standard and Poor's, Moody's, and Fitch,
- they comply with the EU's UCITS and CRD directives, and with 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 CAFFIL are thus eligible for refinancing by the European Central Bank (ECB) and thus enable investors to benefit from the best prudential treatment.

In 2016, CAFFIL was named the best issuer of the year for its covered bonds in euros by three separate specialized publications (*The Covered Bond Report* in June, *The Cover* in September, and *CMD Portal* in December).

Key figures

Portfolio of assets
(cover pool)

EUR 58.2 billion

Regulatory
over-collateralization

11.9%

Liquidity Coverage Ratio
(LCR)

776%

Assets eligible for the central bank
(% cover pool)

73.8%

Obligations foncières
(covered bonds)

EUR 50.4 billion

Obligations foncières issued
in 2016

EUR 5.9 billion

Common Equity Tier 1 Ratio
(Basel III - phased-in)

24.8%

Ratio of non-performing loans
(% cover pool)

1.0%

Management Report

Caisse Française de Financement Local

2016

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*, it engages in transactions that 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 are key elements in the financing of local governments and public hospitals in France. The organization, introduced by the French State in 2013, 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 ACPR, 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 mainly 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.

Furthermore, SFIL is an issuer of short- and long-maturity securities in the bond markets. In October 2016, SFIL launched its first public bond issue in the amount of EUR 1 billion with a maturity of 8 years.

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 (LBP) and its joint venture LBP/CDC, 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. These assets are now managed in a run-off mode. At the end of 2016, 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. Refinancing of loans to the French local public sector and public hospitals in partnership with La Banque Postale

In early 2013, Caisse Française de Financement Local and La Banque Postale signed an exclusive sale agreement to fund the needs of the French local public sector and public hospitals. The arrangement, set up under the aegis of the French State, works as follows: La Banque Postale markets loans to the French local public sector and public hospitals, then sells them to Caisse Française de Financement Local, which refinances them by issuing *obligations foncières* (covered bonds). The loans originated are exclusively in euros with a vanilla interest rate. 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 de cession*) that is specific to *sociétés de crédit foncier*.

d. Refinancing of large export credits

In addition to their mission of refinancing French local governments and public hospitals, SFIL and Caisse Française de Financement Local have been entrusted with a second mission by the French State: refinance large French export contracts. In this context, 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 (enhanced guarantee⁽¹⁾). This business brings Caisse Française de Financement Local closer to the French State, without modifying the risk profile of its cover pool.

These new loans, like the new French public sector loans marketed by La Banque Postale, are 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 this new activity will increase gradually and will only become significant in several years. This share may rise to 12% within five years, based on an annual production of large export credits between EUR 1.5 billion and EUR 2.5 billion.

1. Organization

The system functions as follows:

- SFIL contributes 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. Then, these banks sell a part of the loans (and the attached rights) to SFIL and keep at least the share of the export credit not covered by the insurance (usually 5%);
- Caisse Française de Financement Local grants a loan to SFIL to enable it to refinance the acquired export credit. This refinancing loan benefits from an irrevocable and unconditional 100% guarantee by the French State, referred to as an enhanced guarantee;

Loans granted by Caisse Française de Financement Local to SFIL to refinance the purchased export credits 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 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).

2. French State export guarantees

Previously granted by Coface, since late 2016, these guarantees have been managed by Bpifrance Assurance Export, in the name of, on behalf of, and under the control of the French State, pursuant to article L.432.2 of the Insurance Code.

- Guarantee-granting decisions are made by the Minister in charge of the Economy and Finances after instruction by Bpifrance Assurance Export and the opinion of the French Export Credit and Guarantee Commission (*Commission des garanties et du crédit au commerce extérieur*).
- Bpifrance Assurance Export issues insurance policies, as well as enhanced guarantees, in accordance with the decision made. In this context, Bpifrance Assurance Export is also tasked with collecting insurance and guarantee premiums, managing risks, payments, and collections on behalf of the French State.
- The risks related to these guarantees are borne by the French State and all financial flows (premiums, payments, repayments) are recorded in separate accounting entries by Bpifrance Assurance Export. Premiums and collections are received directly on the account of the French State, and payments are made directly from the same account, without passing through the accounts of Bpifrance Assurance Export.

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 legal provisions for covered bonds in recent years, and the number of issuers has risen significantly.

Two directives govern and define covered bonds. The first directive is Undertakings for Collective Investment in Transferable Securities (UCITS) which defines the legislative, regulatory, and administrative aspects of certain vehicles for collective investment in securities, article 52-4. The second is the Capital Requirements Directive (CRD), which defines the minimum regulatory capital requirement, which is complemented by the related Capital Requirements Regulation (CRR), article 129.

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

These two directives in particular specify the assets that may be incorporated into the portfolio 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 and the associated regulation benefit from financial and regulatory advantages.

The *obligations foncières* issued by Caisse Française de Financement Local satisfy the requirements of these two European directives and the associated regulation. 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.

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.coveredbondlabel.com/issuer/47/>).

After the consultation launched in late 2015 by the European Commission, the European Banking Authority published its recommendations regarding a European harmonization of the covered bond legal frameworks on December 20, 2016. The report proposes a three-step approach to regulation harmonization:

- the definition of covered bonds is to be specified through a directive;
- the conditions for receiving preferential prudential treatment are to be handled through an amendment to the CRR regulation;
- additional measures aimed at encouraging the voluntary convergence of national frameworks are to be proposed.

In 2017, these recommendations should be the subject of much discussion among the various stakeholders, after which the European Commission will decide whether or not to launch the project.

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, 2011-I-07, 2014-I-16 and 2014-I-17.

In addition to these regulations and the law on *sociétés de crédit foncier*, which is 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). This asset category is used for cash investments by the 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. The new assets of Caisse Française de Financement Local primarily involve the following:

- since 2013, the activity of granting loans to French local governments and public hospitals through La Banque Postale, or new loans originated by Caisse Française de Financement Local in order to facilitate the decrease of its outstanding sensitive structured loans;
- since 2016, the activity of granting loans to refinance large export credits guaranteed by the French State.

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 hedge 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 the *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 (see 5. Debt benefiting from the legal privilege). 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;
 - refinancing in its own name from the Banque de France. 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 (S&P), 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. They take into account a strong probability that the French 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 two notches above that of France.

Besides, the rating of *obligations foncières* is 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 2016

2.1 - THE COVERED BOND MARKET

The market for public sector issues of covered bonds in euros was active in 2016, with an offer in the primary market of EUR 127 billion (compared to EUR 146 billion in 2015 and EUR 117 billion in 2014). The decrease in the issuance volume compared to 2015 can be explained in part by the less active presence of Italian and Spanish issuers, who favored the use of long-term refinancing operations (TLTRO) proposed by the European Central Bank (ECB). Nevertheless, the activity was supported by the need of investors to replace a large volume of bonds maturing in 2016 (EUR 152 billion), but also by the active presence of issuers outside the Euro zone, which found in this market favorable conditions for their long-term financing. Thus, Canadian, Australian, and English investors represented approximately 22% of issues. German and French issuers remained the most active, with over 35% of the overall offering.

Two major political events marked 2016: the United Kingdom's vote to leave the European Union in late June, and the US presidential election in November. They both were sources of volatility for the financial markets, but they did not affect the solidity of the market for covered bonds in euros, which showed good performance throughout the year, despite two consolidation movements, in January and November. This market continued in 2016 to benefit from the strong support of the ECB's covered bond purchase programme, of which the outstanding total came to more than EUR 200 billion as of December 31, 2016, i.e., an increase of more than EUR 50 billion throughout the year.

In this context, Caisse Française de Financement Local launched its annual program of financing via *obligations foncières* in good conditions of volume, spread and average maturity (EUR 5.9 billion issued with an average maturity of 11.5 years). 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, to the development of the large export credit refinancing activity, and for ongoing support of SFIL's policy to reduce loan sensitivity.

In 2017, overall demand in the covered bond market should remain sustained, owing to the maturing of significant volumes (approximately EUR 123 billion) but the net offering should be almost zero (compared to a net negative offering of EUR 25 billion in 2016).

Nevertheless, in a changing environment (Basel III or Solvency 2), the favorable regulatory treatment received by covered bonds should encourage investors to favor this class of securities in their asset allocation.

2.2 - RATING OF OBLIGATIONS FONCIÈRES

The ratings of the *obligations foncières* issued by Caisse Française de Financement Local were not altered in 2016. A stable outlook was attributed to the CAFFIL's *obligations foncières* in October 2016 by Standard and Poor's (after having revised the outlook of France's rating from negative to stable).

As of December 31, 2016, the ratings were as follows: AA+ by Standard and Poor's, Aaa by Moody's and AA by Fitch. The outlook associated with each of these ratings is stable.

2.3 - THE UNITED KINGDOM'S VOTE TO LEAVE THE EUROPEAN UNION

Caisse Française de Financement Local did not note any significant direct impact on its activities since the vote for Brexit on June 23, 2016. Furthermore, the cover pool of the Caisse Française de Financement Local has little exposure to the United Kingdom (EUR 0.3 billion in securities with a maturity of 2021, guaranteed by the British government, i.e. 0.5% of the cover pool).

2.4 - LOCAL GOVERNMENT FINANCING IN 2016

In its first line of business, Caisse Française de Financement Local refinances loans granted by LBP to French local governments and public hospitals. It has also been called upon to grant new loans to these categories of customers together with its operations to reduce its outstanding sensitive structured loans.

For its fourth year of activity, the partnership and organization in place have confirmed their effectiveness. LBP granted EUR 3.5 billion in loans to French local governments and public hospitals. Combined with the new financing granted directly by Caisse Française de Financement Local as part of its policy to reduce sensitivity of outstanding structured loans, the total production reached EUR 4.0 billion, and confirmed the leading role of the LBP/SFIL arrangement to refinance the local public sector (largest lender in terms of market share).

2.5 - EXPORT CREDIT REFINANCING IN 2016

In its other line of business, Caisse Française de Financement Local grants loans to SFIL to refinance large export credits it has granted. Such loans benefit from an unconditional, irrevocable 100% guarantee by the French State. This new business helps bring Caisse Française de Financement Local closer to the French State without modifying the risk profile of its cover pool.

SFIL's large export contract refinancing activity began in 2016 (see SFIL annual report). In this context, Caisse Française de Financement Local granted SFIL its first refinancing loans, for a total of EUR 0.7 billion. No payment has been made for these loans as of December 31, 2016. Furthermore, binding refinancing offers were also issued in 2016, which should result in the signing of new contracts in 2017.

2.6 - SENSITIVITY REDUCTION AND DECREASE IN LITIGATION RELATED TO STRUCTURED LOANS

Caisse Française de Financement Local has, in its portfolio, some structured loans considered as sensitive (see 4.2.d.1. Definition) which had been granted to French clients by Dexia Credit Local before the acquisition of Caisse Française de Financement Local by SFIL. Certain of these customers initiated legal proceedings against Dexia Credit Local, Caisse Française de Financement Local and/or SFIL.

In 2016, the outstanding sensitive structured loans and the number of legal proceedings decreased significantly. As of December 31, 2016, 80% of these loans were no longer sensitive.

a. Reduction in outstanding sensitive structured loans

SFIL's application of its policy to reduce the sensitivity of the structured loans of Caisse Française de Financement Local was particularly effective in 2016, with a volume of EUR 1.6 billion in sensitive loans transformed into fixed rate contracts, representing approximately EUR 5.0 billion since the beginning of 2013.

Since the beginning of 2013, outstanding sensitive loans have been reduced by 80%, from EUR 8.5 billion to EUR 1.7 billion, as the result of the following:

- proactive operations conducted by SFIL to reduce loan sensitivity with the help of the support funds, including the operations already accomplished with a post-closing value date;
- the natural amortization of the loans;
- the use by certain customers of the derogatory mechanism of the support funds. In point of fact, 83 customers chose to keep their structured loans temporarily while still having the opportunity to benefit from the assistance of the support fund for local governments in the event that the structured component of their loan would be activated (assistance in paying interest at a degraded rate as anticipated by the rules governing the support fund). The outstanding loans for these customers represent EUR 0.7 billion.

At the same time, 605 customers (69%) definitively moved out of the category of sensitive customers. The reduction in sensitivity was even more marked for the customers with the most sensitive exposure; more than 91% of borrowers with loans initially indexed on EUR/CHF no longer have any, and among them 94% of local governments and hospitals which had such loans.

On the basis of the operations conducted at the end of 2016 with an effective date after December 31, 2016, and subsequent to the deduction of outstanding loans benefiting from assistance in paying degraded coupons. Outstanding sensitive loans will be at most EUR 1.4 billion by the end of 2017 (a decrease of at least EUR 7.1 billion since December 31, 2012, or 84%) for 236 customers.

b. Significant decrease in the number of lawsuits

As of December 31, 2016, 178 borrowers who had brought lawsuits signed a financial settlement agreement with SFIL, Caisse Française de Financement Local and Dexia Credit Local, thereby putting an end to legal litigation.

At the same time, the number of borrowers who had brought suit totalled 39, down from 131 as of December 31, 2015 and 210 as of December 31, 2014. Among these 39 suits, 9 cases have been tried in first instance and 5 were judged in the court of appeal. All of these rulings dismissed all the claims of the borrowers except for one case concerning a vanilla loan which gave rise to the *in solidum* conviction of Dexia Credit Local and Caisse Française de Financement Local, which appealed the decision.

2.7 - TAX ASSESSMENT

For the record, 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 was closed in 2013, 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 recorded a provision for additional income tax in the amount of EUR 38 million in its 2015 IFRS financial statements. However, Caisse Française de Financement Local does not agree with the position of the tax authorities and started an appeal in 2016 within the framework of legal recourse allowed by current tax regulations. In 2016, discussions with tax authorities did not result in a change in the amount set aside in the IFRS accounts.

3. Changes in main balance sheet items

EUR billions value after currency swaps	12/31/2014	12/31/2015	12/31/2016	Change Dec. 2016 / Dec. 2015
Cover pool	62.3	60.0	58.2	(3.0)%
Loans	51.6	50.5	47.0	(6.9)%
Securities	10.2	7.0	7.5	7.0%
Cash deposit in central bank	0.5	2.5	3.7	47.6%
Assets assigned in guarantee to Banque de France	-	-	-	-
Privileged debt	54.6	53.0	51.7	(2.6)%
<i>Obligations foncières*</i>	52.2	51.6	50.4	(2.4)%
Cash collateral received	2.4	1.4	1.3	(9.5)%
Non-privileged debt	6.2	5.5	5.2	(5.3)%
Parent company	6.2	5.5	5.2	(5.3)%
Banque de France	-	-	-	-
Equity IFRS (excluding unrealized gains and losses)	1.5	1.5	1.4	(1.6)%

* 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 put aside to anticipate the forthcoming repayment of *obligations foncières* or the refinancing of new export loans. This cash is deposited at the Banque de France, or invested in bank or European public sector securities. The cash surplus, placed with the Banque de France, represents EUR 3.7 billion at the end of December 2016, versus EUR 2.5 billion at the end of December 2015. The cash surplus invested in securities represents a total of EUR 0.9 billion as of December 31, 2016. No cash surplus was invested in securities at the end of December 2015.

As of December 31, 2016, the cover pool totalled EUR 58.2 billion, excluding accrued interest not yet due. It represented EUR 60.0 billion at the end of 2015, i.e. a decrease of EUR 1.8 billion (-3.0%). As of this date, no assets are 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 51.7 billion, which decreased 2.6% in comparison with December 2015.

The debt contracted with the parent company totaled EUR 5.2 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 2016

The net change in the cover pool in 2016 corresponded to a decrease in assets in the amount of EUR 1.8 billion. This change is explained by the following items.

EUR billions	12/31/2016
1- Acquisition of loans from La Banque Postale	2.9
Loans to the French public sector (vanilla loans in euros)	2.9
2- Reduction of loan sensitivity	2.2
Sensitive structured loans eliminated	(1.9)
Refinancing loans (vanilla loans in euros)	1.9
New loans (vanilla loans in euros)	2.2
3- Amortization of portfolio of loans and securities	(6.6)
4- Early reimbursements	(2.4)
5- Changes in treasury	2.1
Net change in securities investments	0.9
Net change in Banque de France cash deposit	1.2
6- Other changes	0.0
Net change in the cover pool	(1.8)

In 2016, Caisse Française de Financement Local acquired a total of EUR 2.9 billion in loans to the French local public sector and public hospitals 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 2016 made it possible to decrease outstanding loans considered as sensitive by EUR 1.9 billion through their replacement with fixed rate loans. They were accompanied by new fixed rate loans in the amount of EUR 2.2 billion.

The natural amortization of the portfolio of loans and securities represented EUR 6.6 billion in 2016, and early reimbursements represented EUR 2.4 billion. The natural amortization includes the maturing of a loan to Dexia Credit Local guaranteed by loans to British local governments totaling EUR 1.9 billion. Early repayments include the repayment of a loan granted to SFIL which was classified as replacement assets, totaling EUR 2.1 billion.

There were no divestments, except for treasury investments, in 2016.

Available cash increased by EUR 2.1 billion. It is deposited at the Banque de France or invested in bank bonds classified as replacement assets or in European public sector bonds.

4.2 - OUTSTANDING ASSETS AS OF DECEMBER 31, 2016

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	12/31/2015	12/31/2016
Loans and bonds to the public sector	55.2	53.8
Treasury (deposits at the Banque de France)	2.5	3.7
Replacement assets	2.3	0.7
TOTAL	60.0	58.2

Surplus cash is deposited in an account opened by Caisse Française de Financement Local at the Banque de France or invested in European public sector or bank (replacement assets) securities, respectively amounting to EUR 3.7 billion, EUR 0.2 billion and EUR 0.7 billion as of December 31, 2016.

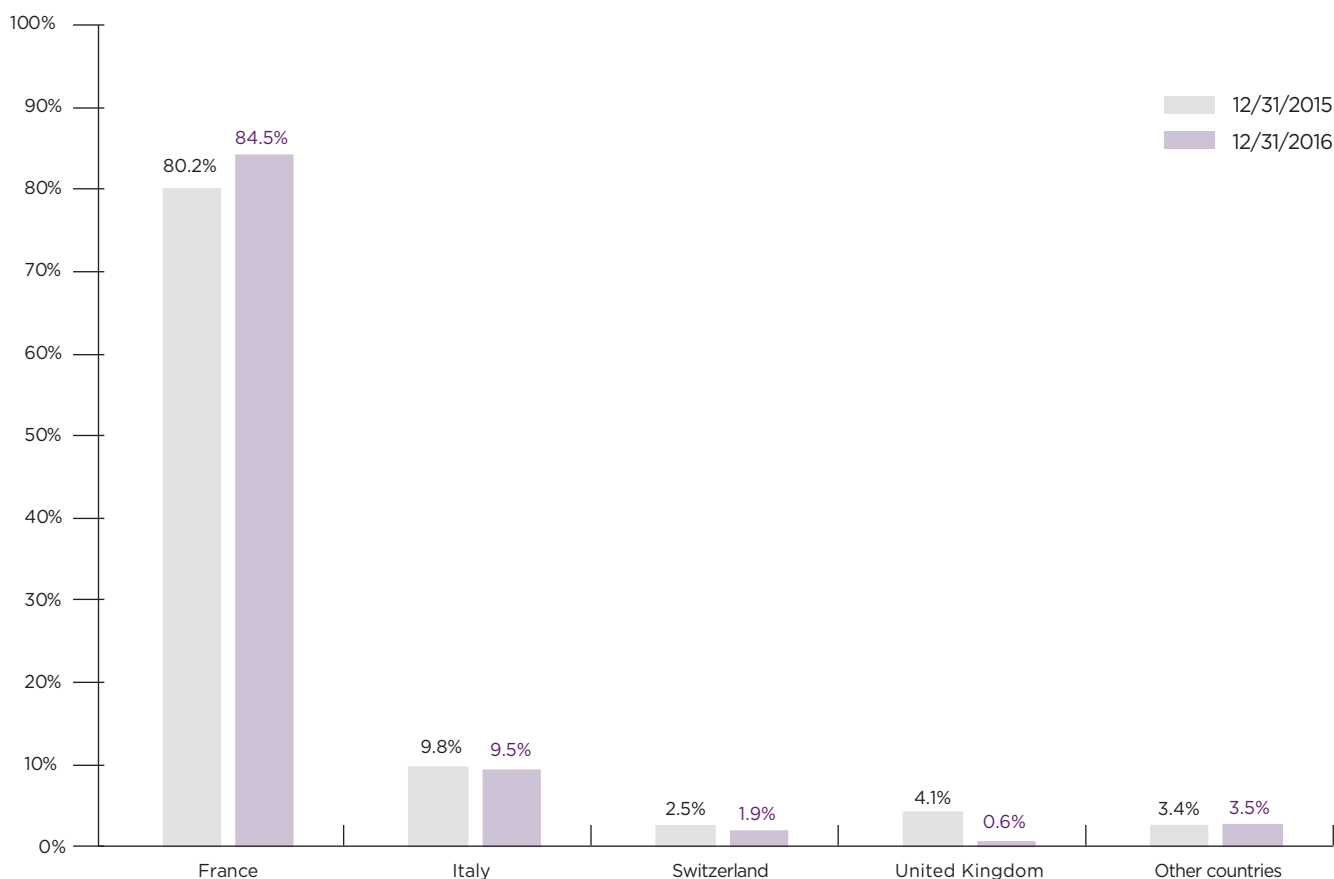
a. Public sector loans and securities (excluding replacement assets and treasury)

1. Geographic breakdown

French assets are predominant in the cover pool (84.5%), and their percentage is expected to rise in the future. Loans acquired through La Banque Postale since 2013 accounted for almost EUR 8.1 billion as of December 2016, representing 17.8% 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.

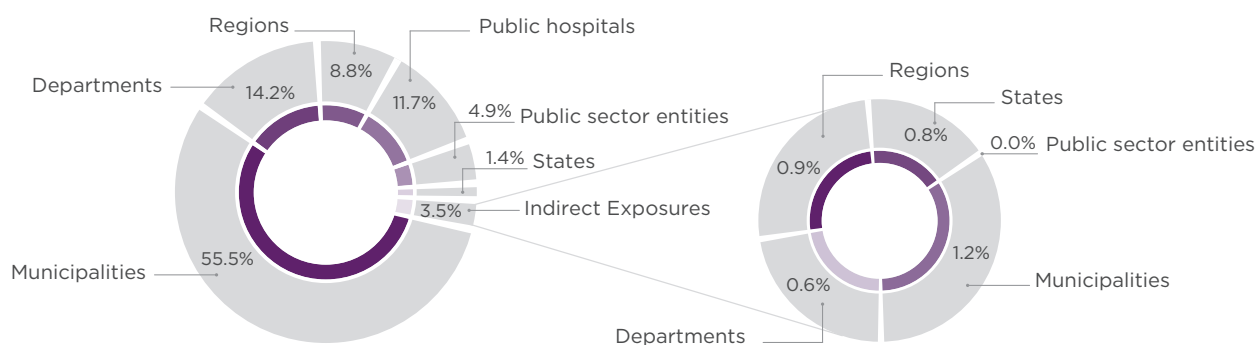


Exposures to Other countries as of December 31, 2016, are broken down by country in the section Bonds and public sector loans, which is presented at the end of this management report.

2. Breakdown by type of counterparty

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

- for 81%, direct or indirect exposures on municipalities, departments or regions;
- for 12%, exposures on 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.

b. Replacement assets

Assets considered by law as replacement assets correspond to exposures on credit institutions benefiting from 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, 2016, replacement assets represented 1.3% of debt benefiting from the legal privilege.

The Caisse Française de Financement Local's cash surplus can be invested in banking sector securities (in addition to deposits at the Banque de France and investments in European public sector securities). In this case, bank exposures are classified as replacement assets, broken down below based on the rating of the issuers.

Replacement assets	Country	Issuer	EUR millions	
			12/31/2015	12/31/2016
Step 1 credit rating				
Loans to parent company	France	SFIL	2,339	-
Bank securities	France	Other	-	146
Step 2 credit rating				
Bank securities	France	Other	-	500
Bank current account balances	Other	Other	4	4
TOTAL			2,343	650

The long term loan to SFIL, considered as a replacement asset, was repaid early, in July 2016.

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 taken out of 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 three fiscal years, Caisse Française de Financement Local mobilized or pledged no assets with the Banque de France or a bank counterparty.

d. Structured loans

1. Definition

Certain loans to French public sector entities in the cover pool of Caisse Française de Financement Local may be qualified as structured loans. To define this notion, Caisse Française de Financement Local refers to the charter of good practices signed by banks and local governments (the Gissler charter), which can be consulted on the Internet site of the French Ministry of the Interior⁽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.), their underlying index(es) (foreign exchange, etc.), or their currency (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.

The most structured loans according to the Gissler classification (categories 3E, 4E and 5E as well as loans which the charter does not allow to be marketed) may be qualified as "sensitive".

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

2. 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 eliminating their structured loans. Caisse Française de Financement Local contributed EUR 150 million to support local governments and EUR 38 million to support hospitals.

These funds were fully operational as of 2015: in the second half of 2015 and the first half of 2016 they notified the amount of aid to the local governments and public hospitals that sought their assistance. Based on the amounts reported, 86% of Caisse Française de Financement Local clients who sought the assistance of the local government support fund were eventually approved. Thus, these two funds made it possible to conduct sensitivity reduction operations at a sustained pace, and resulted in a significant reduction in the number of lawsuits.

3. Structured loans and sensitive loans

In 2016, outstanding loans to the French public sector have increased by EUR 1.2 billion, with a EUR 4.0 billion increase in non-structured loans (vanilla) and a decrease of EUR 2.8 billion in structured loans (see the definition above).

EUR billions	12/31/2015	12/31/2016	% cover pool	Number of customers*
Sensitive loans not in the charter	2.4	0.7	1.2%	85
Sensitive loans (3E/4E/5E)	2.2	1.0	1.7%	189
SENSITIVE LOANS	4.6	1.7	2.9%	274
Structured loans benefiting from the derogatory mechanism of the support fund	0.0	0.7	1.2%	83
Other structured loans	4.6	4.0	6.9%	1,400
STRUCTURED LOANS	9.2	6.4	11.0%	1,757
Vanilla loans	34.4	38.4	66.0%	14,578
TOTAL FRENCH PUBLIC SECTOR LOANS	43.6	44.8	77.0%	16,335
COVER POOL	60.0	58.2		

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

At the end of 2016, structured loans on the balance sheet of Caisse Française de Financement Local represented EUR 6.4 billion (compared to EUR 9.2 billion at the end of 2015).

The most structured loans according to the Gissler classification (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 1.7 billion at the end of 2016, compared to EUR 4.6 billion at the end of 2015. The EUR 2.9 billion decrease in these outstanding loans was due to the contractual amortization of these loans in the amount of EUR 0.3 billion, to proactive efforts to reduce the sensitivity of the outstanding loans by EUR 1.9 billion and to the customers who chose to use the derogatory mechanism of the support fund for local governments.

As of December 31, 2016, the most sensitive structured loans (loans not in the charter) represented EUR 0.7 billion, or 1.2% of the cover pool and 85 customers. In particular, this portfolio included loans indexed on the EUR/CHF exchange rate. This portfolio concerns the following customer categories.

Sensitive loans not in the charter	12/31/2015		12/31/2016	
	Amounts EUR billions	Number of customers	Amounts EUR billions	Number of customers
Municipalities with fewer than 10,000 inhabitants	0.1	50	0.0	6
Municipalities with more than 10,000 inhabitants and groups of municipalities	1.2	146	0.3	50
Regions and departments	0.4	16	0.1	9
Public hospitals	0.5	44	0.3	17
Other customers	0.1	14	0.0	3
TOTAL	2.3	270	0.7	85

In one year, the portfolio decreased by approximately 70% in value as well as in number of customers. The 85 customers are mostly municipalities with more than 10,000 residents and groups of municipalities, and to a lesser extent, public hospitals. Municipalities with less than 10,000 residents with a sensitive loan "not in the charter" number 6, and the outstanding loans concerned by these municipalities total almost zero.

At the end of 2016, more than 91% of the borrowers with loans indexed on EUR/CHF saw loan sensitivity disappear completely, and of this number, 94% were small local governments and hospitals holding such loans.

4. Reduction in loan sensitivity

These measures made it possible to eliminate entirely the sensitivity of outstanding loans to 605 customers between SFIL's date of creation and December 31, 2016. The number of customers holding sensitive loans decreased from 879 to 274, and the outstanding sensitive loans dropped from EUR 8.5 billion to EUR 1.7 billion (less than 3% of the cover pool), i.e. a decrease of more than 80%.

This decrease includes EUR 0.7 billion that represents outstanding loans for which the customers chose to maintain their sensitive loan temporarily, while having the option of receiving aid from the local government support fund if the structured component of their loan becomes activated (system for helping pay interest at a degraded rate provided for by the support fund doctrine). The loans concerned by this option mainly correspond to loans with an interest rate based on leverage and which are, at this time, most often at fixed rates because the structured component is not or has never been activated.

Based on the operations already conducted, the outstanding sensitive loans for which the structured component is activated and the rate is above 5% will represent at the end of 2017 less than EUR 0.2 billion and will concern 35 customers, i.e. 0.3% of the cover pool and 0.2% of the total customers.

e. 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 2016, this ratio equals +0.0% in IFRS and +0.1% in French GAAP.

5. Debt benefiting from the legal privilege

As of December 31, 2016, 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	12/31/2015	12/31/2016
Cash collateral received	1.4	1.3
<i>Obligations foncières</i> and registered covered bonds	51.6	50.4
TOTAL	53.0	51.7

5.1 - CHANGE IN CASH COLLATERAL

Cash collateral received by Caisse Française de Financement Local decreased compared with the situation at the end of December 2015. Its level stood at EUR 1.3 billion at the end of December 2016.

5.2 - CHANGE IN ISSUES

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 2016

In 2016, Caisse Française de Financement Local achieved a volume of issues of EUR 5.9 billion by enhancing its reference curve with five new points, by increasing the amount of existing *souches* (taps) and by continuing to work in the private placement segment.

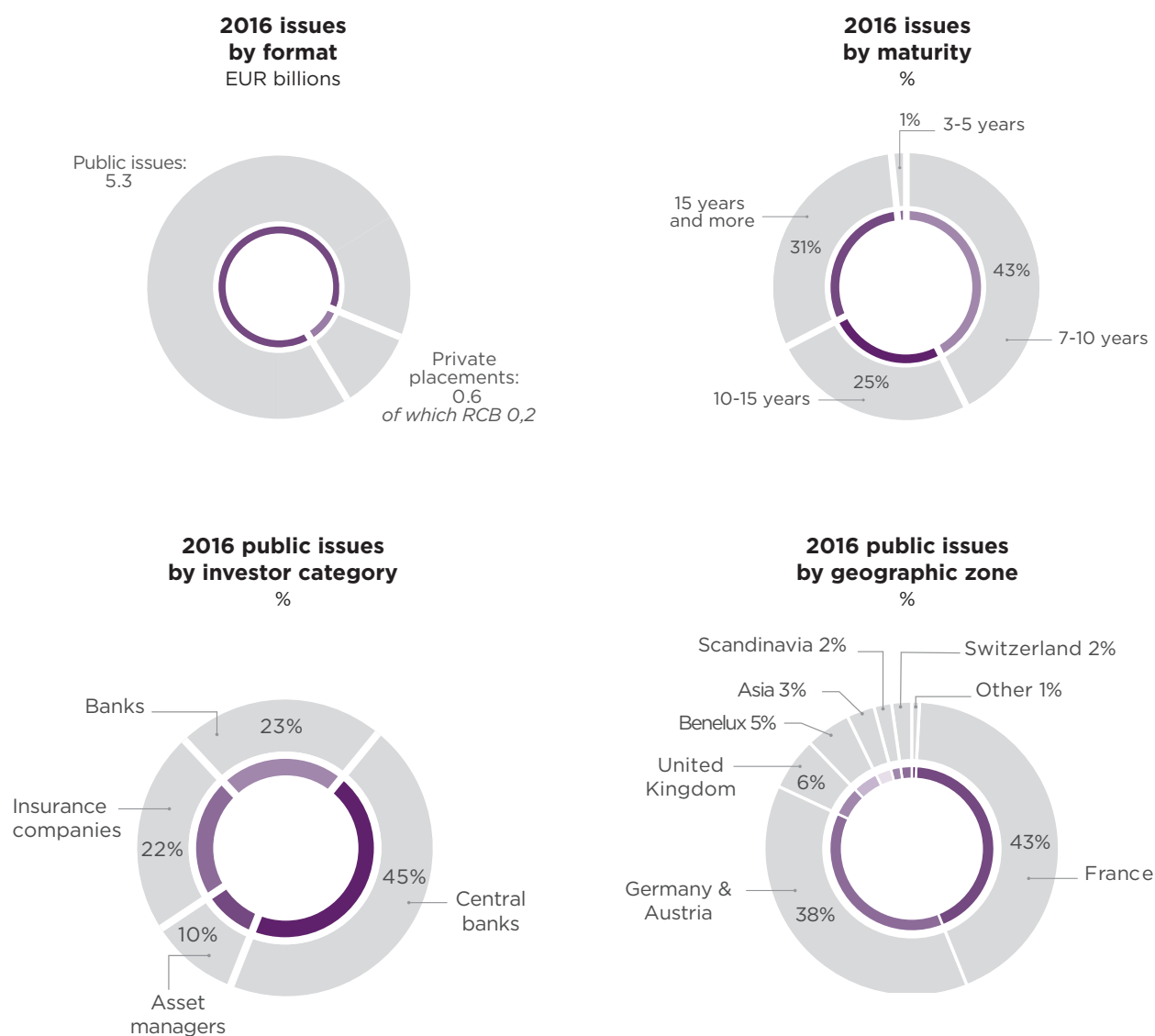
Caisse Française de Financement Local raised money in the primary market on four occasions for a total amount of EUR 4.3 billion:

- a dual *tranche* issue (6 and 15 years) in January for a total amount of EUR 1.5 billion;
- a 10-year issue in April for EUR 1.3 billion;
- a 9-year issue in June for EUR 1 billion;
- a 15-year issue in November for EUR 0.5 billion.

At the same time, Caisse Française de Financement Local provided additional liquidity for several of its reference issues via five taps in 2016 for a cumulated amount of EUR 1.1 billion.

In addition to these public transactions, Caisse Française de Financement Local remained active in the private placement segment and especially with the registered covered bond (RCB) format, thus making it possible to respond to investors' search for long and very long maturities. Altogether, EUR 0.6 billion was raised in this market segment.

The breakdown of new issues by public/private format and maturity is presented below, as well as the breakdown of public issues by investor category and geographic zone.



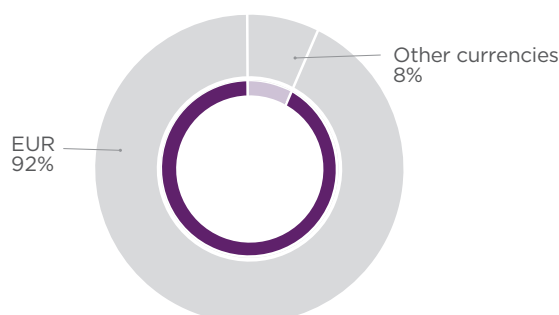
b. Outstanding debt as of December 2016

Outstanding *obligations foncières* and registered covered bonds totaled EUR 50.4 billion in swapped value at the end of December 2016. This includes new issues of *obligations foncières* for EUR 5.9 billion and amortization of issues maturing in 2016 for EUR 7.0 billion.

Limited buybacks of *obligations foncières* were performed over the year in order to smooth out the amortization profile of Caisse Française de Financement Local's privileged debts.

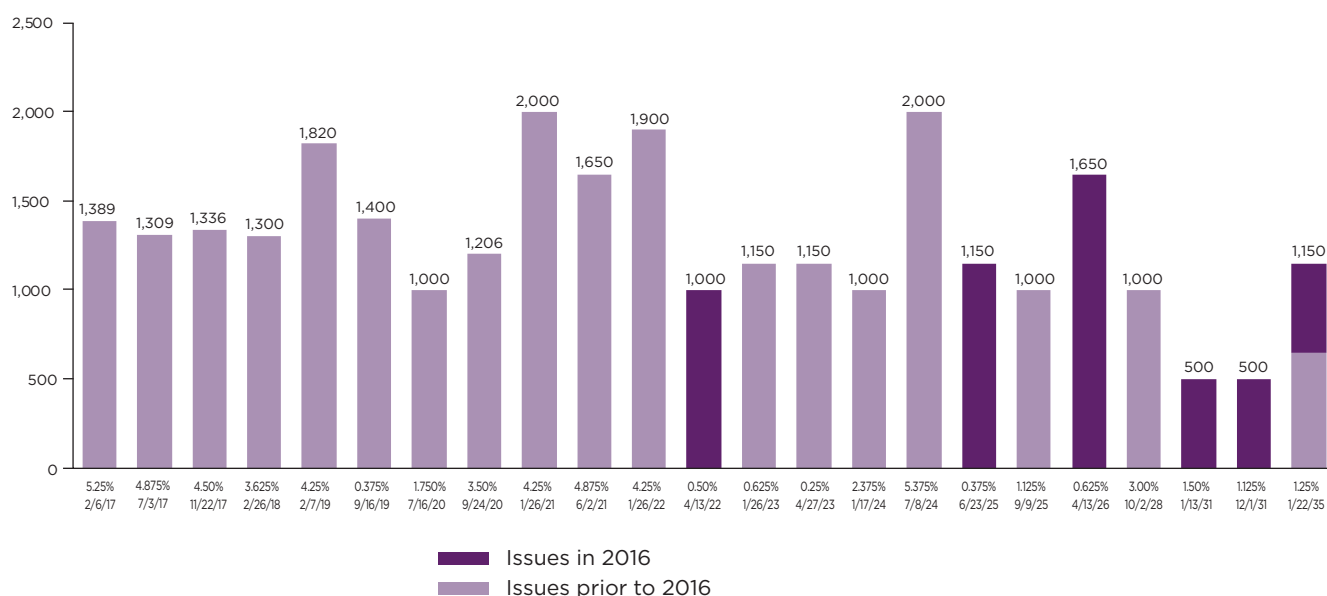
EUR billions - swapped value	2015	2016
BEGINNING OF THE YEAR	52.2	51.6
Issues	6.2	5.9
Amortizations	(6.8)	(7.0)
Buyback	0.0	(0.1)
END OF THE YEAR	51.6	50.4

As of December 31, 2016, issues can be broken down by currency as follows:



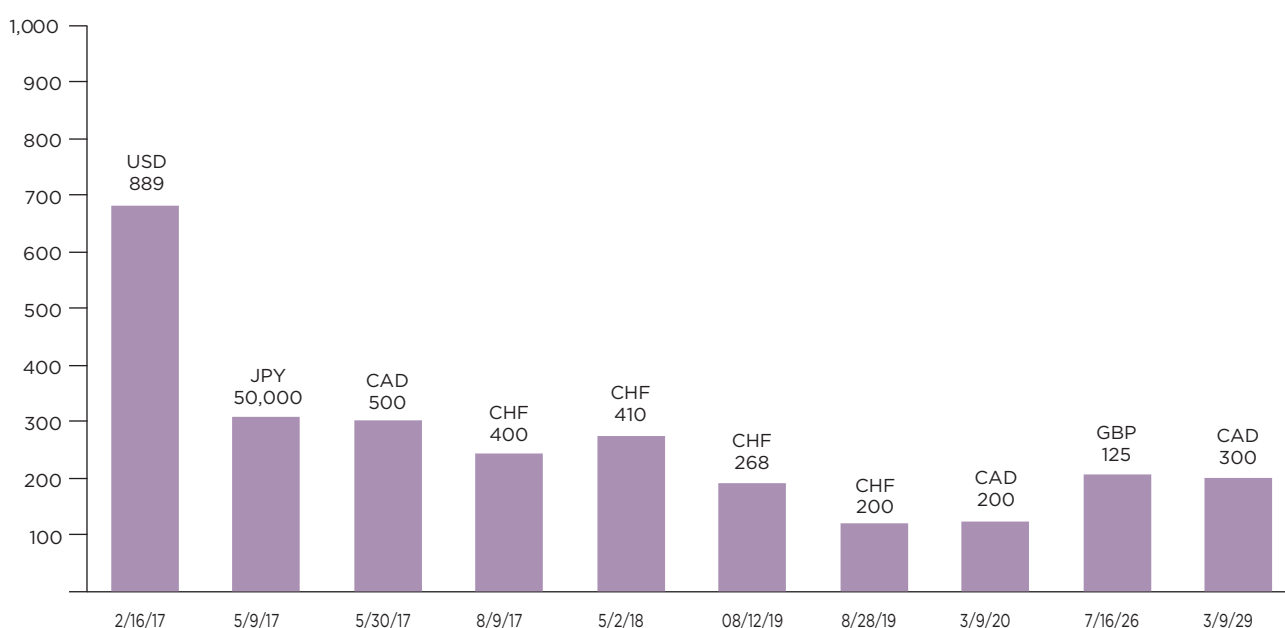
Breakdown of benchmark *tranches* in EUR

EUR millions

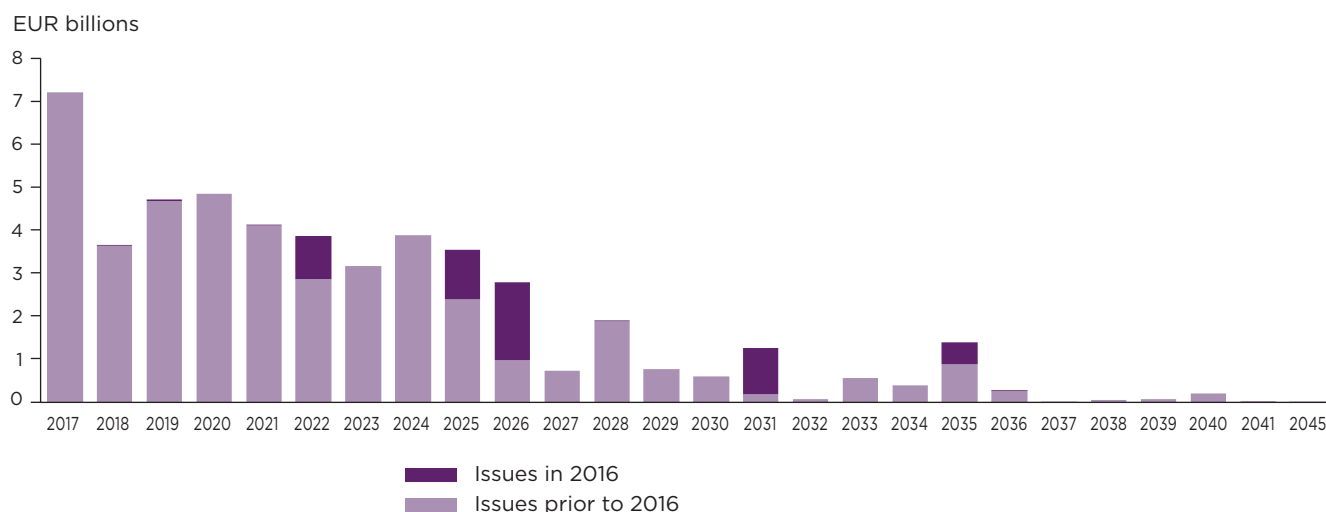


Main *tranches* in other currencies

Value in EUR millions (swapped value)



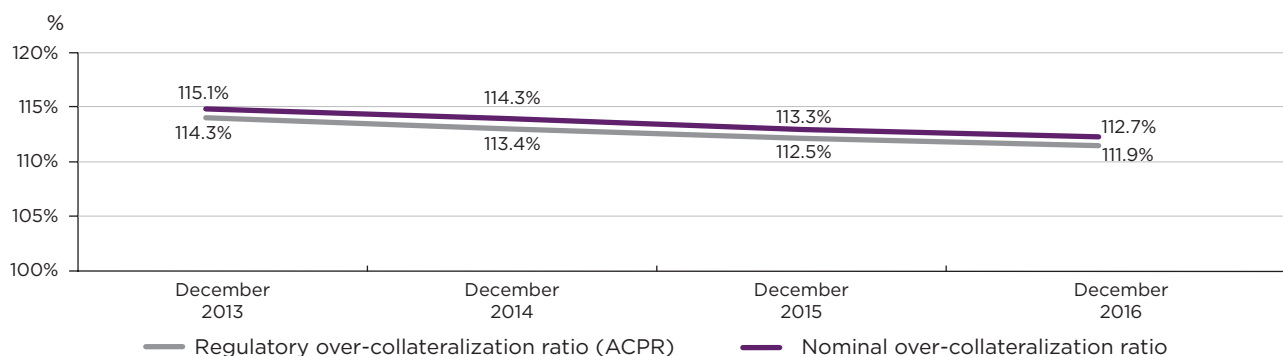
Amortization of *obligations foncières* and registered covered bonds



6. Changes in the over-collateralization ratio

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.

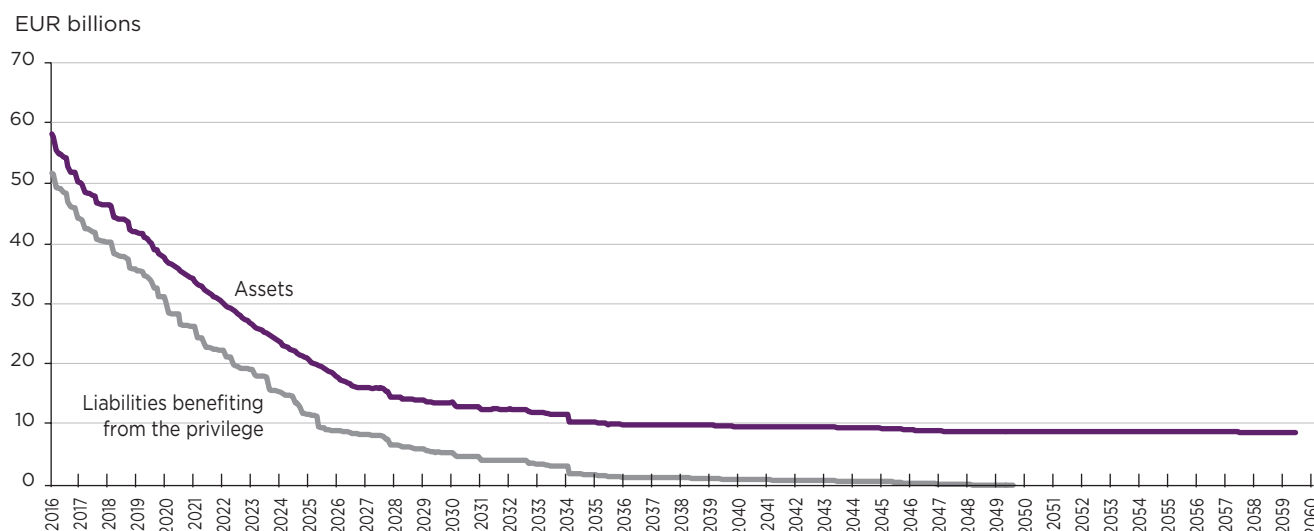


Regulatory over-collateralization may differ from nominal over-collateralization. In fact, it is calculated on the basis of the rules determined by the Autorité de contrôle prudentiel et de résolution (ACPR). In particular, these rules require different weighting levels according to the assets. The assets in Caisse Française de Financement Local's cover pool are weighted at 100%. The small difference between the two ratios can be explained by the accrued interest not yet due taken into account in the regulatory over-collateralization ratio.

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, 2016.

Amortization of assets and liabilities as of December 31, 2016



In this graph, the assumption is made that excess cash generated over time is included in the cover pool.

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 2016, 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 24 days 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 Banque de France. 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	12/31/2015	12/31/2016
Parent company	5.5	5.2
Banque de France	-	-
TOTAL	5.5	5.2

The decrease in debt not benefiting from the legal privilege was the result of the decrease in the size of the cover pool and the change in the level of over-collateralization in 2016.

8. Risk management

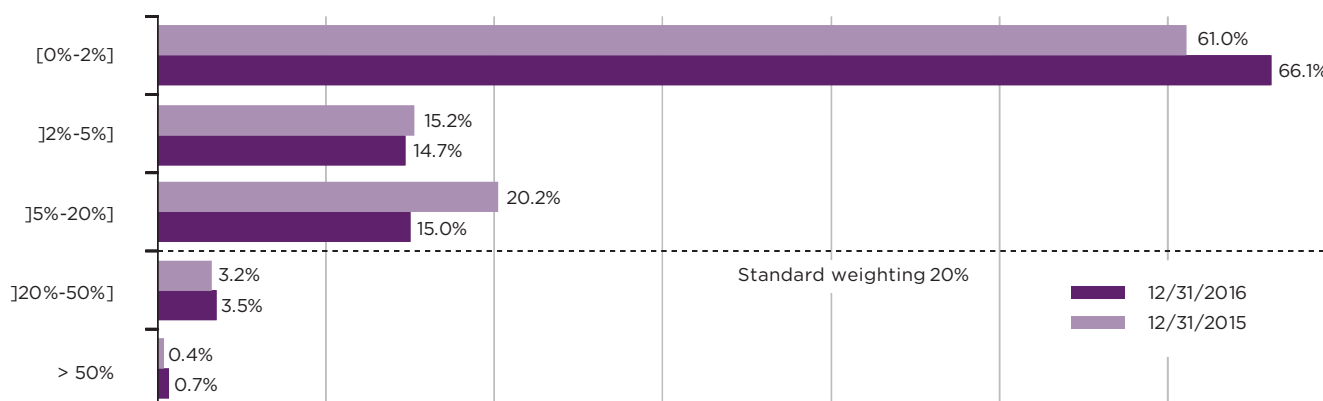
8.1 - CREDIT RISK

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 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 regulators 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, 2016, 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, 2016



This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio:

- more than 80% of the portfolio has a weighting of less than 5%;
- the average risk weighting of the cover pool assets is 6.2%, versus 20% for European local governments according to the Basel II/III standard method;
- only 4% of the portfolio has a weighting of more than 20%.

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 25.1% as of December 31, 2016, compared to 24.0% as of December 31, 2015. The phased-in Common Equity Tier 1 Ratio in Basel III was 24.8% as of December 31, 2016, compared to 23.2% on 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%	1,159 100%	1,159 100%	1,159 100%
French local authorities	84%	2,317 5.1%	5,520 12.2%	13,155 29.0%
Non-French local authorities	14%	2,315 31.7%	4,623 63.2%	6,809 93.1%
TOTAL	100%	2,923 5.0%	8,256 14.2%	19,723 33.9%

As of December 31, 2016, all categories combined, the 20 largest exposures (excluding replacement assets and cash investments) represented 14.2% of the global cover pool (compared to 13.6% as of December 31, 2015). The largest exposure accounted for only 1.1% 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 probability of default and loss given default. This model is regularly tested *a posteriori*.

The non-performing and litigious loans constitute less than 1.0% of the Caisse Française de Financement Local cover pool; this is proof of the good quality of its portfolio. They had increased between 2013 and 2015, in particular because of the increase in the outstanding debt connected to lawsuits over structured loans, but also due to the more conservative approach of Caisse Française de Financement Local after the shareholder change. In 2016, the non-performing and litigious loans decreased significantly. Indeed, the growing number of financial settlement agreements signed with local governments and public hospitals within the framework of the strategy to reduce loan sensitivity made it possible to settle many outstanding debts and thus reduce the amounts and number of non-performing and litigious loans.

Also, the outstanding debts decreased by 39% in a year, dropping from EUR 133 million to EUR 81 million at the end of 2016. At the same time, the non-performing and litigious loans decreased by EUR 116 million from EUR 673 million to EUR 557 million, i.e. more than 17%.

EUR millions	12/31/2015	12/31/2016
Non-performing loans and litigious loans	673	557
% of cover pool	1.1%	1.0%
Arrears	133	81

Non-performing and litigious loans consist of:

- EUR 530 million of non-performing loans, which correspond to loans granted to customers of which the total unpaid outstanding amounts total EUR 54 million (of which EUR 46 million unpaid amounts relating to structured loans). When a customer is classified as being in default in terms of credit risk, the total amount of their outstanding loans is classified as non-performing by contagion.
- EUR 27 million in loans classified as litigious, corresponding to unpaid interests on structured loans for which a lawsuit is ongoing.

Non-performing loans and litigious loans EUR millions	12/31/2015		12/31/2016	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
FRANCE				
State	-	-	-	-
Regions	-	1	54	-
Departments	-	11	70	-
Groups of municipalities	104	42	117	14
Municipalities	352	19	268	12
Public sector entities	140	4	21	1
TOTAL NON-PERFORMING AND LITIGIOUS LOANS	596	77	530	27
<i>of which arrears on structured loans</i>	<i>48</i>	<i>77</i>	<i>46</i>	<i>27</i>
<i>of which arrears on other loans</i>	<i>8</i>	<i>-</i>	<i>8</i>	<i>-</i>

The change in the number of customers with non-performing loans and with a part of their outstanding amounts involved in litigation (unpaid maturities of sensitive loans) is presented in the table below.

Non-performing loans and litigious loans (number of customers)	12/31/2015		12/31/2016	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
Beginning of the year	90	52	74	35
New	29	14	17	4
Outgoing	45	31	42	25
END OF THE YEAR	74	35	49	14

The increasing number of agreements signed with local governments resulted in a decrease in the amount and number of non-performing and litigious loans. The number of customers with non-performing and litigious loans concerned 63 customers at the end of 2016, compared with 109 at the end of 2015, representing a decrease of 46 customers. In 2016, twenty-two litigious files were resolved after the payment of the sums due and three litigious files were reclassified as non-performing.

The total amount of provisions at the end of December 2016 is presented in the table below.

EUR millions	12/31/2015	12/31/2016
Specific impairment	66	60
Collective impairment	63	46
TOTAL	129	106

Specific provisions for non-performing loans decreased by EUR 6 million since the beginning of the year. This decline is primarily due to the repayment of unpaid interest and to the drop in non-performing loans.

In 2016, the review of the loan portfolios and associated risks required an adjustment of the collective provisions with a reversal of EUR 17 million which is notably the result of the reduction of the sensitive loans, which made it possible to reassess the legal risk associated with customers who took Caisse Française de Financement Local to court.

Consequently, at the end of 2016, the cost of risk became positive at EUR 18 million, which mainly corresponds to the reversal of the collective provisions.

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:

- replacement assets in the amount of EUR 0.7 billion (see 4.2.b. Replacement assets);
- 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 characteristics, since they must meet the standards set by rating agencies for *sociétés de crédit foncier* (and other issuers of covered bonds). These interest rate and currency swaps all benefit from the same legal privilege as *obligations foncières*. For this reason, Caisse Française de Financement Local does not pay its derivative counterparties any collateral, whereas they have to pay Caisse Française de Financement Local except for some which benefit from the agencies' highest short-term rating.

At the end of December 2016, Caisse Française de Financement Local was exposed (positive fair value of the swaps) on 13 banking counterparties, twelve of these paid cash collateral of EUR 1.3 billion, offsetting total exposure, and one paid no collateral because of its very good short-term rating. This counterparty represented a limited exposure (EUR 10 million).

All derivative exposures as of December 31, 2016, 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	-	17.1	19.4%	(1.6)	-	-	1
Other counterparties	52.2	71.3	80.6%	(3.1)	1.3	1.3	29
TOTAL	52.2	88.4	100.0%	(4.7)	1.3	1.3	30

The swaps negotiated with external counterparties represented 80.6% of outstanding long-term swaps and those signed with SFIL 19.4%. The long-term swaps signed with the five largest counterparties represented a total of 39.4% 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 stages 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. Loans granted individually or bond issues can be micro- or macro-hedged. Hedging of assets and liabilities is more often obtained in using new interest rate swaps, but the same effect can also be obtained whenever possible by the cancelation of swaps of opposite direction.
- 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	Limit	3/31/2016	6/30/2016	9/30/2016	12/31/2016
SENSITIVITY	25.0	0.6	(3.7)	(5.6)	(0.5)

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	Limit	3/31/2016	6/30/2016	9/30/2016	12/31/2016
Short term	10.0	0.0	(1.5)	(1.9)	(0.9)
Medium term	10.0	1.0	(1.8)	(2.3)	0.3
Long term	10.0	(0.7)	(0.5)	(2.6)	0.1
Very long term	10.0	0.3	0.1	1.2	0.1

- *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	Limit	3/31/2016	6/30/2016	9/30/2016	12/31/2016
Short term	20.0	4.8	4.5	2.6	4.4
Medium term	20.0	10.7	14.5	12.1	4.3
Long term	20.0	5.8	10.7	11.0	8.1
Very long term	20.0	6.5	6.4	7.4	5.9

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, 2016.

Breakdown of outstanding swaps	Notional* EUR billions	SFIL %	Other counterparties %
Euribor against Eonia			
Macro-hedges	52.2	0.0%	100.0%
TOTAL SHORT-TERM SWAPS	52.2	0.0%	100.0%

Breakdown of outstanding swaps	Notional* EUR billions	SFIL %	Other counterparties %
Fixed rate swaps against Euribor			
Micro-hedges on <i>obligations foncières</i>	42.8	15.9%	84.1%
Micro-hedges on loans and debt securities	23.8	10.8%	89.2%
Macro-hedges on loans and debt securities	15.7	28.7%	71.3%
Subtotal	82.3	16.8%	83.2%
Currency swaps			
Micro-hedges on <i>obligations foncières</i>	4.0	58.0%	42.0%
Micro-hedges on loans	1.4	45.6%	54.4%
Micro-hedges on debt securities	0.7	48.6%	51.4%
Subtotal	6.1	54.0%	46.0%
TOTAL LONG-TERM SWAPS	88.4	19.4%	80.6%

* 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)	12/31/2015	3/31/2016	6/30/2016	9/30/2016	12/31/2016
Cover pool	7.17	7.50	7.27	7.50	7.22
Privileged liabilities	5.52	5.92	6.11	6.26	6.10
Gap in asset-liability duration	1.64	1.58	1.16	1.24	1.13
Duration gap limit	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)	12/31/2015	3/31/2016	6/30/2016	9/30/2016	12/31/2016
Cover pool	7.84	7.94	7.58	7.78	7.71
Privileged liabilities	5.95	6.21	6.32	6.47	6.47
Gap in asset-liability weighted average life	1.89	1.72	1.27	1.31	1.24

3. Regulatory limit

Current regulations impose 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.

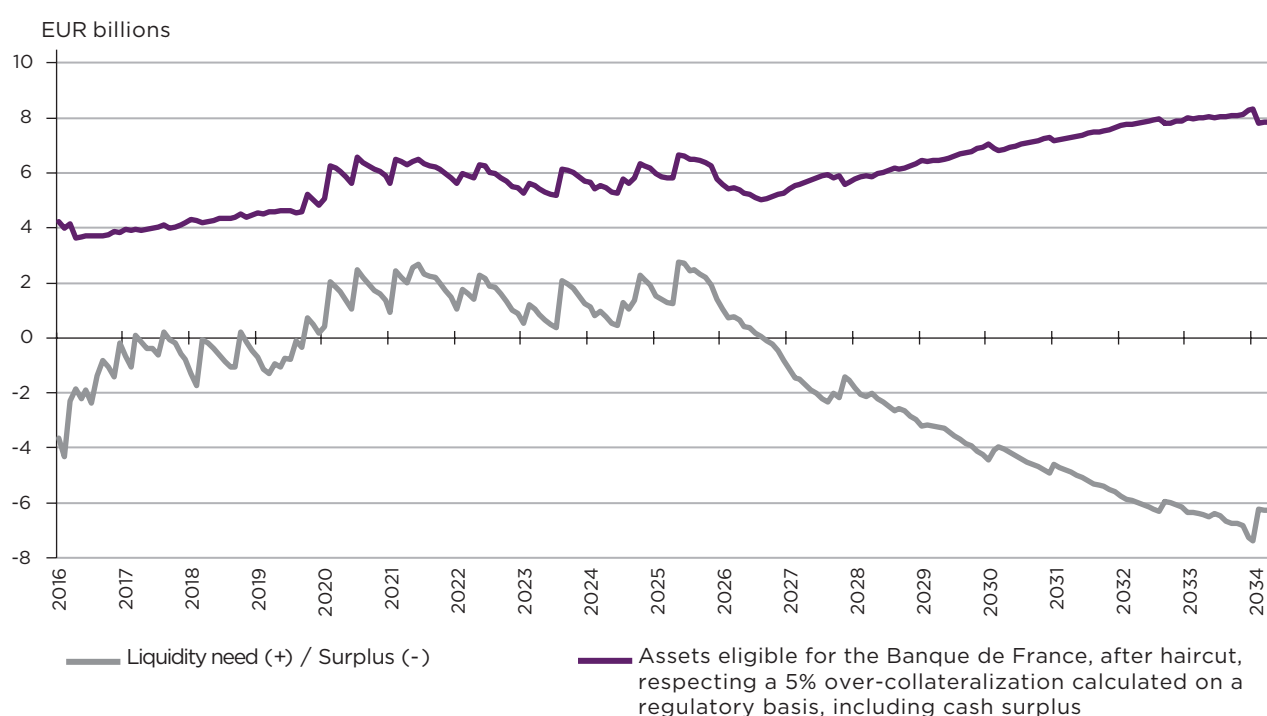
Since it is a credit institution, Caisse Française de Financement Local can post these eligible assets:

- 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).

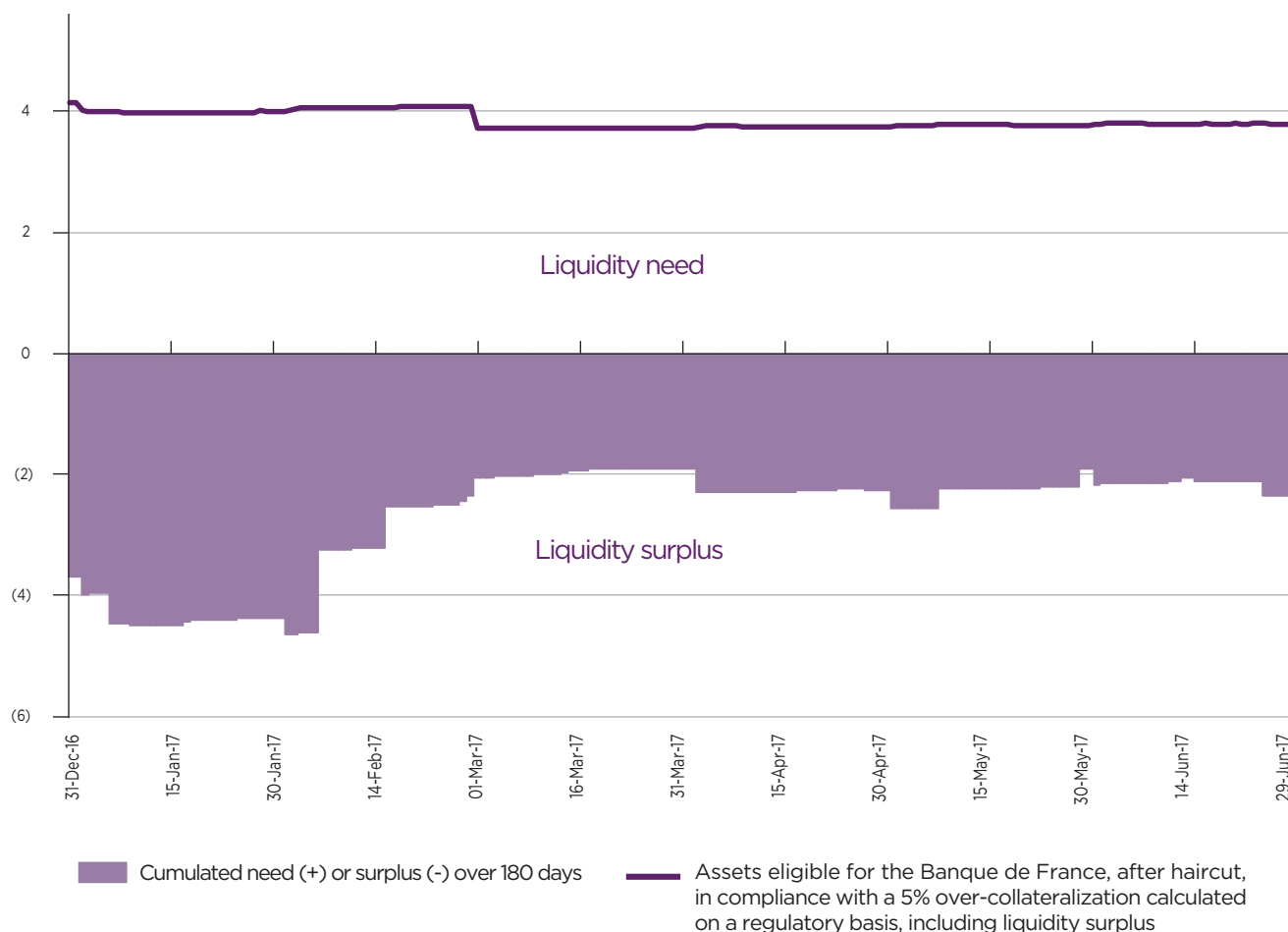
The maximum cumulated liquidity that Caisse Française de Financement Local might need in the future, in a run-off situation and if it were not able to issue new *obligations foncières*, is less than the maximum financing already occasionally obtained from the Banque de France in the past. This need is 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 the cumulative need for liquidity, and eligible assets to cover this need 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 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 need over a period of 180 days is 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 registered covered bonds, 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 2016, 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 significant litigation or suit other than those described in the sections 2.6 and 2.7.

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 2016 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, 2016, are mainly comprised of financing offers granted to SFIL for the refinancing of the export credit business in the amount of EUR 3.7 billion and to a lesser extent the portion not yet paid out of loans granted to French local governments in the amount of EUR 0.1 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;
- guarantees received on loans to customers for EUR 2.9 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, 2016, 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 expenses

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.

13. 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 social, environmental and societal issues in the Management Report. Since Caisse Française de Financement Local has no salaried employees nor actual premises, social, environmental and societal issues do not apply to this entity.

14. Income for the year

14.1 – INCOME ACCORDING TO IFRS

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

The income statement for 2016 is presented in a synthetic form as follows.

IFRS EUR millions	2014	2015	2016	Change 2016/2015
Interest margin	103	115	150	
Net commissions	(28)	(26)	(7)	
Net result of assets at fair value	(14)	(32)	(38)	
Net result of financial assets available for sale	8	(2)	14	
Other income and expense	-	-	(0)	
NET BANKING INCOME	69	55	119	116%
General operating expenses	(90)	(90)	(91)	
Taxes	(3)	(6)	(7)	
GROSS OPERATING INCOME	(24)	(41)	21	151%
Cost of risk	(18)	(14)	18	
PRE-TAX INCOME	(42)	(55)	39	171%
Income tax	13	(21)	(29)	
NET INCOME	(29)	(76)	10	113%

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

a. Income restated excluding non-recurrent items

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

- adjustments in fair value concerning interest rate risk hedges. The application of certain accounting standards or methods (see below) is a source of volatility in Net banking income. The impact of these adjustments was significantly negative in 2014, 2015 and 2016 as shown in the table below.

EUR millions	2014	2015	2016
Fair value adjustments on interest rate hedging	(24)	(36)	(37)

For the record, 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 standard IFRS 13: Credit Valuation Adjustment / Debit Valuation Adjustment (CVA / DVA), Funding Valuation Adjustment (FVA);
- fair value adjustment of collateralized derivatives: to account for 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.

- the contribution to the support funds created by the French State to solve the problem of sensitive structured loans. The commitment was totally covered by provisions once Caisse Française de Financement Local decided to contribute to the public hospitals support fund in 2014 and 2015; the impact on the Cost of risk is presented below.

EUR millions	2014	2015	2016
Contribution to support funds for sensitive structured loans	(18)	(20)	-

- the provision covering the risk of additional tax to pay within the framework of the tax assessment. This provision was increased in the 2015 financial statements by EUR 38 million and its amount was maintained for 2016.
- the effect of changes in the income tax rate: Caisse Française de Financement Local has taken note of the reduction in corporate income tax to 28% as of 2020. To this end, it reduced its deferred tax assets and recorded a non-recurrent expense of EUR -14 million in its 2016 accounts.

EUR millions	2014	2015	2016
Provision covering the risk of additional income tax to pay	-	(38)	-
Adjustments of deferred tax assets	-	-	(14)

Excluding non-recurrent items indicated above, the “recurrent” income statement for 2015 and 2016 is as follows.

EUR millions	2015			2016		
	Accounting income statement	Non-recurrent items	Recurrent income statement	Accounting income statement	Non-recurrent items	Recurrent income statement
NET BANKING INCOME	55	(36)	91	119	(37)	156
General operating expenses and Taxes	(96)		(96)	(98)		(98)
GROSS OPERATING INCOME	(41)		(5)	21		58
Cost of risk	(14)	(20)	6	18		18
PRE-TAX INCOME	(55)		1	39		76
Income tax	(21)	(19)	(2)	(29)	1	(28)
NET INCOME	(76)		(1)	10		48

With non-recurrent items removed, Net banking income increased from EUR +91 million in 2015 to EUR +156 million in 2016, and Net income increased sharply from EUR -1 million to EUR +48 million in 2016.

b. Analysis of recurrent net income

The significant improvement in 2016 of the recurrent income of Caisse Française de Financement Local was due to the reduction in loan sensitivity, which led to:

- an increase in the Net banking income, resulting mainly from the reversal of the provisions on the interest on non-performing loans of EUR +5 million in 2016, as compared to an impairment of EUR -26 million in 2015;
- the reversal of collective provisions totaling EUR +18 million in 2016, compared to EUR +6 million in 2015.

Moreover, the improvement in the refinancing conditions and the good level of commercial margins contributed to the progression of the interest margin, from EUR +115 million in 2015 to EUR +150 million in 2016.

Furthermore, the two Net banking income components below also improved the recurrent result of Caisse Française de Financement Local:

- Net commissions paid, which decreased by EUR 19 million between 2015 and 2016. They were mainly related to SFIL invoices billed within the framework of its management agreement as defined in article L. 513-15 of the French Monetary and Financial Code; specific gains reduced the amount invoiced in 2016;
- the item Net result of financial assets available for sale has also increased by EUR 16 million compared to 2015. This item mainly represents the results on early reimbursements of loans or issues, and if such is the case, on sales of portfolio securities.

Most of the General operating expenses are made up of billing by the parent company for the operational management of the Company. These expenses as well as taxes paid were stable compared to 2015.

The tax expense for the year was EUR -28 million; it took into account the non-deductibility of the contribution to the Single Resolution Fund.

14.2 - INCOME ACCORDING TO FRENCH GAAP

Net income for the year 2016 is presented below in a synthetic manner.

French GAAP EUR millions	2014	2015	2016	Change 2016/2015
Interest margin	158	186	179	
Net commissions	(28)	(26)	(7)	
Provisions and income on trading portfolio	-	0	(0)	
Provisions and income on securities	(2)	21	(9)	
Other income and expense	-	-	-	
NET BANKING INCOME	128	181	163	(10)%
General operating expenses	(90)	(90)	(91)	
Taxes	(3)	(6)	(7)	
GROSS OPERATING INCOME	35	85	65	(24)%
Cost of risk	(18)	(14)	18	
OPERATING INCOME	17	71	83	17%
Income (loss) on fixed assets	-	(5)	-	
Income tax	(9)	(96)	(16)	
NET INCOME	8	(30)	67	323%

The Company's business is piloted according to IFRS (as adopted by the European Union). 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 the accounting treatment for recognition of the penalties due to the early repayment of loans and swap unwinding payments for termination of hedging swaps in the French GAAP accounts differs from the treatment applied in the accounts prepared pursuant to IFRS. Pursuant to IFRS, cash payments and penalties are usually amortized, while they are usually recognized immediately in Net Banking Income, according to French GAAP. This accounting treatment may lead to recognition of the results earlier than would a systematic amortization approach. These penalties and cash payments are generated by early reimbursements, but also by renegotiations, which generally accompany active debt management by borrowers, as well as swaps which are cancelled in order to back directly assets to liabilities. 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 dropped 10%, i.e. EUR -18 million, as compared with the same period in 2015, from EUR +181 million to EUR +163 million.

This decrease was mainly due to the item Provisions and income on securities which varies from EUR -30 million (reversals in 2015 and provisions in 2016 linked to changes in the market value of placement securities). The Net commissions item has improved by EUR +19 million and the interest margin decreased by EUR -7 million.

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 (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.

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 as well as taxes were stable compared to 2015.

The Cost of risk presents a profit during the year (see 8.1.c Non-performing loans, litigious loans, provisions). This result is due to the reversal of provisions made possible by the progressive reduction of non-performing and litigious loans. For the record, in 2015, the Cost of risk had been affected by the recognition of the Caisse Française de Financement Local's voluntary contribution to the support fund for sensitive structured loans to public hospitals in the amount of EUR -20 million.

Income tax for the period totaled EUR -16 million after accounting for the prior year deficit. For the record, a provision for tax risk was established in the 2015 accounts in the amount of EUR 86 million (the difference from the amount covered by a provision for this purpose in the IFRS accounts for EUR 38 million, was due to the non-recognition of deferred taxes in French GAAP accounts). EUR 6 million of this provision were reversed in 2016.

Net income increased from EUR -30 million to EUR +67 million.

15. Proposed allocation of net income

In previous years, Caisse Française de Financement Local has made the following distributions:

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
2016	2015	-	-	13,150,000

The Ordinary Shareholders' Meeting will be asked to distribute a dividend in the amount of EUR 35 millions and to vote a resolution to allocate net income as follows (in euros).

ALLOCATION OF NET INCOME	EUROS
Net income for the year	66,765,635.52
Retained earnings	(4,922,988.81)
Income available	61,842,646.71
Legal reserve (5%)	(3,092,132.34)
Income available for distribution	58,750,514.37
Proposed dividends	(35,110,500.00)
Retained earnings after allocation	23,640,014.37

16. Capital increase

The Extraordinary Shareholders' Meeting of May 30, 2017, will be asked to approve a capital increase in the amount of EUR 35 million, thus increasing the share capital from EUR 1,315 million to EUR 1,350 million.

17. Outlook for 2017

In 2017, Caisse Française de Financement Local and its parent company SFIL aim to:

- maintain their role as a major player in the market for loans to French local governments and public hospitals within the partnership with La Banque Postale (leader in this market in 2015 and 2016);
- enhance their 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 decreased by 80% since the beginning of 2013). This activity is generally accompanied by new loans granted to the local governments concerned and will continue at a slower pace than in 2015 and 2016, now that the notices of assistance for the support funds have been disclosed and most of the sensitive structured loan problems have been solved.

Caisse Française de Financement Local will thus see new loans enter its portfolio of assets in 2017. They will represent exposures on the French local public sector and the French State.

To cover its financing needs, Caisse Française de Financement Local plans to issue between EUR 6.0 billion and EUR 7.0 billion of *obligations foncières* in 2017 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.

Public sector loans and bonds as of December 31, 2016

EUR millions	12/31/2016				12/31/2015
	Direct exposure		Indirect exposure		Total
COUNTRY	Loans	Bonds	Loans	Bonds	Total
France					
State	5	-	93	-	98
Banque de France	3,685	-	-	-	3,685
Regions	1,686	95	270	-	2,051
Departments	6,782	-	204	-	6,986
Municipalities	16,139	21	488	-	16,648
Groups of municipalities	10,735	90	179	-	11,004
Public sector entities:					
- health	6,310	-	-	-	6,310
- social housing	1,421	-	-	-	1,421
- other	919	25	1	-	945
Credit institutions	4	646	-	-	650
Subtotal	47,686	877	1,235	-	49,798
Germany					
<i>Länder</i>	-	515	-	-	515
Subtotal	-	515	-	-	515
Austria					
<i>Länder</i>	-	-	191	-	191
Subtotal	-	-	191	-	191
Belgium					
Regions	13	-	31	-	44
Communities	-	50	-	-	50
Public sector entities	60	-	-	-	60
Subtotal	73	50	31	-	154
Canada					
Provinces	-	22	-	-	22
Communities	172	-	-	-	172
Public sector entities	129	-	-	-	129
Subtotal	301	22	-	-	323
Spain					
State	-	200	-	-	200
Regions	88	-	-	-	88
Municipalities	-	104	-	-	104
Subtotal	88	304	-	-	392
United States					
Federated States	-	252	-	-	252
Subtotal	-	252	-	-	252

EUR millions	12/31/2016					12/31/2015
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
Finland						
Municipalities	0	-	-	-	0	0
Public sector entities	-	-	-	-	-	-
Subtotal	0	-	-	-	0	0
Italy						
State	-	541	-	-	541	568
Regions	-	2,043	-	-	2,043	2,131
Provinces	-	566	-	-	566	610
Municipalities	9	1,964	-	-	1,973	2,100
Subtotal	9	5,114	-	-	5,123	5,409
Japan						
Municipalities	-	25	-	-	25	25
Subtotal	-	25	-	-	25	25
Portugal						
Municipalities	20	-	-	-	20	45
Public sector entities	6	-	-	-	6	6
Subtotal	26	-	-	-	26	51
United Kingdom						
State	-	-	-	320	320	403
Counties	-	-	-	-	-	398
Districts	-	-	-	-	-	28
Municipalities	-	-	-	-	-	1,368
Public sector entities	-	-	-	-	-	56
Subtotal	-	-	-	320	320	2,253
Sweden						
Municipalities	18	-	-	-	18	29
Subtotal	18	-	-	-	18	29
Switzerland						
Cantons	293	-	93	-	386	656
Municipalities	556	-	-	-	556	614
Public sector entities	91	-	-	-	91	91
Subtotal	940	-	93	-	1,033	1,361
Supranational						
International organizations	32	-	-	-	32	36
Subtotal	32	-	-	-	32	36
TOTAL COVER POOL	49,173	7,159	1,550	320	58,202	60,019

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.

Income for the last five years

	2012	2013	2014	2015	2016
FINANCIAL POSITION					
Share capital (EUR millions)	1,315	1,315	1,315	1,315	1,315
Number of shares	13,150,000	13,150,000	13,150,000	13,150,000	13,150,000
RESULTS OF OPERATIONS (EUR MILLIONS)					
Revenues ⁽¹⁾	2,182	2,287	1,177	2,172	2,476
Income before income tax, amortization, depreciation and contingencies net of reversals	119	94	63	71	86
Income tax	50	5	9	96	16
Income after income tax, amortization, depreciation and contingencies net of reversals	37	(21)	8	(30)	67
Exceptional distribution	-	-	-	-	-
Dividend ⁽²⁾	-	-	-	-	35
PER SHARE DATA (EUR)					
Revenues	165.96	173.89	89.54	165.16	188.28
Income after income tax, before amortization, depreciation and contingencies net of reversals	5.30	6.74	4.12	(1.92)	5.37
Income tax	3.76	0.42	0.69	7.34	1.19
Income after income tax, amortization, depreciation and contingencies net of reversals	2.83	(1.56)	0.59	(2.30)	5.08
Exceptional distribution	-	-	-	-	-
Dividend per share ⁽²⁾	-	-	-	-	2.67

(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 2016.

Supervisory Board and Executive Board

Supervisory Board (March 2017)

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

The mandates of Philippe Mills, François Laugier, Stéphane Costa de Beauregard, Sami Gotrane and Florent Lecinq come to an end after the Shareholders' Meeting of May 30, 2017. The Ordinary Shareholders' Meeting is asked to renew their mandates excluding that of Stéphane Costa de Beauregard.

In addition, the Ordinary Shareholders' Meeting is asked to appoint Nathalie Argourd and Anne Crépin as members of the Supervisory Board.

Executive Board (March 2017)

Gilles Gallerne
Chairman

Romain Bailly
Chief Executive Officer
Member of the Executive Board

Patrick Galland
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 2016 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

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 - 2017

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)
- Chairman of the Board of Directors, European Association of Public Banks (EAPB).

VICE CHAIRMAN

François Laugier

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, 2013-2017

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

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, 2013-2017

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

51 years old - French nationality

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

Date mandate begins and ends: May 25, 2016-2020.

Date of first mandate: December 12, 2012

Principal function: General Secretary, SFIL

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

Sami Gotrane

53 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 - 2017

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

41 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 - 2017
 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

53 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, 2017 - 2021
 Date of first mandate: January 1, 2008
 Principal function: Director, CAFFIL Coordination, SFIL
 Other mandates and responsibilities:

- Member of the Executive Committee, SFIL
- Member of the Board, Association Française des Sociétés Financières (ASF)

CHIEF EXECUTIVE OFFICER

Caroline Gruson (until December 7, 2016)

43 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 - December 7, 2016
 Date of first mandate: January 5, 2011
 Principal function: Head of CAFFIL Coordination division, SFIL (until October 2016) then Chief Digital Officer at SFIL
 Other mandates and responsibilities: None

Romain Bailly (since December 7, 2016)

36 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, 2017-2021
 Date of first mandate: December 7, 2016
 Principal function: Head of CAFFIL Coordination division, SFIL (since December 2016)
 Other mandates and responsibilities: None

MEMBERS

Cyril Cudennec (until October 10, 2016)

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 - October 10, 2016
 Date of first mandate: January 31, 2013
 Principal function: Director of Financial Performance Management division, Deputy CFO, SFIL (until October 2016)
 Other mandates and responsibilities: None

Olivier Eudes

48 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, 2017 - 2021
 Date of first mandate: May 27, 2015
 Principal function: Director, Financial Markets, SFIL
 Other mandates and responsibilities: Manager, SCI Phoenix

Patrick Galland (since December 7, 2016)

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, 2017 - 2021

Date of first mandate: December 7, 2016

Principal function: Deputy Director, Financial Performance Management division, SFIL

Other mandates and responsibilities:

- Member of the Board of Directors, SFIL
- Member of the Risk and Internal Control Committee (since March 2016), SFIL

Emmanuel Moritz

41 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, 2017 - 2021

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 2016, 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 Appointments 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 Sylvie Bourguignon, 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.

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, 2016

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, 2016 (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.

RESPONSIBILITY 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 2017. 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 in 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.

Neuilly-sur-Seine, March 28, 2017.

French original signed by one of the statutory auditors:

DELOITTE & ASSOCIÉS
Sylvie Bourguignon

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

IFRS Financial Statements

Assets

EUR millions	Note	12/31/2014	12/31/2015	12/31/2016
Central banks	2.1	519	2,496	3,684
Financial assets at fair value through profit or loss		2	2	-
Derivatives	4.1	8,361	7,043	6,437
Financial assets available for sale	2.2	2,770	889	1,736
Loans and advances due from banks	2.3	6,752	4,865	381
Loans and advances to customers	2.4	62,242	60,854	59,679
Fair value revaluation of portfolio hedge		3,178	2,784	3,053
Financial assets held to maturity		-	-	-
Current tax assets	2.5	0	0	0
Deferred tax assets	2.5	99	108	109
Accruals and other assets	2.6	3	20	28
TOTAL ASSETS		83,926	79,061	75,107

Liabilities

EUR millions	Note	12/31/2014	12/31/2015	12/31/2016
Central banks		-	-	-
Financial liabilities at fair value through profit or loss		0	2	1
Derivatives	4.1	13,512	12,013	9,800
Due to banks	3.1	6,228	5,520	5,225
Customer borrowings and deposits		-	-	-
Debt securities	3.2	58,501	57,142	56,110
Fair value revaluation of portfolio hedge		1,786	1,446	1,198
Current tax liabilities	3.3	10	1	0
Deferred tax liabilities	3.3	-	-	-
Accruals and other liabilities	3.4	2,532	1,584	1,424
Provisions	3.5	-	38	38
Subordinated debt		-	-	-
Equity		1,357	1,315	1,311
Capital and related reserve		1,315	1,315	1,315
Reserves and retained earnings		218	189	113
Gains and losses through equity		(147)	(113)	(127)
Net income		(29)	(76)	10
TOTAL LIABILITIES		83,926	79,061	75,107

Income statement

EUR millions	Note	2014	2015	2016
Interest income	5.1	4,453	4,047	3,256
Interest expense	5.1	(4,350)	(3,932)	(3,106)
Fee and commission income	5.2	0	0	0
Fee and commission expense	5.2	(28)	(26)	(7)
Net result of financial instruments at fair value through profit or loss	5.3	(14)	(32)	(38)
Net result of financial assets available for sale	5.4	8	(2)	14
Other income		0	0	0
Other expense		(0)	(0)	(0)
NET BANKING INCOME		69	55	119
Operating expense	5.5	(93)	(96)	(98)
GROSS OPERATING INCOME		(24)	(41)	21
Cost of risk	5.6	(18)	(14)	18
OPERATING INCOME		(42)	(55)	39
Net gains (losses) on other assets		0	-	-
INCOME BEFORE TAX		(42)	(55)	39
Income tax	5.7	13	(21)	(29)
NET INCOME		(29)	(76)	10
Earnings per share (in EUR)				
- Basic		(2.22)	(5.79)	0.76
- Diluted		(2.22)	(5.79)	0.76

Net income and unrealized or deferred gains and losses through equity

EUR millions	2014	2015	2016
Net income	(29)	(76)	10
Items that could be reclassified to profit or loss	27	34	(14)
Unrealized or deferred gains and losses of financial assets available for sale	39	49	(26)
Unrealized or deferred gains and losses of cash flow hedges	2	4	4
Taxes on items reclassified subsequently to profit or loss	(14)	(19)	8
Items that will not be reclassified to profit or loss	-	-	-
Total of unrealized or deferred gains and losses through equity	27	34	(14)
NET INCOME AND GAINS AND LOSSES THROUGH EQUITY	(2)	(42)	(4)

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 cash flow hedging derivatives, after tax	Total	
EQUITY AS OF DECEMBER 31, 2015	1,315	113	1,428	(87)	(26)	(113)	1,315
Shares issued	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Changes in fair value of available-for-sale financial assets through equity	-	-	-	(17)	-	(17)	(17)
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	-	10	10	-	-	-	10
Other movements	-	-	-	-	-	-	-
EQUITY AS OF DECEMBER 31, 2016	1,315	123	1,438	(104)	(23)	(127)	1,311

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

Cash flow statement

EUR millions	2014	2015	2016
NET INCOME BEFORE TAXES	(42)	(55)	39
+/- Depreciation and write-downs	44	39	(23)
+/- Expense / income from investing activities	110	290	121
+/- Expense / income from financing activities	(88)	(184)	(59)
+/- Other items	(126)	102	315
= Non-monetary items included in net income before tax and other adjustments	(60)	247	354
+/- Cash from interbank operations	38	1,158	4,177
+/- Cash from customer operations	990	(772)	(961)
+/- Cash from financing assets and liabilities	(1,448)	3,222	(520)
+/- Cash from non financing assets and liabilities	0	(1,258)	(731)
- Income tax paid	(3)	(35)	(17)
= Decrease / (increase) in cash from operating activities	(423)	2,315	1,948
CASH FLOW FROM OPERATING ACTIVITIES (A)	(525)	2,507	2,341
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-	-
+/- Cash from or for shareholders	-	-	-
+/- Other cash from financing activities	(430)	(540)	(1,148)
CASH FLOW FROM FINANCING ACTIVITIES (C)	(430)	(540)	(1,148)
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	-	-	-
Increase / (decrease) in cash equivalents (A + B + C + D)	(955)	1,967	1,193
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,488	533	2,500
Cash and balances with central banks (assets & liabilities)	1,471	519	2,496
Interbank accounts (assets & liabilities) and loans / deposits at sight	17	14	4
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	533	2,500	3,693
Cash and balances with central banks (assets & liabilities)	519	2,496	3,684
Interbank accounts (assets & liabilities) and loans / deposits at sight	14	4	9
CHANGE IN NET CASH	(955)	1,967	1,193

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, as adopted by the European Union. This publication is voluntary. The financial statements as of December 31, 2016, were examined by the Executive Board on March 20, 2017.

1.2. APPLICABLE ACCOUNTING STANDARDS

a. Application of IFRS as adopted by the European Union

On July 19, 2002, the European Union published regulation EC 1606/2002, which obliged listed groups to apply IFRS as from January 1, 2005. Caisse Française de Financement Local deliberately decided to apply all the IAS, IFRS, SIC and IFRIC adopted by the European Union 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 are prepared in accordance with all IFRS as adopted and endorsed by the European Union up to the accounting closing on December 31, 2016.

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, 2016.

IASB and IFRIC texts endorsed by the European Union and effective as of January 1, 2016

- 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 judgement (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.

The impact of these amendments is not significant.

IASB and IFRIC texts endorsed by the European Union during the year but not applicable as of January 1, 2016

- IFRS 9 Financial Instruments: this standard, which will replace IAS 39, was adopted by the European Union on November 22, 2016, and will come into effect for fiscal years beginning on or after January 1, 2018. It sets out new principles for:
 - the classification and valuation of financial assets: accounting will be defined on the basis of the management model implemented on the one hand, and the nature of the flows received (consisting exclusively of payments of principal and interest, or including other elements) on the other hand;

- the impairment for credit risk: the standard introduces a loss impairment model that requires to account for 12-month expected credit losses for all assets that enter the balance sheet, and lifetime expected credit losses if the credit risk increased significantly since the initial recognition of the asset;
- hedge accounting, with the exception of macro-hedging transactions, which are to be the subject of a separate draft standard currently being studied by the IASB.

As for financial instruments recorded as liabilities on the balance sheet, the only change is the recognition of changes in fair value of its own credit risk, for financial liabilities designated at fair value (fair value option). They will be recorded in shareholders' equity without any subsequent recycling in profit or loss.

Caisse Française de Financement Local initiated in the second half of 2015 the analysis on the classification and evaluation component of the new standard. The potential impacts are as follows.

- A review of the instruments was carried out in order to identify the assets currently recognized at amortized cost which, due to their contractual characteristics, will be recorded at fair value in the new framework.
- An analysis of the documentation of loan and bond contracts was carried out to identify the different contractual pre-payment clauses and qualify them in relation to the future standard; a limited amendment is currently being considered by the IASB on this point.
- The management model implemented has been formalized for the different portfolios of financial assets.

On the basis of these first elements, work is under way to evaluate the potential impacts of the entry into force of the new standard. The main expected change relates to some loans that should be recorded at fair value through profit or loss, as they do not meet the cash flow criterion representing solely principal and interests.

Moreover, although the business model of Caisse Française de Financement Local is essentially based on an asset holding activity in order to collect the contractual cash flows, a part of the securities portfolio, corresponding to the most liquid assets, may also be subject to sales. This sub-portfolio will be accounted for at fair value through equity.

The analysis of the changes in the impairment methodology began in the first half of 2016. Work first focused on the definition of a significant increase of credit risk applied to the portfolio of loans to French local governments, and on the assessment of the resulting impairment level.

Caisse Française de Financement Local plans to build on the advanced models it has defined for the prudential capital requirements for credit risk, supplementing them by taking into account additional information to integrate the forward-looking dimension.

In the case of hedge accounting, the standard leaves the choice, when first applying IFRS 9, to apply the new provisions or to maintain the provisions in force under IAS 39 until the entry into force of the future macro-hedging standard. The choice to use the new opportunities opened by the new standard will be finalized in 2017.

The implementation of the new standard is based on a Steering Committee involving General Management, the Finance division, the Risks division, as well as the head of Information Systems.

Lastly, work on changes to the information systems related to this new standard has been integrated into the work plan and planning of the user teams and IT teams for 2017.

- Amendments to IAS 12 accounting for deferred tax assets for unrealized losses. The standard clarifies that unrealized losses on financial assets measured at fair value in the financial statements and at cost from a tax point of view can generate deductible temporary differences.
- Amendments to IAS 7 information initiative. It is assumed that an entity shall disclose information that enables users of financial statements to evaluate changes in liabilities included in its financing activities, whether these changes arise or not from cash flows on fundings.

1.3. 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. The effective interest rate is the rate that accurately discounts the expected future cash flows over the life of the financial instrument or, where more appropriate, over a shorter period, so as to obtain the net book value of the financial asset. The calculation of this rate takes into account the commissions received or paid which, because of their nature, form an integral part of the effective rate of the contract, transaction costs and possible premiums and discounts.

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, 2016, 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 the 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 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 the 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 (when the financial asset available for sale is with fixed income) or in Gains (losses) on available-for-sale securities (when the financial asset is with variable 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 a quasi-actuarial 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 amortization 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).

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 used in a hedging relationship

Caisse Française de Financement Local is only authorized to enter in derivative transactions for hedging purposes. These derivatives are usually documented in a hedging relationship.

Nevertheless, as of December 31, 2016, some derivatives could not be recorded as such; that resulted:

- either from operations in which hedge ineffectiveness arose after the hedged items were impaired;

- or from derivatives that hedge the foreign exchange risk related to export credit financing loans denominated in a currency other than the euro, and that are concluded before the end of the drawing phase of the hedged loans. Hedging of currency risk relating to monetary assets or liabilities cannot be documented, in accordance with IAS 39, before they are recorded in the entity's balance sheet.

Changes in the fair value of these derivative instruments are recognized in Net income on 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 hedging 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.

Regarding notably structured financial instruments, the existence of a perfect hedge with a derivative, and the documentation of the associated hedging relationship, have the effect of re-evaluating the hedged risk of the financial instrument, in parallel with the revaluation of the hedging derivative. This results in the same accounting effects as if the derivative embedded in the financial instrument has been separated.

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 of the interest rate risk of a portfolio

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 in the balance sheet (in asset or liability 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 to sell an asset or paid to transfer 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 of sufficient frequency and volume to provide pricing information on an ongoing basis. Active mar-

ket 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 a 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. This differential treatment reflects the different financing cost associated with the derivatives used (FVA - *Funding Valuation Adjustment*). 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 valuation adjustment is taken into account in the valuation of derivatives to reflect the impact of a counterparty's credit risk (credit valuation adjustment) or the counterparty's net exposure to the credit risk of Caisse Française de Financement Local (debit valuation adjustment). This valuation adjustment makes it possible 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. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument.

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 drawn. They are recorded as commission income on the expiry date of the commitment if no loan is drawn.

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 charged or credited directly to other comprehensive income, are also credited or charged directly to 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 ordinary shares

Dividends on ordinary shares are recognized in liabilities in the period in which they are authorized. 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 companies owned directly or indirectly by the same final shareholder and with directors.

o. Segment reporting

Caisse Française de Financement Local's sole activity is the financing or refinancing of commitments on public sector (loans to French local governments and public hospitals, or loans to SFIL with an unconditional and irrevocable 100% guarantee by the French State, as part of the financing of large export credits).

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 banks or central bank and interbank deposits at sight.

2. NOTES TO THE ASSETS (EUR millions)

2.1 - CENTRAL BANKS

	12/31/2014	12/31/2015	12/31/2016
Mandatory reserve deposits with central banks	-	-	-
Other deposits	519	2,496	3,684
TOTAL	519	2,496	3,684

2.2 - FINANCIAL ASSETS AVAILABLE FOR SALE

a. Analysis by nature

	12/31/2014	12/31/2015	12/31/2016
Loans	-	-	-
Bonds	2,770	889	1,736
TOTAL	2,770	889	1,736

b. Analysis by counterparty

	12/31/2014	12/31/2015	12/31/2016
Public sector	2,427	889	1,089
Credit institutions guaranteed by the public sector	343	-	-
Total public sector	2,770	889	1,089
Credit institutions	-	-	647
Total replacement assets	-	-	647
TOTAL	2,770	889	1,736
<i>of which eligible for central bank refinancing</i>	<i>2,481</i>	<i>600</i>	<i>1,320</i>

c. Impairment

	12/31/2014	12/31/2015	12/31/2016
Public sector	2,770	889	1,089
Replacement assets	-	-	647
Total performing assets	2,770	889	1,736
Public sector	-	-	-
Replacement assets	-	-	-
Total impaired assets	-	-	-
Specific impairment	-	-	-
TOTAL ASSETS AFTER IMPAIRMENT	2,770	889	1,736

d. Analysis by term to 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

	12/31/2014	12/31/2015	12/31/2016
Sight accounts	14	4	4
Other loans and advances due from banks	6,738	4,861	377
Performing assets	6,752	4,865	381
Impaired loans and advances	-	-	-
Impaired assets	-	-	-
Total assets before impairment	6,752	4,865	381
Specific impairment	-	-	-
Collective impairment	-	-	-
TOTAL	6,752	4,865	381

b. Breakdown by counterparty

	12/31/2014	12/31/2015	12/31/2016
Credit institutions	4	0	-
Swiss cantonal banks benefiting from their cantons' legal guarantee	629	373	113
Banks guaranteed by a local government, <i>crédits municipaux</i>	91	58	33
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	2,099	2,089	231
Replacement assets	3,929	2,345	4
TOTAL	6,752	4,865	381
<i>of which eligible for central bank refinancing</i>	-	-	-

The decrease of this item results from the maturity of a loan of EUR 1,850 million, guaranteed by loans to British local authorities, and from the early repayment of the loan to the parent company, SFIL.

c. Replacement assets

	12/31/2014	12/31/2015	12/31/2016
SFIL	3,915	2,341	-
Sight accounts	14	4	4
TOTAL	3,929	2,345	4

d. Analysis by term to 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**

	12/31/2014	12/31/2015	12/31/2016
Loans to public sector	57,915	56,585	56,469
Loans guaranteed by public sector	3,974	3,725	2,759
Performing assets	61,889	60,310	59,228
Loans to public sector	463	673	557
Loans guaranteed by public sector	-	-	-
Impaired assets	463	673	557
Total assets before impairment	62,352	60,983	59,785
Specific impairment	(47)	(66)	(60)
Collective impairment	(63)	(63)	(46)
TOTAL	62,242	60,854	59,679
<i>of which eligible for central bank refinancing</i>	<i>41,139</i>	<i>39,227</i>	<i>39,122</i>

Impaired assets concern customers that represent an identified credit risk (non-performing loans: EUR 530 million) and customers with unpaid loans corresponding to disagreement on the amount due (litigious loans: EUR 27 million). Caisse Française de Financement Local reduced its level of collective provisions in light of the success of its policy to desensitize structured loans.

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 or a rescheduling of the loan repayment; concessions can also be granted as a consequence of 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 to reduce the sensitivity of the loan.

There were 197 forborne contracts as of December 31, 2016, with 106 borrowers, for a total risk exposure of EUR 1,541 million.

b. Analysis by term to maturity

See note 7.4

c. Unrealised or deferred gains and losses breakdown by country

See note 4.4

2.5 - TAX ASSETS

	12/31/2014	12/31/2015	12/31/2016
Current income tax	-	-	-
Other taxes	0	0	0
Current tax assets	0	0	0
Deferred tax assets (see note 4.2)	99	108	109
TOTAL TAX ASSETS	99	108	109

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, 2016, are recoverable on the basis of this analysis within seven years by taking into account the tax rules governing the treatment of past deficits.

As of December 31, 2016, Caisse Française de Financement Local has no deferred tax assets related to carry forward tax losses.

Caisse Française de Financement Local took into account the legislative measures designed to reduce the corporate income tax rate to 28% as of 2020. Caisse Française de Financement Local reduced its deferred tax assets and recorded an expense of EUR 14 million.

2.6 - ACCRUALS AND OTHER ASSETS

	12/31/2014	12/31/2015	12/31/2016
Cash collateral paid	-	-	-
Other accounts receivable	-	-	0
Prepaid charges	1	0	0
Other assets	2	20	28
TOTAL ACCRUALS AND OTHER ASSETS	3	20	28

2.7 - RESTATEMENT OF FINANCIAL ASSETS (IAS 39 AMENDED)

	From Financial assets held for trading to Loans and advances (a)	From Financial assets held for trading to Financial assets available for sale (b)	From Financial assets available for sale to Loans and advances (c)
Carrying amount of assets reclassified in 2008	-	-	17,855
Carrying amount of reclassified assets, as of December 31, 2016	-	-	4,349
Fair value of reclassified assets as of December 31, 2016	-	-	3,515
AMOUNT NOT RECOGNIZED THROUGH PROFIT AND LOSS (a) AND (b) DUE TO RECLASSIFICATION	-	-	-
AMOUNT NOT RECOGNIZED THROUGH ASSETS AVAILABLE FOR SALE (c) DUE TO RECLASSIFICATION	-	-	(834)
Premium/discount amortization through profit and loss in 2016	-	-	-
Premium/discount amortization through AFS reserve in 2016 ⁽¹⁾	-	-	4

(1) The balance remaining for amortization at the end of 2016 totaled EUR 81 million (see note 4.4).

3. NOTES TO THE LIABILITIES (EUR millions)

3.1 - DUE TO BANKS

a. Analysis by nature

	12/31/2014	12/31/2015	12/31/2016
Term borrowing - parent company	6,212	5,511	5,220
Interest accrued not yet due	16	9	5
Sight accounts	0	-	-
TOTAL	6,228	5,520	5,225

At the end of December 2016, the funding borrowed from SFIL within the framework of the financing agreement was made up of different loans with maturities initially running from 24 days to 10 years borrowed with an Euribor or Eonia index.

b. Analysis by term to maturity

See note 7.4

3.2 - DEBT SECURITIES**a. Analysis by nature**

	12/31/2014	12/31/2015	12/31/2016
<i>Obligations foncières</i>	51,444	49,643	48,289
Registered covered bonds	7,057	7,499	7,821
TOTAL	58,501	57,142	56,110

b. Analysis by term to maturity

See note 7.4

3.3 - TAX LIABILITIES

	12/31/2014	12/31/2015	12/31/2016
Current income tax	8	0	0
Other taxes	2	1	0
Current tax liabilities	10	1	0
Deferred tax liabilities (see note 4.2)	-	-	-
TOTAL TAX LIABILITIES	10	1	0

3.4 - ACCRUALS AND OTHER LIABILITIES

	12/31/2014	12/31/2015	12/31/2016
Cash collateral received	2,351	1,397	1,263
Other accrued charges	21	15	16
Deferred income	-	-	-
Contribution to support fund ⁽¹⁾	158	162	136
Other accounts payable and other liabilities	2	10	9
TOTAL	2,532	1,584	1,424

(1) This item represents the commitments taken 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 - 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 2016, Caisse Française de Financement Local introduced the right of appeal stipulated by regulations and maintained its position. Provisions recorded in 2015 were adjusted to account for changes in provisions for non-performing loans in 2016.

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

4.1 - DERIVATIVES

a. Analysis by nature

	12/31/2014		12/31/2015		12/31/2016	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss⁽¹⁾	2	0	2	2	0	4
Derivatives designated as fair value hedges	5,304	8,985	4,643	8,117	4,517	6,419
Derivatives designated as cash flow hedges	6	146	6	162	5	140
Derivatives designated as portfolio hedges	3,054	4,482	2,397	3,811	1,918	3,283
Hedging derivatives	8,364	13,613	7,046	12,090	6,440	9,842
CVA / DVA impact	(3)	(101)	(3)	(77)	(3)	(45)
TOTAL DERIVATIVES	8,363	13,512	7,045	12,015	6,437	9,801

(1) Caisse Française de Financement Local is only authorized to conduct derivative transactions for purposes of hedging. Some hedging derivatives, which do not comply with all the conditions required by IFRS, are reported in the item Derivatives at fair value through profit and loss.

b. Detail of derivatives designated as fair value hedges

	12/31/2014			
	Notional amount		Assets	Liabilities
	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			
	Notional amount		Assets	Liabilities
	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

	12/31/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	5,979	5,670	590	304
Interest rate derivatives	55,827	55,801	3,927	6,115
TOTAL	61,806	61,471	4,517	6,419

c. Detail of derivatives designated as cash flow hedges

	12/31/2014			
	Notional amount		Assets	Liabilities
	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			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	954	1,071	6	162
Interest rate derivatives	-	-	-	-
TOTAL	954	1,071	6	162

	12/31/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	825	923	5	140
Interest rate derivatives	-	-	-	-
TOTAL	825	923	5	140

	12/31/2014	12/31/2015	12/31/2016
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

	12/31/2014			
	Notional amount		Assets	Liabilities
	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			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	90,293	90,288	2,397	3,811
TOTAL	90,293	90,288	2,397	3,811
	12/31/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	78,519	78,514	1,918	3,283
TOTAL	78,519	78,514	1,918	3,283

4.2 - DEFERRED TAXES

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

a. Analysis by nature

	12/31/2014	12/31/2015	12/31/2016
Deferred tax assets before impairment	99	108	109
Impairment on deferred tax assets	-	-	-
Deferred tax assets	99	108	109
Deferred tax liabilities	-	-	-
TOTAL	99	108	109

b. Movements

	12/31/2014	12/31/2015	12/31/2016
As of January 1	90	99	108
Charge/credit recognized in the income statement	23	27	7
Effect of change in tax rates - impact on the income statement ⁽¹⁾	-	-	(14)
Movements directly recognized in equity	(14)	(18)	8
Effect of change in tax rates - impact on equity	-	-	-
Translation adjustment	-	-	-
Other movements	-	-	-
As of December 31	99	108	109

(1) Caisse Française de Financement Local took into account the legislative measures designed to reduce the corporate income tax rate to 28% as of 2020. Caisse Française de Financement Local reduced its deferred tax assets and recorded an expense of EUR 14 million.

c. Deferred taxes from assets on the balance sheet

	12/31/2014	12/31/2015	12/31/2016
Loans and loan loss provisions	(123)	80	359
Securities	54	46	58
Derivatives	81	167	(157)
Accruals and other assets	13	14	13
TOTAL	25	307	273

d. Deferred taxes from liabilities on the balance sheet

	12/31/2014	12/31/2015	12/31/2016
Borrowings, deposits and issues of debt securities	74	(199)	(164)
Derivatives	-	-	-
Provisions	-	-	-
Accruals and other liabilities	-	-	-
TOTAL	74	(199)	(164)

4.3 - TRANSACTIONS WITH RELATED-PARTIES

Analysis by nature

	Parent company ⁽¹⁾			Other related parties ⁽²⁾		
	12/31/2014	12/31/2015	12/31/2016	12/31/2014	12/31/2015	12/31/2016
ASSETS						
Loans and advances	3,916	2,341	-	-	-	-
Bonds	-	-	-	-	-	-
LIABILITIES						
Due to banks - sight accounts	-	-	-	-	-	-
Due to banks - term loans	6,228	5,520	5,225	-	-	-
INCOME STATEMENT						
Interest income on loans and advances	23	11	6	(4)	(9)	(12)
Interest income on bonds	-	-	-	-	-	(0)
Interest expense on borrowings	(60)	(37)	(25)	-	-	-
Fees and commissions	(22)	(19)	(3)	-	-	(0)
OFF-BALANCE SHEET						
Foreign exchange derivatives	5,039	4,399	3,508	-	-	-
Interest rate derivatives	16,479	17,487	13,847	-	-	-
Commitments and guarantees issued	3,966	2,391	50	133	140	52
Commitments and guarantees given	-	600	3,722	-	-	-

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

(2) This items may include 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

	12/31/2014	12/31/2015	12/31/2016
Unrealized gains and losses on available for sale securities	(82)	(48)	(78)
Canada	0	0	0
Germany	1	-	-
Spain	-	-	(0)
France	1	(2)	(4)
Italy	(82)	(42)	(64)
United States	(2)	(4)	(10)
Unrealized gains and losses on loans and receivable securities	(100)	(85)	(81)
Spain	(2)	(1)	(1)
France	4	3	3
Italy	(102)	(87)	(83)
Unrealized gains and losses on derivatives designated as cash flow hedges	(43)	(39)	(35)
TOTAL	(225)	(172)	(194)
Deferred taxes on gains and losses, available for sale securities	28	17	27
Deferred taxes on gains and losses, loans and receivable securities	35	29	28
Deferred taxes on gains and losses, derivatives designated as cash flow hedges	15	13	12
TOTAL	(147)	(113)	(127)

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.

	12/31/2015					
	Spain	Ireland	Italy	Portugal	Greece	Total
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	-	-	-	-	-	-
	12/31/2016					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	201	-	458	-	-	659
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	113	-	-	113
TOTAL	201	-	571	-	-	772
UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES	(0)	-	(64)	-	-	(64)
UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES	-	-	-	-	-	-

5. NOTES TO THE INCOME STATEMENT (EUR millions)

5.1 - INTEREST INCOME - INTEREST EXPENSE

	2015	2016
INTEREST INCOME	4,047	3,256
Central banks	-	-
Loans and advances due from banks	50	23
Loans and advances to customers	1,648	1,428
Financial assets available for sale	40	38
Financial assets held to maturity	-	-
Derivatives used for hedging	2,309	1,767
Impaired assets	-	-
Other	-	0
INTEREST EXPENSE	(3,932)	(3,106)
Accounts with central banks	(3)	(14)
Due to banks	(34)	(19)
Customer borrowings and deposits	-	-
Debt securities	(1,846)	(1,583)
Subordinated debt	-	-
Derivatives used for hedging	(2,049)	(1,489)
Other	-	(1)
INTEREST MARGIN	115	150

5.2 - FEES AND COMMISSIONS

	2015			2016		
	Income	Expense	Net	Income	Expense	Net
Lending activity	0	-	0	0	-	0
Purchase and sale of securities	-	(2)	(2)	-	(1)	(1)
Services on securities other than custodian services	-	(5)	(5)	-	(3)	(3)
Issuance and underwriters of securities	-	(0)	(0)	-	(0)	(0)
Rebiling by parent company	-	(19)	(19)	-	(3)	(3)
TOTAL	0	(26)	(26)	0	(7)	(7)

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.

	2015	2016
Net trading income	(0)	(1)
Net result of hedge accounting	(32)	(36)
Net result of foreign exchange transactions	(0)	(1)
TOTAL	(32)	(38)

Analysis of net result of hedge accounting

	2015	2016
Fair value hedges	(4)	(3)
Fair value changes in the hedged item attributable to the hedged risk	1,061	508
Fair value changes in the hedging derivatives	(1,065)	(511)
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	(4)	(1)
Fair value changes in the hedged item	(41)	12
Fair value changes in the hedging derivatives	37	(13)
CVA / DVA Impact⁽¹⁾	(24)	(32)
TOTAL	(32)	(36)

(1) As of December 31, 2016, the application of IFRS 13 shows a net impact of EUR -32 million comprised of EUR -31.7 million for DVA and EUR +0.2 million for CVA.

5.4 - NET RESULT OF FINANCIAL ASSETS AVAILABLE FOR SALE

	2015	2016
Net result of disposals of loans and securities available for sale	(5)	(0)
Net result of disposals of debt securities	(1)	(1)
Net result of the sale or cancellation of loans and advances	4	15
TOTAL	(2)	14

5.5 - OPERATING EXPENSE

	2015	2016
Payroll costs	-	-
Other general and administrative expense ⁽¹⁾	(90)	(91)
Taxes	(6)	(7)
TOTAL	(96)	(98)

(1) Of which EUR 88.6 million to the benefit of SFIL as of December 31, 2016.

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 clientèle. These assets are managed in a run-off mode. At the end of December 2016, 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.

Management of registered covered bonds (RCB) issued since 2015 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

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

	2016			Total
	Collective impairment	Specific impairment and losses	Contribution to support funds	
Credit (loans, commitments and securities held to maturity)	18	0	-	18
Fixed income securities available for sale	-	-	-	-
TOTAL	18	0	-	18

Detail of collective and specific impairments

Collective impairment	2015			2016		
	Allocations	Reversals	Total	Allocations	Reversals	Total
Loans and borrowings	(5)	4	(1)	(2)	20	18
Off-balance sheet commitments	-	-	-	-	-	-
TOTAL	(5)	4	(1)	(2)	20	18

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

Specific Impairment	2016				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(2)	2	(0)	-	0
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	(2)	2	(0)	-	0
Fixed income securities	-	-	-	-	-
TOTAL	(2)	2	(0)	-	0

5.7 - CORPORATE INCOME TAX

a. Breakdown of tax expense

	2015	2016
Current taxes	(10)	(22)
Deferred taxes	27	(7)
Tax on prior years' income	-	-
Deferred taxes on prior years	-	-
Provisions for tax litigation	(38)	-
TOTAL	(21)	(29)

b. Effective tax expense

The difference between the actual corporate income tax rate and the French tax rate can be analysed as follows:

	2015	2016
INCOME BEFORE INCOME TAXES	(55)	39
TAXABLE INCOME	(55)	39
Applicable tax rate at end of the period	38.00%	34.43%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	21	(14)
Tax effect of non-deductible expenses	(2)	(1)
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Other additional taxes or tax savings	(2)	0
Liability method	-	-
Provisions for tax litigation	(38)	-
Change in corporate income tax rate in 2020 ⁽¹⁾	-	(14)
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	(21)	(29)

(1) Caisse Française de Financement Local took into account the legislative measures designed to reduce the corporate income tax rate to 28% as of 2020. Caisse Française de Financement Local reduced its deferred tax assets and recorded an expense of EUR 14 million.

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

	12/31/2014	12/31/2015	12/31/2016
Assets to be delivered	-	-	-
Liabilities to be received	500	-	-

6.2 - GUARANTEES

	12/31/2014	12/31/2015	12/31/2016
Guarantees received from credit institutions ⁽¹⁾	4,103	2,525	84
Enhanced guarantees ⁽²⁾	-	-	3,722
Guarantees received from customers ⁽³⁾	6,870	5,867	2,863

(1) Caisse Française de Financement Local received the DSFB securities in guarantee in exchange for refinancing granted to the parent company SFIL in the amount of EUR 2.3 billion at the end of 2015. This refinancing was fully repaid in 2016.

(2) Unconditional and irrevocable guarantee issued by the French State to the benefit of Caisse Française de Financement Local for the financing of large export credits.

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

6.3 - FINANCING COMMITMENTS

	12/31/2014	12/31/2015	12/31/2016
Loan commitments granted to credit institutions ⁽¹⁾	0	600	3,722
Loan commitments granted to customers ⁽²⁾	150	293	125
Loan commitments received from credit institutions ⁽³⁾	50	50	50
Loan commitments received from customers	-	-	-

(1) Within the framework of the 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, 2016.

(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, 2016. Readers are reminded that SFIL is committed to providing unlimited funding to Caisse Française de Financement Local through financing agreements between the two companies.

6.4 - OTHER COMMITMENTS

	12/31/2014	12/31/2015	12/31/2016
Commitments received ⁽¹⁾	272	238	232

(1) They mainly concern a loan granted to a credit institution and guaranteed by a public sector entity.

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 for these very operations or operations to which they can be assimilated, in particular in terms of price and spread. 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, which are not listed in liquid markets. To value liabilities, certain observable parameters are taken into account.

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

	12/31/2015		
	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)

	12/31/2016		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	3,684	3,684	-
Loans and advances due from banks	381	375	(6)
Loans and advances to customers	59,679	58,277	(1,402)
Financial assets available for sale	1,736	1,736	-
Derivatives	6,437	6,437	-
TOTAL	71,917	70,509	(1,408)

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

	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

	12/31/2016		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	5,225	5,260	35
Derivatives	9,801	9,801	-
Debt securities	56,110	57,231	1,121
TOTAL	71,136	72,292	1,156

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. Hedging derivatives in level 3 are valued using these internal models.

In 2016, Caisse Française de Financement Local has reviewed its approach in the assessment of the value of derivative instruments. Reclassifyings from level 3 to level 2 have occurred. The measurement of derivatives is based on an analysis combining the observability of the market data used in the assessment and the robustness of the valuation models measured in terms of efficiency to provide a valuation in market consensus. The result of this application is that the derivatives used by Caisse Française de Financement Local in hedging its activities are primarily of level 2.

For the derivatives in level 3, this classification mainly involves hybrid, structured products (interest rate - foreign exchange), spread (correlation) products and options on interest rates. This classification is mainly due to the fact that these products present complex payoffs which require an advanced statistical model with variable parameters which are sometimes unable to be seen in the market.

Fair value of financial assets	12/31/2015			
	Level 1	Level 2	Level 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 assets	12/31/2016			
	Level 1	Level 2	Level 3	Total
Central banks	3,684	-	-	3,684
Loans and advances due from banks	4	-	371	375
Loans and advances to customers	1,475	2,366	54,436	58,277
Subtotal of assets at amortized costs	5,163	2,366	54,807	62,336
Financial assets available for sale	924	812	-	1,736
Derivatives	-	5,837	600	6,437
Subtotal of assets at fair value	924	6,649	600	8,173
TOTAL	6,087	9,015	55,407	70,509

Fair value of financial liabilities	12/31/2015			
	Level 1	Level 2	Level 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 assets at fair value	-	7,748	4,267	12,015
TOTAL	-	70,955	4,267	75,222

Fair value of financial liabilities	12/31/2016			
	Level 1	Level 2	Level 3	Total
Due to banks	-	5,260	-	5,260
Debt securities	-	57,231	-	57,231
Subtotal of liabilities at amortized costs	-	62,491	-	62,491
Derivatives	-	8,547	1,254	9,801
Subtotal of assets at fair value	-	8,547	1,254	9,801
TOTAL	-	71,038	1,254	72,292

Sensitivity of the market value of level 3 financial instruments to changes in reasonably possible hypotheses

The following table gives a synthetic view of financial instruments in level 3 for which changes in hypotheses concerning one or more non observable parameter would cause a significant change in market value. These amounts illustrate the interval of uncertainty inherent in the recourse to judgment in estimating parameters of level 3 or in the choice of valuation techniques and models. They reflect the uncertainty of valuation which is effective at the date of valuation. Although this uncertainty essentially results from the sensitivity of the portfolio at the date of valuation, it does not make it possible to foresee or to deduct future variations in the market value any more than they represent the effect of extreme market conditions on the value of the portfolio. To estimate sensitivity, Caisse Française de Financement Local either values financial instruments using reasonably possible parameters or applies hypotheses based on its policy of additional valuation adjustments.

	12/31/2016
Uncertainty inherent in level 3 market parameters	20
Uncertainty inherent in level 3 derivatives valuation models	32
SENSITIVITY OF THE MARKET VALUE OF LEVEL 3 FINANCIAL INSTRUMENTS	52

d. Transfer between levels 1 and 2

	12/31/2015	12/31/2016
Level 1 to level 2	-	-
TOTAL	-	-

e. Level 3: flow analysis

	12/31/2015	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 in activities destined to be transferred	Transfer to level 3	Transfer out of level 3	Other variations	12/31/2016
Financial assets available for sale	-	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives	1,526	2	19	-	1	-	-	145	-	1	(1,103)	9	600
TOTAL FINANCIAL ASSETS	1,526	2	19	-	1	-	-	145	-	1	(1,103)	9	600
Derivatives	4,267	(543)	(1,046)	-	-	-	-	(5)	-	22	(1,450)	9	1,254
TOTAL FINANCING LIABILITIES	4,267	(543)	(1,046)	-	-	-	-	(5)	-	22	(1,450)	9	1,254

7.2 - OFF-SETTING FINANCIAL ASSETS AND LIABILITIES

a. Financial assets subject to off-setting, enforceable master netting arrangements and similar agreements

	12/31/2015					
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented on the balance sheet	Other amounts in the scope of application but not off-set		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

	12/31/2016					Net amounts according to IFRS 7 § 13
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented on the balance sheet	Other amounts in the scope of application but not off-set		
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	6,437	-	6,437	(5,101)	(1,104)	232
Loans and advances due from banks	381	-	381	-	-	381
Loans and advances to customers	59,679	-	59,679	-	-	59,679
TOTAL	66,497	-	66,497	(5,101)	(1,104)	60,292

b. Financial liabilities subject to off-setting, enforceable master netting arrangements and similar agreements

	12/31/2015					
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented on the balance sheet	Other amounts in the scope of application but not off-set		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial instruments received as collateral	
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

	12/31/2016					Net amounts according to IFRS 7 § 13
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented on the balance sheet	Other amounts in the scope of application but not off-set		
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	9,801	-	9,801	(5,101)	-	4,700
Due to banks	5,225	-	5,225	-	-	5,225
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	15.026	-	15.026	(5.101)	-	9.925

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 (i.e. after deduction of cash collateral and CVA provisions);
- 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

	12/31/2015	12/31/2016
France	59,399	61,610
Italy	6,610	6,687
United Kingdom	2,263	283
Spain	285	441
Germany	627	611
Belgium	200	176
Other European Union countries	314	273
Switzerland	2,123	1,685
United States and Canada	700	700
Japan	39	40
TOTAL EXPOSURE	72,560	72,506

Analysis of exposure by category of counterparty

	12/31/2015	12/31/2016
States	5,343	10,020
Local public sector	64,005	61,518
Other assets guaranteed by public sector entities	133	14
Financial institutions	3,079	954
TOTAL EXPOSURE	72,560	72,506

Exposure on financial institutions is primarily comprised of counterparties in hedging derivatives and replacement assets. As of December 31, 2016, Caisse Française de Financement Local held no asset-backed securities.

Analysis of exposure by category of instrument

	12/31/2015	12/31/2016
Debt securities	889	1,746
Loans and advances	71,131	66,883
Financing commitments on loans	518	3,847
Derivatives	22	30
TOTAL EXPOSURE	72,560	72,506

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. Caisse Française de Financement Local has developed internal rating models covering the main client segments. These models were validated by the banking supervisors who authorized the Group to use these advanced internal models for the calculation and reporting of equity requirements for credit risk as of January 1, 2008. This enables Caisse Française de Financement Local to present on December 31, 2016, 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 80% of the portfolio has a weighting of less than 5% and more than 95% 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	54	814	878	-	1,746
Loans and advances	54,741	10,007	1,663	462	66,883
Financing commitments on loans	3,791	56	-	-	3,847
Derivatives	-	-	19	11	30
TOTAL EXPOSURE	58,586	10,887	2,560	473	72,506
SHARE	80.8%	15.0%	3.5%	0.7%	100.0%

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

7.4 - LIQUIDITY RISK: ANALYSIS BY TERM TO MATURITY

a. Breakdown of assets

	12/31/2016						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	3,685	-	-	-	-	-	3,685
Derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	525	120	320	560	-	1,525
Loans and advances due from banks	4	9	84	79	198	-	374
Loans and advances to customers	5	1,512	3,599	15,739	34,113	-	54,968
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	0	-	-	109	109
Accruals and other assets	-	21	-	-	7	-	28
TOTAL	3,694	2,067	3,803	16,138	34,878	109	60,689

	12/31/2016					Total
	Total broken down	Accrued interest	Fair value adjustment	Impairment		
Central banks	3,685	(1)	-	-	-	3,684
Derivatives	-	812	5,625	-	-	6,437
Financial assets available for sale	1,525	11	200	-	-	1,736
Loans and advances due from banks	374	2	5	-	-	381
Loans and advances to customers	54,968	642	4,175	(106)	-	59,679
Fair value revaluation of portfolio hedge	-	-	3,053	-	-	3,053
Financial assets held to maturity	-	-	-	-	-	-
Tax assets	109	-	-	-	-	109
Accruals and other assets	28	-	-	-	-	28
TOTAL	60,689	1,466	13,058	(106)		75,107

b. Breakdown of liabilities, excluding equity

	12/31/2016						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	-	707	986	1,756	1,771	-	5,220
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	2,417	5,062	17,538	26,631	-	51,648
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	0	-	-	-	0
Accruals and other liabilities	-	1,282	6	66	70	-	1,424
Provisions	-	-	-	38	-	-	38
Subordinated debt	-	-	-	-	-	-	-
TOTAL	-	4,406	6,054	19,398	28,472	-	58,330

	12/31/2016			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Derivatives	-	634	9,167	9,801
Due to banks	5,220	5	-	5,225
Customer borrowings and deposits	-	-	-	-
Debt securities	51,648	879	3,583	56,110
Fair value revaluation of portfolio hedge	-	-	1,198	1,198
Tax liabilities	0	-	-	0
Accruals and other liabilities	1,424	-	-	1,424
Provisions	38	-	-	38
Subordinated debt	-	-	-	-
TOTAL	58,330	1,518	13,948	73,796

c. Net liquidity gap

	12/31/2016							Total
	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	3,694	(2,339)	(2,251)	(3,260)	6,406	109	(1,048)	1,311

This table presents balance sheet data 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 redeem *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. Breakdown of assets

	12/31/2016						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	Plus de 5 ans	No fixed maturity	Total broken down
Central banks	3,684	-	-	-	-	-	3,684
Derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	525	120	320	560	-	1,525
Loans and advances due from banks	4	78	139	66	87	-	374
Loans and advances to customers	5	7,422	8,578	11,861	27,102	-	54,968
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	0	-	-	109	109
Accruals and other assets	-	21	-	-	7	-	28
TOTAL	3,693	8,046	8,837	12,247	27,756	109	60,688

	12/31/2016					
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total	
Central banks	3,684	-	-	-	3,684	
Derivatives	-	812	5,625	-	6,437	
Financial assets available for sale	1,525	11	200	-	1,736	
Loans and advances due from banks	374	2	5	-	381	
Loans and advances to customers	54,968	642	4,175	(106)	59,679	
Fair value revaluation of portfolio hedge	-	-	3,053	-	3,053	
Financial assets held to maturity	-	-	-	-	-	
Tax assets	109	-	-	-	109	
Accruals and other assets	28	-	-	-	28	
TOTAL	60,688	1,467	13,058	(106)	75,107	

b. Breakdown of liabilities, excluding equity

	12/31/2016						
	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	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Due to banks	-	660	4,560	-	-	-	5,220
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	3,681	5,863	16,437	25,667	-	51,648
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	-	-	-	-	-
Accruals and other liabilities	-	1,282	6	66	70	-	1,424
Provisions	-	-	-	38	-	-	38
Subordinated debt	-	-	-	-	-	-	-
TOTAL	-	5,623	10,429	16,541	25,737	-	58,330

	12/31/2016				
	Total broken down	Accrued interest	Fair value adjustment	Total	
Central banks	-	-	-	-	
Derivatives	-	634	9,167	9,801	
Due to banks	5,220	5	-	5,225	
Customer borrowings and deposits	-	-	-	-	
Debt securities	51,648	879	3,583	56,110	
Fair value revaluation of portfolio hedge	-	-	1,198	1,198	
Tax liabilities	-	-	-	-	
Accruals and other liabilities	1,424	0	-	1,424	
Provisions	38	-	-	38	
Subordinated debt	-	-	-	-	
TOTAL	58,330	1,518	13,948	73,796	

c. Net balance sheet sensitivity gap

	12/31/2016						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	3,693	2,423	(1,592)	(4,294)	2,019	109	(1,047)	1,311

7.6 - CURRENCY RISK

Classification by original currency	12/31/2015				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
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	-	-	-	-	-

Classification by original currency	12/31/2016				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	69,688	2,255	1,576	1,588	75,107
Total liabilities	69,688	2,255	1,576	1,588	75,107
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 stages 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. Loans granted individually or bond issues can be either micro- or macro-hedged. Hedging of assets and liabilities is more often obtained in using new interest rate swaps, but the same effect may be obtained whenever possible by the cancellation of swaps of opposite direction.
- 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

	Limit	3/31/2016	6/30/2016	9/30/2016	12/31/2016
Sensitivity	25.0	0.6	(3.7)	(5.6)	(0.5)

Risk of slope between two distant points on the rate curve

Sum of sensitivities

	Limit	3/31/2016	6/30/2016	9/30/2016	12/31/2016
Short term	10.0	0.0	(1.5)	(1.9)	(0.9)
Medium term	10.0	1.0	(1.8)	(2.3)	0.3
Long term	10.0	(0.7)	(0.5)	(2.6)	0.1
Very long term	10.0	0.3	0.1	1.2	0.1

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

	Limit	3/31/2016	6/30/2016	9/30/2016	12/31/2016
Short term	20.0	4.8	4.5	2.6	4.4
Medium term	20.0	10.7	14.5	12.1	4.3
Long term	20.0	5.8	10.7	11.0	8.1
Very long term	20.0	6.5	6.4	7.4	5.9

8. POST-CLOSING EVENTS

No significant event that influenced the Company's financial situation has occurred since the closing on December 31, 2016.

Statutory Auditors' report on the financial statements established under IFRS Year ended December 31, 2016

To the Chairman of the Executive Board,

As statutory auditors of Caisse Francaise 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, 2016, 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.

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 the 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.

Neuilly-sur-Seine and Courbevoie, March 28, 2017

The statutory auditors
French original signed by:

DELOITTE & ASSOCIÉS
Sylvie Bourguignon

MAZARS
Anne Veaute

French GAAP Financial Statements

Assets

EUR millions	Notes	12/31/2014	12/31/2015	12/31/2016
Central banks	2.1	519	2,496	3,684
Government and public securities	2.2	6,025	3,866	4,015
Loans and advances due from banks	2.3	6,755	4,876	411
Loans and advances to customers	2.4	46,311	46,918	47,701
Bonds and other fixed income securities	2.5	4,590	3,562	3,869
Equities and other variable income securities		-	-	-
Investments in non-consolidated companies and other long-term investments		-	-	0
Investments in consolidated companies		-	-	-
Intangible assets		-	-	-
Property and equipment		-	-	-
Unpaid capital		-	-	-
Uncalled subscribed capital		-	-	-
Treasury stock		-	-	-
Other assets	2.6	0	19	4
Accruals and other assets	2.7	3,438	3,297	3,214
TOTAL ASSETS	2.8	67,638	65,034	62,898

Liabilities

EUR millions	Notes	12/31/2014	12/31/2015	12/31/2016
Central banks		-	-	-
Due to banks	3.1	6,228	5,520	5,225
Customer borrowings and deposits		-	-	-
Debt securities	3.2	53,752	53,185	52,058
Other liabilities	3.3	2,520	1,570	1,406
Accruals and other liabilities	3.4	3,614	3,200	2,597
Provisions	3.5	137	203	189
General banking risks reserve		-	-	-
Subordinated debt		-	-	-
Equity		1,387	1,356	1,423
Share capital	3.6	1,315	1,315	1,315
Additional paid-in capital	3.6	-	-	-
Reserves and retained earnings	3.6	64	71	41
Net income	3.6	8	(30)	67
TOTAL LIABILITIES	3.7	67,638	65,034	62,898

Off-balance sheet items

EUR millions	Notes	12/31/2014	12/31/2015	12/31/2016
COMMITMENTS GRANTED	4.1	150	893	3,847
Financing commitments		150	893	3,847
Guarantees granted		-	-	-
Other commitments granted		-	-	-
COMMITMENTS RECEIVED	4.2	11,795	8,679	6,951
Financing commitments		550	50	50
Guarantees received		11,245	8,629	6,901
Forward commitments		-	-	-
Other commitments received		-	-	-
Foreign currency transactions	4.3	20,799	16,030	14,943
Interest rate derivatives	4.4	139,550	148,022	134,500

Income statement

EUR millions	Notes	2014	2015	2016
Interest income	5.1	1,955	2,808	3,513
Interest expense	5.1	(1,797)	(2,622)	(3,334)
Income from variable income securities		-	-	-
Commission income		0	0	-
Commission expense	5.2	(28)	(26)	(7)
Net gains (losses) on held for trading portfolio		-	0	(0)
Net gains (losses) on placement portfolio	5.3	(2)	21	(9)
Other banking income		0	0	0
Other banking expense		(0)	(0)	(0)
NET BANKING INCOME		128	181	163
General expenses	5.4	(93)	(96)	(98)
Depreciation and amortization		-	-	-
GROSS OPERATING INCOME		35	85	65
Cost of risk	5.5	(18)	(14)	18
INCOME FROM OPERATIONS		17	71	83
Gains (losses) on fixed assets	5.6	-	(5)	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		17	66	83
Non-recurring items		-	-	-
Income tax	5.7	(9)	(96)	(16)
Net allocation to regulated provisions		-	-	-
NET INCOME		8	(30)	67
Basic earnings per share		0.59	(2.30)	5.08
Diluted earnings per share		0.59	(2.30)	5.08

Equity

EUR millions	Amount
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 year	(30)
Interim dividends	-
EQUITY AS OF 12/31/2015	1,356
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	(30)
Dividends paid (-)	-
Net income for the period	97
Other movements	-
AS OF 12/31/2016	
Share capital	1,315
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	41
Net income for the period	67
EQUITY AS OF 12/31/2016	1,423

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General Information

Cash flow statement

EUR millions	12/31/2014	12/31/2015	12/31/2016
NET INCOME BEFORE TAXES	17	66	83
+/- Depreciation and write-downs	44	39	(23)
+/- Expense / income from operating activities	28	141	85
+/- Expense / income from financing activities	(88)	(184)	(59)
+/- Other items	(103)	130	308
= Non monetary elements included in net income before tax and other adjustments	(119)	126	311
+/- Cash from interbank operations	38	1,158	4,177
+/- Cash from customer operations (loans)	990	(772)	(962)
+/- Cash from customer financing assets	(1,183)	3,222	(520)
+/- Cash from hedging financial instruments	(265)	(1,258)	(731)
- Income tax paid	(3)	(35)	(17)
= Decrease / (increase) in cash from operating activities	(423)	2,315	1,947
CASH FLOW FROM OPERATING ACTIVITIES (A)	(525)	2,507	2,341
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-	-
+/- Cash from or for shareholders	-	-	-
+/- Other cash from financing activities	(430)	(540)	(1,148)
CASH FLOW FROM FINANCING ACTIVITIES (C)	(430)	(540)	(1,148)
EFFECT OF EXCHANGE RATES CHANGES ON CASH (D)	-	-	-
Increase / (decrease) in cash equivalents (A + B + C + D)	(955)	1,967	1,193
CASH AND CASH EQUIVALENTS AT THE BEGINNING 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
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	533	2,500	3,693
Central banks (assets and liabilities)	519	2,496	3,684
Interbank accounts (assets and liabilities) and loans / deposits at sight	14	4	9
NET CASH	(955)	1,967	1,193

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, 2016, were examined by the Executive Board on March 20, 2017.

1.2 - APPLICABLE ACCOUNTING STANDARDS: RULES ADOPTED BY 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, 2016, were prepared using the same accounting principles as those used in the financial statements as of December 31, 2015.

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.

1.3 - 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. They include loans to SFIL refinancing export credit transactions.

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, *prorata 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 are recorded in the income statement at the date they occur, in accordance with article 2526-1 of ANC regulation 2014-07.

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).

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.

Impairment charges are recognized for non-performing and compromised non-performing loans. Risk management determines the percentage of impaired capital in function of incurred 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 recoveries 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;

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 investment securities 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.

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. 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 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 receivables) 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 and article R 513-8 of the Monetary and Financial Code, total assets must at all times be greater than 105% of 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 according to a quasi-actuarial method 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 according to a quasi-actuarial method over the maturity of the related bonds.

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

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 debt contracted from SFIL, 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

Derivatives 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.

Termination fees received or paid because of the early interruption of the hedging instrument are recorded in the income statement at the termination date, in accordance with article 2526-1 of ANC regulation 2014-07.

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 counterpart 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 recorded in the income statement at the termination date.

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. Guarantees

As part of its activity to refinance large export credits, Caisse Française de Financement Local benefits from an irrevocable and unconditional 100% guarantee by the French State, called an enhanced guarantee. Expenses related to these transactions are recorded *prorata temporis* in the income statement.

j. Non-recurrent income and expense

Non-recurrent 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-recurrent income and expense.

k. 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.

l. 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).

m. Identity of the parent company consolidating the accounts of Caisse Française de Financement Local as of December 31, 2016

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

2. NOTES TO THE ASSETS (EUR millions)

2.1 - CENTRAL BANKS

	12/31/2014	12/31/2015	12/31/2016
Mandatory reserves	-	-	-
Other deposits	519	2,496	3,684
TOTAL	519	2,496	3,684

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

a. Accrued interest included in this item: 58

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
-	294	394	3,269	3,957

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

	Amount as of 12/31/2014	Amount as of 12/31/2015	Amount as of 12/31/2016	Impairment as of 12/31/2016	Unrealized capital gain or loss as of 12/31/2016 ⁽²⁾
Listed securities ⁽¹⁾	5,629	3,501	3,664	(0)	(988)
Other securities	326	309	293	-	(54)
TOTAL	5,955	3,810	3,957	(0)	(1,042)

(1) Listed securities are registered 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 12/31/2014	Net amount as of 12/31/2015	Gross amount as of 12/31/2015	Acquisitions	Amortization, redemption or disposals	Transfers	Translation adjustments	Impairment as of 12/31/2016	Net amount as of 12/31/2016	Unrealized capital gain or loss as of 12/31/2016 ⁽¹⁾
Trading	-	-	-	-	-	-	-	-	-	-
Placement	2,363	685	685	240	-	-	(0)	(0)	925	(32)
Investment	3,592	3,125	3,125	-	(94)	-	1	-	3,032	(1,010)
TOTAL	5,955	3,810	3,810	240	(94)	-	1	(0)	3,957	(1,042)

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

e. Breakdown of impairment by country

See note 2.9

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

	12/31/2014	12/31/2015	12/31/2016
Sight accounts	14	4	4
Unallocated sums	-	0	7
TOTAL	14	4	11
<i>of which replacement assets</i>	<i>14</i>	<i>4</i>	<i>4</i>

b. Term loans and advances due from banks**b.1. Accrued interest included in this item: 3****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
9	84	79	225	397

b.3. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2014	Net amount as of 12/31/2015	Gross amount as of 12/31/2016	Decrease in value as of 12/31/2016	Net amount as of 12/31/2016
Loans of less than 1 year	-	-	-	-	-
Loans of more than 1 year	6,724	4,865	397	-	397
TOTAL	6,724	4,865	397	-	397

b.4. Breakdown by counterparty

	12/31/2014	12/31/2015	12/31/2016
Swiss cantonal banks benefiting from their cantons' legal guarantee	598	355	107
Banks guaranteed by a local government, <i>crédits municipaux</i>	92	56	32
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	2,122	2,115	258
Loans to parent company	3,912	2,339	-
TOTAL	6,724	4,865	397
<i>of which replacement assets</i>	<i>3,912</i>	<i>2,339</i>	<i>-</i>

The decrease of this item results from the maturity of a loan of EUR 1,850 million, guaranteed by loans to British local authorities, and from the early repayment of the loan to the parent company, SFIL.

2.4 - CUSTOMER LOANS AND ADVANCES

a. Accrued interest included in this item: 572

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
1,183	2,996	14,564	28,386	47,129

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

Economic sector	12/31/2014	12/31/2015	12/31/2016
Public sector	42,605	43,480	44,646
Other sectors	3,025	2,795	2,483
TOTAL	45,630	46,275	47,129

d. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2014	Net amount as of 12/31/2015	Gross amount as of 12/31/2016	Impairment as of 12/31/2016	Net amount as of 12/31/2016
Loans of less than 1 year	5	6	5	-	5
Loans of more than 1 year	45,625	46,269	47,184	(60)	47,124
TOTAL	45,630	46,275	47,189	(60)	47,129

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

	Net amount as of 12/31/2014	Net amount as of 12/31/2015	Gross amount as of 12/31/2016	Impairment as of 12/31/2016	Net amount as of 12/31/2016
Performing commitments	45,224	45,682	46,645	-	46,645
Non-performing loans	290	274	216	(11)	205
Compromised non-performing loans	116	319	328	(49)	279
TOTAL	45,630	46,275	47,189	(60)	47,129

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 targeting the reduction of the sensitivity of the loan.

There were 197 forborne contracts as of December 31, 2016, with 106 borrowers, for a total risk exposure of EUR 1,541 million.

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

	12/31/2014	12/31/2015	Allocations	Reversals	Transfers	12/31/2016
For non-performing loans						
On loans	(9)	(2)	(1)	-	-	(3)
On interest	(12)	(12)	(7)	11	-	(8)
For compromised non-performing loans						
On loans	(4)	(4)	-	2	-	(2)
On interest	(22)	(48)	(26)	27	-	(47)
TOTAL	(47)	(66)	(34)	40	-	(60)

Provisions on interest are recorded in Net banking income and provisions on nominal are recorded in Cost of risk.

g. Breakdown of impairment 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
525	166	501	2,654	3,846

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

	12/31/2014	12/31/2015	12/31/2016
Public sector	3,710	3,076	2,865
Other sectors (guaranteed by a State or by a local government)	856	463	981
TOTAL	4,566	3,539	3,846
<i>of which eligible for central bank refinancing</i>	394	52	548
<i>of which replacement assets</i>	-	-	646

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

	Amount as of 12/31/2014	Amount as of 12/31/2015	Amount as of 12/31/2016	Impairment as of 12/31/2016	Unrealized capital gain or loss as of 12/31/2016 ⁽¹⁾
Listed securities	2,208	1,345	1,828	-	43
Other securities	2,358	2,194	2,018	-	(139)
TOTAL	4,566	3,539	3,846	-	(96)

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

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

Portfolio	Net amount as of 12/31/2014	Net amount as of 12/31/2015	Gross amount as of 12/31/2015	Acquisitions	Amortization, redemption or disposals	Transfers	Translation adjustments	Impairment as of 12/31/2016	Net amount as of 12/31/2016	Unrealized capital gain or loss as of 12/31/2016 ⁽¹⁾
Trading	-	-	-	-	-	-	-	-	-	-
Placement	946	570	570	646	(70)	-	(53)	(0)	1,093	4
Investment	3,620	2,969	2,969	-	(227)	-	11	-	2,753	(100)
TOTAL	4,566	3,539	3,539	646	(297)	-	(42)	(0)	3,846	(96)

(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. Breakdown of impairment by country

See note 2.9

2.6 - OTHER ASSETS

	12/31/2014	12/31/2015	12/31/2016
Other receivables	0	19	4
TOTAL	0	19	4

2.7 - ACCRUALS AND OTHER ASSETS

	12/31/2014	12/31/2015	12/31/2016
Deferred losses on hedging transactions	1,997	1,873	1,624
Deferred charges on bond issues	41	41	45
Deferred charges on hedging transactions	197	223	182
Premiums on acquisition of loans	136	182	240
Other prepaid charges	1	0	-
Accrued interest not yet due on hedging transactions	1,064	977	897
Translation adjustments	-	-	210
Other deferred income	-	-	0
Other accruals	2	1	16
TOTAL	3,438	3,297	3,214

2.8 - TOTAL ASSETS

Analysis by original currency	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	Amount in original currency as of 12/31/2016	Amount in euros as of 12/31/2016
EUR	60,841	60,841	59,436	59,436	58,063	58,063
AUD	530	358	20	14	20	14
CAD	1,019	725	1,017	674	965	681
CHF	2,643	2,197	1,896	1,746	1,497	1,396
GBP	637	818	637	867	318	372
HKD	201	21	201	24	201	25
JPY	95,837	661	95,050	726	91,934	747
NOK	1,039	115	1,039	108	1,039	114
PLN	37	9	39	9	41	9
SEK	1,334	141	0	0	0	0
USD	2,125	1,752	1,556	1,430	1,556	1,477
TOTAL		67,638		65,034		62,898

2.9 - BREAKDOWN OF IMPAIRMENT BY COUNTRY

	Amount as of 12/31/2014	Amount as of 12/31/2015	Amount as of 12/31/2016
Government and public entity securities - placement securities	-	-	(0)
Spain	-	-	(0)
Bonds and other fixed income securities - placement securities	0	-	(0)
Germany	0	-	-
France	0	-	(0)
Bonds and other fixed income securities - investment securities	-	-	-
Loans and advances to customers	(47)	(66)	(60)
France	(47)	(66)	(60)

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.

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

	12/31/2016					Total
	Spain	Ireland	Italy	Portugal	Greece	
Investment securities	-	-	458	-	-	458
Placement securities	201	-	113	-	-	314
TOTAL	201	-	571	-	-	772

3. NOTES TO THE LIABILITIES (EUR millions)

3.1 - DUE FROM BANKS

At the end of December 31, 2016, funding obtained from SFIL, within the framework of the financing agreement, was comprised of different loans with maturities initially between 24 days and 10 years, indexed on Euribor or Eonia.

	12/31/2014	12/31/2015	12/31/2016
Sight accounts	0	-	-
Current account - parent company	-	-	-
Interest accrued not yet due	-	-	-
Term borrowing - parent company	6,212	5,511	5,220
Interest accrued not yet due	16	9	5
Unallocated sums	-	-	-
TOTAL	6,228	5,520	5,225

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 12/31/2016
Sight	-	-	-	-	-
Term	707	986	1,756	1,771	5,220
TOTAL	707	986	1,756	1,771	5,220

3.2 - DEBT SECURITIES

a. Debt securities (*obligations foncières*)

a.1. Accrued interest included in this item: 725

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>	2,403	4,941	17,167	20,374	44,885
<i>of which net issue premiums ⁽¹⁾</i>	-	(1)	(29)	(32)	(62)

(1) The gross amount of positive and negative issue premiums totaled EUR -103 million before amortization.

a.3. Changes during the year excluding accrued interest

Type of securities	12/31/2015	Increases	Decreases	Translation adjustments	12/31/2016
<i>Obligations foncières</i>	46,107	5,663	(6,978)	93	44,885

b. Other bonds (registered covered bonds)

b.1. Accrued interest included in this item: 154

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	20	122	270	5,882	6,294
<i>of which net issue premiums ⁽¹⁾</i>	-	-	-	46	46

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

b.3. Changes during the year excluding accrued interest

Type of securities	12/31/2015	Increases	Decreases	Translation adjustments	12/31/2016
Registered covered bonds	6,137	217	(60)	-	6,294

3.3 - OTHER LIABILITIES

	12/31/2014	12/31/2015	12/31/2016
Cash collateral received	2,351	1,397	1,263
Accrued interest not yet due on cash collateral received	(0)	0	(0)
Taxes	10	11	7
Balances to pay on unwound hedging contracts	-	-	-
Contribution to the support fund ⁽¹⁾	158	162	136
Other creditors	1	-	0
TOTAL	2,520	1,570	1,406

(1) This item represents the commitments taken 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).

3.4 - ACCRUALS AND OTHER LIABILITIES

	12/31/2014	12/31/2015	12/31/2016
Deferred gains on hedging transactions	-	-	-
Deferred income on hedging transactions	2,301	2,165	1,710
Deferred income on loans	172	166	151
Accrued interest not yet due on hedging transactions	916	836	717
Other accrued charges	22	15	16
Translation adjustments	202	18	-
Other accruals	1	-	3
TOTAL	3,614	3,200	2,597

3.5 - PROVISIONS FOR RISKS AND CHARGES

	12/31/2014	12/31/2015	Increases	Decreases	Translation adjustments	12/31/2016
Loans, commitments ⁽¹⁾	63	64	-	(18)	-	46
Financial instruments	45	24	12	(2)	-	34
Other provisions ⁽²⁾	29	115	-	(6)	-	109
TOTAL	137	203	12	(26)	-	189

(1) In 2016, Caisse Française de Financement Local reduced its collective provisions, linked to its loans to customers by reason of the progress made in its policy of reducing the sensitivity of its structured loans.

(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 2016, Caisse Française de Financement Local introduced the right of appeal stipulated by regulations and maintained its position. Provisions recorded in 2015 were adjusted to account for changes in provisions for non-performing loans in 2016.

3.6 - EQUITY

	12/31/2014	12/31/2015	12/31/2016
Share capital	1,315	1,315	1,315
Legal reserve	46	46	46
Retained earnings (+/-)	18	25	(5)
Net income (+/-)	8	(30)	67
TOTAL	1,387	1,356	1,423

On May 25, 2016, the Ordinary and Extraordinary Shareholders' Meeting decided to allocate the 2015 net loss of EUR 30 million to retained earnings, constituting income for distribution of EUR -5 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.

3.7 - TOTAL LIABILITIES

Analysis by original currency	Amount in original currency as of 12/31/2014	Amount in euro as of 12/31/2014	Amount in original currency as of 12/31/2015	Amount in euro as of 12/31/2015	Amount in original currency as of 12/31/2016	Amount in euro as of 12/31/2016
EUR	60,841	60,841	59,436	59,436	58,063	58,063
AUD	530	358	20	14	20	14
CAD	1,019	725	1,017	674	965	681
CHF	2,643	2,197	1,896	1,746	1,497	1,396
GBP	637	818	637	867	318	372
HKD	201	21	201	24	201	25
JPY	95,837	661	95,050	726	91,934	747
NOK	1,039	115	1,039	108	1,039	114
PLN	37	9	39	9	41	9
SEK	1,334	141	0	0	-	-
USD	2,125	1,752	1,556	1,430	1,556	1,477
TOTAL		67,638		65,034		62,898

3.8 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Parent company ⁽¹⁾			Other related parties ⁽²⁾		
	12/31/2014	12/31/2015	12/31/2016	12/31/2014	12/31/2015	12/31/2016
ASSETS						
Loans and advances due from banks - sight	-	-	-	-	-	-
Loans and advances due from banks - term	3,916	2,341	-	-	-	-
Bonds and other fixed income securities	-	-	-	-	-	-
LIABILITIES						
Due to banks - sight	-	-	-	-	-	-
Due to banks - term	6,228	5,520	5,225	-	-	-
INCOME STATEMENT						
Interest income on loans and advances	23	11	6	(4)	(9)	(11)
Interest income on debt securities	-	-	0	-	-	0
Interest expense on borrowings	(61)	(37)	(25)	-	-	(0)
Net commissions	(22)	(19)	(3)	-	-	(0)
OFF-BALANCE SHEET						
Interest rate derivatives	16,492	17,499	13,858	-	-	-
Foreign exchange derivatives	4,606	4,137	3,478	-	-	-
Commitments and guarantees received	4,366	2,391	50	133	140	52
Commitments and guarantees given	-	600	3,722	-	-	-

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

(2) This item may include 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

	12/31/2014	12/31/2015	12/31/2016
Financing commitments granted to credit institutions ⁽¹⁾	-	600	3,722
Financing commitments granted to customers ⁽²⁾	150	293	125
Other commitments given, assets assigned in guarantee	-	-	-
TOTAL	150	893	3,847

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

(2) Financing commitments granted to customers correspond to contracts signed for loans not yet paid out to customers at year-end.

4.2 - COMMITMENTS RECEIVED

	12/31/2014	12/31/2015	12/31/2016
Financing commitments received from credit institutions ⁽¹⁾	550	50	50
Currencies borrowed	-	-	-
Guarantees received from credit institutions ⁽²⁾	4,103	2,525	84
Enhanced guarantees ⁽³⁾	-	-	3,722
Guarantees received from local governments and asset transfers as guarantees of commitments on local governments	7,142	6,104	3,095
Other commitments received	-	-	-
TOTAL	11,795	8,679	6,951

(1) At the end of December 2016, 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, 2014 and 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.

(3) The financing and financing commitments granted to SFIL by Caisse de Financement Local to refinance the former's large export credits benefit from a 100% unconditional and irrevocable guarantee of the French State, referred to as an enhanced guarantee.

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.

	12/31/2014	12/31/2015	12/31/2016	Fair value as of 12/31/2016
Currencies to receive	10,298	8,006	7,682	320
Currencies to deliver	10,501	8,024	7,472	(379)
TOTAL	20,799	16,030	15,154	(59)

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	12/31/2015	Less than 1 year	1 year to 5 years	More than 5 years	12/31/2016
Unconditional transactions	148,022	34,981	44,718	54,801	134,500
of which deferred start	14,037	2,170	330	845	3,345

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

b. Analysis of interest rate transactions by product type

	12/31/2014	12/31/2015	12/31/2016
Interest rate swaps	139,550	148,022	134,500
Term contracts	-	-	-
Interest rate options	-	-	-
TOTAL	139,550	148,022	134,500

c. Analysis of interest rate swap transactions

	12/31/2014	12/31/2015	12/31/2016	Fair value as of 12/31/2016
Micro-hedge	69,999	69,794	66,613	(453)
Macro-hedge	69,551	78,228	67,887	(3,104)
TOTAL	139,550	148,022	134,500	(3,557)

d. Analysis of interest rate transactions by counterparty

	12/31/2014	12/31/2015	12/31/2016
Related parties	16,492	17,499	13,858
Other counterparties	123,058	130,523	120,642
TOTAL	139,550	148,022	134,500

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

5.1 - INTEREST AND RELATED INCOME / EXPENSE

	12/31/2015	12/31/2016
INCOME	2,808	3,513
Due from banks	49	23
Due from customers	2,602	3,388
Bonds and other fixed income securities	92	71
Macro-hedge transactions	65	31
Other commitments	-	-
EXPENSE	(2,622)	(3,334)
Due to banks	(39)	(35)
Due to customers	(1,727)	(2,410)
Bonds and other fixed income securities	(220)	148
Macro-hedge transactions	(636)	(1,037)
Other commitments	-	-
INTEREST MARGIN	186	179

5.2 - ANALYSIS OF COMMISSIONS PAID

	12/31/2015	12/31/2016
Commission for business brokerage and securities portfolio management	(5)	(3)
Commission paid on securities transactions	(2)	(1)
Rebilling by the parent company	(19)	(3)
TOTAL	(26)	(7)

5.3 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS

	12/31/2015	12/31/2016
Transactions on placement securities ⁽¹⁾	21	(9)
Transactions on investment securities	-	-
Transactions on interest rate derivatives	-	-
Foreign exchange transactions	-	(0)
TOTAL	21	(9)

(1) This item regroups provisions and reversals on this portfolio amount after swaps.

5.4 - 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. These assets are managed in a run-off mode. At the end of 2016, 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 expenses can be broken down as follows:

	12/31/2015	12/31/2016
Taxes	(6)	(7)
Other general operating expenses ⁽¹⁾	(90)	(91)
TOTAL	(96)	(98)

(1) of which EUR 88.6 million with SFIL.

5.5 - COST OF RISK

	12/31/2015	12/31/2016
Contribution to the support fund	(20)	-
Collective and specific impairments	6	18
TOTAL	(14)	18

5.6 - GAINS AND LOSSES ON FIXED ASSETS

	12/31/2015	12/31/2016
Transactions on investment securities	(5)	-
Other transactions	-	-
TOTAL	(5)	-

5.7 - CORPORATE INCOME TAX

	12/31/2015	12/31/2016
Income tax for the year ⁽¹⁾	(10)	(22)
Provisions for tax litigation ⁽²⁾	(86)	6
TOTAL	(96)	(16)

(1) The corporate tax rate in France in 2016 is 34.43%.

(2) See note 3.5

6. POST-CLOSING EVENTS

No significant event that influenced the Company's financial situation has occurred since the closing on December 31, 2016.

Statutory Auditors' report on the financial statements

Year ended December 31, 2016

This is a free translation into English of the statutory auditors' report on the financial statements issued in French and it 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 audit 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 balances, transactions or disclosures.

This report also includes information relating to the specific verification of information given in the management report.

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, 2016, on:

- the audit of the accompanying financial statements of Caisse Francaise 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, 2016 and of the results of its operations for the year then ended in accordance with French accounting principles.

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 "1.3.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 "1.3.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 Francaise de Financement Local, as described in the Note "3.5 - Provisions for risks and charges" 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.

Neuilly-sur-Seine and Courbevoie, March 28, 2017

The statutory auditors
French original signed by:

DELOITTE & ASSOCIÉS
Sylvie Bourguignon

MAZARS
Anne Veaute

Supplemental disclosures

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)	12/31/2016
Exposures on public sector entities	54,494
Shares in funds or similar entities that meet the conditions of L.513-5 of the Monetary and Financial Code	-
Replacement assets	650
Other assets	5,350
Operations deducted from the assets	-
TOTAL ASSETS	60,494
Liabilities benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code (weighted amounts in EUR millions)	12/31/2016
<i>Obligations foncières</i>	44,948
Other bonds benefiting from the privilege	6,248
Liabilities related to these securities	879
Amounts owed under the contract provided for in article L.513-15 of the Monetary and Financial Code	16
Amounts owed for derivatives benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code	1,980
Debt attributable to miscellaneous expense mentioned in the last section of the article L.513-11 of the Monetary and Financial Code	0
TOTAL LIABILITIES	54,071
OVER-COLLATERALIZATION RATIO	111.9%

Statutory Auditors' fees in 2016

EUR thousands	Mazars				Deloitte & Associés			
	Amount including VAT		%		Amount including VAT		%	
	2015	2016	2015	2016	2015	2016	2015	2016
Audit services rendered								
Audit, certification, examination of company financial statements	305	328	100%	100%	332	328	100%	100%
Other audit tasks	-	-	-	-	-	-	-	-
Sub-total	305	328	100%	100%	332	328	100%	100%
Other services								
Legal, tax, labor issues	-	-	-	-	-	-	-	-
Internal audit	-	-	-	-	-	-	-	-
Other (to specify if > 10% of audit fees)	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-
TOTAL	305	328	100%	100%	332	328	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	141	122	09-Mar-20		Luxembourg
FR0010443630	CAD	200,000,000	141	131	09-Mar-29		Luxembourg
FR0010443630	CAD	100,000,000	67	69	09-Mar-29		Luxembourg
FR0010477083	CAD	450,000,000	318	302	30-May-17		Luxembourg
TOTAL	CAD	950,000,000	667	625			
CH0032508563	CHF	165,000,000	154	100	09-Aug-17		Zurich
CH0032508563	CHF	135,000,000	126	81	09-Aug-17		Zurich
CH0032508563	CHF	100,000,000	93	62	09-Aug-17		Zurich
CH0033023216	CHF	200,000,000	187	121	28-Aug-19		Zurich
CH0105994203	CHF	250,000,000	233	165	02-May-18		Zurich
CH0105994203	CHF	160,000,000	150	109	02-May-18		Zurich
CH0106680777	CHF	143,000,000	134	95	12-Aug-19		Zurich
CH0106680777	CHF	125,000,000	116	95	12-Aug-19		Zurich
CH0111862063	CHF	100,000,000	94	70	23-Apr-30		Zurich
FR0010526376	CHF	20,000,000	19	12	15-Oct-27		Unlisted
FR0010555748	CHF	50,000,000	47	30	20-Dec-17		Unlisted
TOTAL	CHF	1,448,000,000	1,353	940			
FR0000473357	EUR	74,820,000	75	75	02-Apr-18		Luxembourg
FR0000480329	EUR	300,000,000	300	300	09-Aug-17		Luxembourg
FR0000480329	EUR	100,000,000	100	100	09-Aug-17		Luxembourg
FR0000480329	EUR	50,000,000	50	50	09-Aug-17		Luxembourg
FR0000480329	EUR	14,050,000	14	14	09-Aug-17		Luxembourg
FR0000480329	EUR	77,660,000	78	78	09-Aug-17		Luxembourg
FR0000480329	EUR	36,680,000	37	37	09-Aug-17		Luxembourg
FR0000488132	EUR	750,000,000	750	750	06-Feb-17		Luxembourg - Paris
FR0000488132	EUR	100,000,000	100	100	06-Feb-17		Luxembourg - Paris
FR0000488132	EUR	150,000,000	150	150	06-Feb-17		Luxembourg - Paris
FR0000488132	EUR	150,000,000	150	150	06-Feb-17		Luxembourg - Paris
FR0000488132	EUR	239,154,000	240	239	06-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
FR0010060384	EUR	30,000,000	30	30	05-Mar-20		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
FR0010089839	EUR	90,200,000	90	90	24-Jun-24		Luxembourg
FR0010092908	EUR	10,000,000	10	10	07-Jun-19		Luxembourg
FR0010093336	EUR	50,000,000	50	50	22-Jun-24		Luxembourg
FR0010108811	EUR	80,000,000	80	80	01-Sep-19		Luxembourg
FR0010114371	EUR	20,082,322	20	15	24-Sep-24		Luxembourg
FR0010125732	EUR	100,000,000	100	100	11-Oct-19		Luxembourg
FR0010130435	EUR	200,000,000	200	200	02-Dec-19		Luxembourg
FR0010134577	EUR	120,000,000	120	120	03-Dec-24		Luxembourg
FR0010160911	EUR	20,000,000	20	20	28-Jan-25		Luxembourg
FR0010163394	EUR	230,000,000	225	230	10-Feb-25		Luxembourg

* Value determined by the interest rate and currency swaps contracted to hedge the issue of obligations foncières and 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)				
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	07-Mar-20		Luxembourg
FR0010167312	EUR	50,000,000	50	50	02-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	04-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		Luxembourg
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	06-May-20		Luxembourg
FR0010190066	EUR	100,000,000	100	100	06-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	08-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	06-Jul-20		Luxembourg
FR0010212977	EUR	22,000,000	22	22	08-Aug-25		Luxembourg
FR0010224402	EUR	50,000,000	50	50	08-Sep-20		Luxembourg
FR0010224410	EUR	50,000,000	50	50	08-Sep-20		Luxembourg
FR0010237081	EUR	55,000,000	55	55	03-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	04-Jan-26		Luxembourg
FR0010279109	EUR	43,443,332	43	43	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
FR0010306456	EUR	10,000,000	10	10	07-Apr-25		Unlisted
FR0010306472	EUR	10,000,000	10	10	06-Apr-20		Unlisted
FR0010306480	EUR	20,000,000	20	20	06-Apr-20		Unlisted
FR0010306498	EUR	10,000,000	10	10	07-Apr-25		Unlisted
FR0010306506	EUR	5,000,000	5	5	07-Apr-26		Unlisted
FR0010306514	EUR	5,000,000	5	5	06-Apr-27		Unlisted
FR0010306522	EUR	5,000,000	5	5	05-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	05-May-36		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
FR0010369330	EUR	50,000,000	50	50	27-Sep-18		Luxembourg
FR0010369546	EUR	50,000,000	50	50	03-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
FR0010391110	EUR	12,000,000	12	12	21-Nov-18		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	07-Feb-19		Luxembourg

* Value determined by the interest rate and currency swaps contracted to hedge the issue of obligations foncières and 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)				
FR0010428185	EUR	150,000,000	149	150	07-Feb-19		Luxembourg
FR0010428185	EUR	150,000,000	149	150	07-Feb-19		Luxembourg
FR0010428185	EUR	20,000,000	20	20	07-Feb-19		Luxembourg
FR0010428185	EUR	125,000,000	123	125	07-Feb-19		Luxembourg
FR0010428185	EUR	150,000,000	149	150	07-Feb-19		Luxembourg
FR0010428185	EUR	25,000,000	25	25	07-Feb-19		Luxembourg
FR0010428185	EUR	120,000,000	120	120	07-Feb-19		Luxembourg
FR0010428185	EUR	80,000,000	80	80	07-Feb-19		Luxembourg
FR0010492025	EUR	1,108,650,000	1,108	1,109	03-Jul-17		Luxembourg
FR0010492025	EUR	150,000,000	150	150	03-Jul-17		Luxembourg
FR0010492025	EUR	20,000,000	20	20	03-Jul-17		Luxembourg
FR0010492025	EUR	30,000,000	30	30	03-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	38,000,000	38	38	02-Aug-32		Luxembourg
FR0010504761	EUR	7,000,000	7	7	02-Aug-32		Luxembourg
FR0010524488	EUR	50,000,000	50	50	27-Feb-17		Unlisted
FR0010539734	EUR	1,285,857,000	1,285	1,286	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	08-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	1,140,000,000	1,140	1,140	02-Jun-21		Luxembourg
FR0010762039	EUR	150,000,000	154	150	02-Jun-21		Luxembourg
FR0010762039	EUR	200,000,000	200	200	02-Jun-21		Luxembourg
FR0010762039	EUR	160,000,000	160	160	02-Jun-21		Luxembourg
FR0010766923	EUR	10,000,000	10	10	07-Mar-26		Luxembourg
FR0010775486	EUR	1,898,000,000	1,897	1,898	08-Jul-24		Luxembourg
FR0010775486	EUR	17,000,000	17	17	08-Jul-24		Luxembourg
FR0010775486	EUR	85,000,000	85	85	08-Jul-24		Luxembourg
FR0010781591	EUR	15,000,000	15	15	16-Feb-26		Unlisted
FR0010806752	EUR	25,000,000	25	25	29-Mar-19		Luxembourg
FR0010810424	EUR	50,000,000	50	50	07-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	922,000,000	922	922	26-Jan-22		Luxembourg
FR0010850982	EUR	500,000,000	510	500	26-Jan-22		Luxembourg
FR0010850982	EUR	200,000,000	198	200	26-Jan-22		Luxembourg
FR0010850982	EUR	200,000,000	196	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
FR0010850982	EUR	10,000,000	10	10	26-Jan-22		Luxembourg
FR0010857797	EUR	100,000,000	100	100	16-Feb-18		Luxembourg
FR0010859777	EUR	1,000,000,000	999	1,000	26-Feb-18		Luxembourg
FR0010859777	EUR	187,000,000	186	187	26-Feb-18		Luxembourg
FR0010859777	EUR	23,000,000	23	23	26-Feb-18		Luxembourg
FR0010859777	EUR	90,000,000	90	90	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
FR0010945964	EUR	705,848,000	703	706	24-Sep-20		Luxembourg - Paris
FR0010945964	EUR	265,000,000	257	265	24-Sep-20		Luxembourg - Paris
FR0010945964	EUR	200,000,000	194	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	02-Dec-25		Luxembourg
FR0010998039	EUR	977,000,000	973	977	26-Jan-21		Luxembourg - Paris
FR0010998039	EUR	300,000,000	298	300	26-Jan-21		Luxembourg - Paris
FR0010998039	EUR	150,000,000	149	150	26-Jan-21		Luxembourg - Paris

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			(EUR millions)				
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
FR0011072826	EUR	203,500,000	203	204	01-Jul-23		Luxembourg
FR0011072826	EUR	46,500,000	46	47	01-Jul-23		Luxembourg
FR0011536093	EUR	760,000,000	759	760	16-Jul-20		Luxembourg - Paris
FR0011536093	EUR	120,000,000	120	120	16-Jul-20		Luxembourg - Paris
FR0011536093	EUR	120,000,000	120	120	16-Jul-20		Luxembourg - Paris
FR0011546886	EUR	50,000,000	47	50	02-Aug-33		Luxembourg
FR0011547744	EUR	50,000,000	50	50	05-Aug-24		Luxembourg
FR0011548791	EUR	455,000,000	452	455	07-Aug-25		Luxembourg
FR0011548866	EUR	165,000,000	164	165	07-Aug-33		Luxembourg
FR0011549997	EUR	331,000,000	330	331	09-Aug-28		Luxembourg
FR0011549997	EUR	20,000,000	20	20	09-Aug-28		Luxembourg
FR0011549997	EUR	29,000,000	29	29	09-Aug-28		Luxembourg
FR0011580588	EUR	500,000,000	498	500	02-Oct-28		Luxembourg - Paris
FR0011580588	EUR	500,000,000	521	500	02-Oct-28		Luxembourg - Paris
FR0011686401	EUR	897,000,000	891	897	17-Jan-24		Luxembourg - Paris
FR0011686401	EUR	13,000,000	13	13	17-Jan-24		Luxembourg - Paris
FR0011686401	EUR	90,000,000	89	90	17-Jan-24		Luxembourg - Paris
FR0011701044	EUR	40,000,000	40	40	27-Jan-34	27-Jan-29	Luxembourg
FR0011737956	EUR	53,561,250	54	54	14-Feb-49	14-Feb-29	Luxembourg
FR0011907963	EUR	114,000,000	114	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	1,248	1,250	16-Sep-19		Luxembourg - Paris
FR0012159507	EUR	150,000,000	151	150	16-Sep-19		Luxembourg - Paris
FR0012169910	EUR	100,000,000	100	100	20-Mar-26		Luxembourg
FR0012467942	EUR	362,000,000	357	362	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
FR0012467942	EUR	45,000,000	44	45	22-Jan-35		Luxembourg - Paris
FR0012467942	EUR	200,000,000	195	200	22-Jan-35		Luxembourg - Paris
FR0012467942	EUR	150,000,000	149	150	22-Jan-35		Luxembourg - Paris
FR0012467942	EUR	33,000,000	33	33	22-Jan-35		Luxembourg - Paris
FR0012467942	EUR	150,000,000	147	150	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	755,000,000	753	755	27-Apr-23		Luxembourg - Paris
FR0012688208	EUR	150,000,000	144	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
FR0012688208	EUR	45,000,000	45	45	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	455,000,000	455	455	17-Jul-18		Luxembourg - Paris
FR0012857548	EUR	250,000,000	250	250	17-Jul-18		Luxembourg - Paris
FR0012857548	EUR	250,000,000	250	250	17-Jul-18		Luxembourg - Paris
FR0012857548	EUR	45,000,000	45	45	17-Jul-18		Luxembourg - Paris
FR0012857548	EUR	150,000,000	150	150	17-Jul-18		Luxembourg - Paris
FR0012939882	EUR	825,000,000	824	825	09-Sep-25		Luxembourg - Paris
FR0012939882	EUR	60,000,000	60	60	09-Sep-25		Luxembourg - Paris
FR0012939882	EUR	115,000,000	115	115	09-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
FR0013088424	EUR	800,000,000	800	800	13-Apr-22		Luxembourg - Paris
FR0013088424	EUR	90,000,000	90	90	13-Apr-22		Luxembourg - Paris
FR0013088424	EUR	110,000,000	110	110	13-Apr-22		Luxembourg - Paris

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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)				
FR0013088432	EUR	500,000,000	496	500	13-Jan-31		Luxembourg - Paris
FR0013108131	EUR	20,000,000	20	20	28-Sep-18		Luxembourg
FR0013108248	EUR	50,000,000	50	50	03-Feb-31		Luxembourg
FR0013119070	EUR	54,000,000	54	54	25-Feb-36	25-Feb-26	Luxembourg
FR0013150257	EUR	1,190,000,000	1,189	1,190	13-Apr-26		Luxembourg - Paris
FR0013150257	EUR	250,000,000	251	250	13-Apr-26		Luxembourg - Paris
FR0013150257	EUR	150,000,000	155	150	13-Apr-26		Luxembourg - Paris
FR0013150257	EUR	60,000,000	60	60	13-Apr-26		Luxembourg - Paris
FR0013184181	EUR	1,000,000,000	998	1,000	23-Jun-25		Luxembourg - Paris
FR0013184181	EUR	150,000,000	155	150	23-Jun-25		Luxembourg - Paris
FR0013198223	EUR	40,000,000	40	40	12-Feb-42	12-Feb-19	Luxembourg
FR0013202850	EUR	180,000,000	180	180	21-Sep-46		Luxembourg
FR0013203619	EUR	20,000,000	20	20	21-Sep-46		Luxembourg
FR0013204609	EUR	20,000,000	21	20	29-Sep-26		Luxembourg
FR0013219631	EUR	20,000,000	20	20	22-Nov-28		Luxembourg
FR0013221389	EUR	500,000,000	497	500	01-Dec-31		Luxembourg - Paris
TOTAL	EUR	40,241,505,903	40,181	40,237			
FR0000470775	GBP	189,000,000	221	300	22-Nov-17		Unlisted
FR0000486581	GBP	125,000,000	146	205	16-Jul-26		Luxembourg
TOTAL	GBP	314,000,000	367	505			
FR0000471195	HKD	200,000,000	24	26	05-Dec-17		Luxembourg
TOTAL	HKD	200,000,000	24	26			
FR0010199802	JPY	10,000,000,000	81	74	14-Jun-17		Unlisted
FR0010225433	JPY	10,000,000,000	81	74	01-Sep-20		Unlisted
FR0010279240	JPY	1,000,000,000	8	7	30-Jan-26		Unlisted
FR0010347930	JPY	5,000,000,000	41	34	20-Jul-21		Unlisted
FR0010412742	JPY	5,000,000,000	41	32	18-Jan-17		Unlisted
FR0010468652	JPY	50,000,000,000	406	308	09-May-17		Luxembourg
FR0010526475	JPY	5,000,000,000	41	31	18-Oct-17		Unlisted
FR0010629592	JPY	5,000,000,000	41	31	25-Jun-18		Unlisted
TOTAL	JPY	91,000,000,000	739	591			
FR0011006642	NOK	500,000,000	55	64	18-Feb-21		Luxembourg
FR0011056654	NOK	500,000,000	55	64	07-Jun-21		Luxembourg
TOTAL	NOK	1,000,000,000	110	128			
FR0010306548	PLN	39,370,958	9	10	12-Apr-25		Unlisted
TOTAL	PLN	39,370,958	9	10			
FR0000470239	USD	20,000,000	19	20	12-Sep-17		Luxembourg
FR0010096982	USD	139,200,000	132	115	01-Jul-19		Luxembourg
FR0010437368	USD	888,670,000	843	682	16-Feb-17		Luxembourg
FR0010571109	USD	200,000,000	190	135	18-Dec-17		Unlisted
FR0010572552	USD	250,000,000	237	168	22-Jan-18		Luxembourg
TOTAL	USD	1,497,870,000	1,421	1,120			
TOTAL OBLIGATIONS FONCIÈRES			44,885	44,192			

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 2006-19	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

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				(EUR millions)			
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
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	16-Nov-17	Unlisted
RCB 58	EUR	10,000,000	10	10	19-Nov-47	16-Nov-17	Unlisted
RCB 59	EUR	1,000,000	1	1	19-Nov-47	16-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	7,347,970	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

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Registered covered bonds	Currency	Nominal amount in	Balance	Redemption value *	Final due date	Next call date	Stock exchange
		foreign currency					
(EUR millions)							
RCB 87	EUR	20,000,000	20	20	5-Mar-19	17-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		Unlisted
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

* Value determined by the interest rate and currency swaps contracted to hedge the issue of obligations foncières and registered covered bonds.

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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 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
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	20,000,000	20	20	23-Aug-33		Unlisted
RCB 2013-4	EUR	10,000,000	10	10	23-Aug-33		Unlisted
RCB 2013-5	EUR	30,000,000	30	30	23-Aug-33		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	Balance	Redemption value *	Final due date	Next call date	Stock exchange
		foreign currency					
(EUR millions)							
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
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	26,788,388	27	27	3-Feb-49	3-Feb-34	Unlisted
RCB 2014-16	EUR	3,214,607	3	3	3-Feb-49	3-Feb-34	Unlisted
RCB 2014-17	EUR	23,573,782	24	24	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	21,304,608	21	21	2-May-44	2-May-34	Unlisted
RCB 2014-30	EUR	31,956,912	32	32	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

* Value determined by the interest rate and currency swaps contracted to hedge the issue of obligations foncières and registered covered bonds.

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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 2014-41	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
RCB 2014-44	EUR	5,000,000	5	5	3-Aug-26		Unlisted
RCB 2014-45	EUR	27,000,000	53	27	11-Sep-34		Unlisted
RCB 2014-46	EUR	27,000,000	51	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	10,000,000	10	10	29-Oct-40		Unlisted
RCB 2015-3	EUR	30,000,000	30	30	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 2015-6 A	EUR	20,000,000	20	20	27-Feb-40		Unlisted
RCB 2015-6 B	EUR	10,000,000	10	10	27-Feb-40		Unlisted
RCB 2015-7	EUR	10,000,000	10	10	15-Mar-30		Unlisted
RCB 2015-8 A	EUR	30,000,000	30	30	19-Mar-35		Unlisted
RCB 2015-8 B	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	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
RCB 2016-1 A	EUR	50,000,000	50	50	14-Jan-36	14-Jan-26	Unlisted
RCB 2016-1 B	EUR	5,000,000	5	5	14-Jan-36	14-Jan-26	Unlisted
RCB 2016-1 C	EUR	3,000,000	3	3	14-Jan-36	14-Jan-26	Unlisted
RCB 2016-1 D	EUR	2,000,000	2	2	14-Jan-36	14-Jan-26	Unlisted
RCB 2016-2	EUR	10,000,000	10	10	26-Jan-46	26-Jan-26	Unlisted
RCB 2016-3	EUR	10,000,000	10	10	11-Feb-36		Unlisted
RCB 2016-4 A	EUR	20,000,000	20	20	14-Mar-46	14-Mar-26	Unlisted
RCB 2016-4 B	EUR	10,000,000	10	10	14-Mar-46	14-Mar-26	Unlisted
RCB 2016-4 C	EUR	1,000,000	1	1	14-Mar-46	14-Mar-26	Unlisted
RCB 2016-4 D	EUR	1,000,000	1	1	14-Mar-46	14-Mar-26	Unlisted
RCB 2016-5	EUR	15,000,000	15	15	17-Mar-31		Unlisted
RCB 2016-6	EUR	15,000,000	15	15	24-Mar-36		Unlisted
RCB 2016-7	EUR	10,000,000	10	10	18-Oct-41	18-Oct-18	Unlisted
RCB 2016-8	EUR	15,000,000	15	15	20-Sep-41		Unlisted
RCB 2016-9	EUR	20,000,000	20	20	21-Sep-37	21-Sep-21	Unlisted
TOTAL	EUR	6,247,893,665	6,294	6,248			
TOTAL REGISTERED COVERED BONDS			6,294	6,248			
TOTAL BONDS ISSUED			51,180	50,439			

* 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 its standards and composition;
- the principles of internal control and risk management applied by the Company, especially by examining the procedures that are used to prepare and process accounting and financial information for the annual financial statements.

To prepare this report, Caisse Française de Financement Local refers to:

- the Code of Commerce, as a commercial company;
- the Monetary and Financial Code, as a credit institution;
- 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 (hereinafter "*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);
- relevant European regulations for credit institutions;
- the provisions of the ordinance of August 20, 2014, on the governance and operations of the equity of companies with public sector shareholders.

This report of the Chairman of the Supervisory Board was prepared by the Executive Board of Caisse Française de Financement Local, which gathered the necessary information from the Internal Audit division 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 Operational Risks and Permanent Control division, the General Secretary and the Finance division of SFIL. This report presents and describes all the principles and procedures applied during the year 2016 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 has two main missions, as follows:

- to refinance public sector loans within the framework of funding French local governments and public hospitals;
- to grant loans to SFIL in order to fund large export credits within the framework set up by the French State. Such refinancing benefits from an irrevocable and unconditional 100% guarantee by the French State.

These two activities are based on the issue of *obligations foncières* and use of other financial resources benefiting from the same privilege.

The objective is to provide optimal financing conditions for large export credits as well as French local governments and public hospitals through a high rating and irreproachable risk management.

1.1 – SUPERVISORY BOARD

The Supervisory Board of Caisse Française de Financement Local exercises permanent control of the Company's management by the Executive Board. The six 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. Pursuant to the recommendations of the AFEP-MEDEF Code, the Annual Shareholders' Meeting held on May 25, 2016, shortened the length of the term of office of the members of the Supervisory Board from six to four years, effective immediately. 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 four times in 2016. The rate of assiduity was 88%.

The agenda respects a regular format: minutes, business review of the previous quarter and of current trends including issuance conditions, examination of the financial statements, acquisition of assets from La Banque Postale and refinancing of large export credits. Specific topics are added at different times of the year: the report on internal control, the report on risk assessment and surveillance in application of articles 258 and following of the *arrêté* of November 3, 2014, and 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 Supervisory 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 Supervisory Board advises on strategic choices, makes recommendations and, if necessary, requests specific analyses, which are examined in subsequent meetings. The Supervisory 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 and to refinancing of large export credits.

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 2016, 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 its issuance strategy, issue ratings, monitoring of litigation, ongoing application of its strategy to reduce the sensitivity of structured loans with the effective implementation of the support funds for French local governments and public hospitals, purchase of public sector loans from La Banque Postale, assistance rendered by its servicer and parent company, and risks especially with the review for approval of the ICAAP and ILAAP reports, and recovery plan. During the year, the Supervisory Board was also particularly interested in the refinancing of large export credits, with the signing of the first contracts during the year.

The Board called an Ordinary and Extraordinary Shareholders' Meeting on May 25, 2016. Its purpose was, for the Ordinary Shareholders' Meeting, in addition to presenting the financial statements and the regulated agreements, to renew the mandate of one Supervisory Board member, Béatrice Gosserez, and for the Extraordinary Shareholders' Meeting to reduce the terms of office of the Supervisory Board members and to amend the Company's by-laws accordingly.

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 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 Appointments and Compensation Committees of its parent company to define these policies, 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 women and men on the Board and will ask the Ordinary Shareholders' Meeting of 2017 to make the appointments required to reach the applicable 40% threshold.

1.2 - SPECIFIC ORGANIZATION OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

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 has entrusted the management of its operations to SFIL, since 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.).

The main measures presenting a lack of compliance between the company's governance and the provisions of the AFEP-MEDEF Code were identified in 2015 as follows:

- length of the members' terms of office set at six years;
- balanced representation of women and men on the Supervisory Board;
- presence of independent members on the Supervisory Board.

The first point above was corrected by the Extraordinary Shareholders' Meeting held in 2016 and the second will be addressed in the meeting set to take place in 2017. The presence of independent members on the Supervisory Board was not addressed, considering the status and shareholder structure of the Company, 100% owned by SFIL, which complies with this requirement.

The plan to provide for a new generation in the supervisory and management bodies should be dealt with in 2017 at the level of the SFIL Group by the Appointments Committee.

(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 that has been under the direct supervision of the European Central Bank (ECB) 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.

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 management 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 the loans to French local governments and public hospitals granted by LBP;
- supplying support services for LBP;
- conducting a responsible and proactive policy to reduce the sensitivity of the outstanding loans held by Caisse Française de Financement Local;
- refinancing large 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 risk control system. It aims to guarantee 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 control level 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 control level involves permanent control activities. Specific controls are performed by a network of correspondents designated within the operational divisions, who report to the Operational Risks and Permanent Control division, itself a part of the Risks division, for these tasks. The Compliance division carries out these controls using specific verifications focused on non-compliance risk within the following four compliance areas: organization of compliance, professional conduct and ethics, protection of customer interests and financial risks.
- The third control level concerns periodic control conducted by an independent team, the Internal Audit and Inspection division, which reports to the Chairman and Chief Executive Officer of SFIL and which exercises periodic oversight of the efficient and effective application of the two above-mentioned levels of control.

The different functions in charge of internal control (Operational Risks and Permanent Control division, Compliance division and Internal Audit and Inspection division) meet every quarter 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.

In this context, a shared IT system 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.

The heads of Internal Control report to SFIL's Chairman and Chief Executive Officer and Board of Directors, if the latter deems it necessary. They report regularly to the appropriate board committee, the Risks and Internal Control Committee. They may be heard by this committee at their request and can report directly to the Board of Directors if they believe that a potentially significant event should be brought to its attention. These managers may not be terminated without the approval of the Board of Directors. If these missions or events concern the Caisse Française de Financement Local, these managers report to the Executive Board and, if necessary, to the Supervisory Board.

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, giving an appreciation of the quality of internal control, in particular the coherence of measurement, surveillance and risk control systems, and 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.
- SFIL's Chairman and Chief Executive Officer and its 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 first-level 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 rely on the policies, procedures, systems, limits and indicators with a clear separation between the launch of operations and their validation, control or settlement. These policies, procedures, systems, limits and indicators are defined by several specialized committees, such as the Risks Committee, the New Products Committee and the Operational Risks and Permanent Control Committee. They are composed of operating, support, and control staff, and chaired by a member of the Executive Committee of SFIL.

d. The Risks division

SFIL and Caisse Française de Financement Local have implemented a complete risk management system:

- to identify, monitor, manage and measure risks using specific methods;
- to decide on limits to be implemented;
- to decide on delegations to assign to the front office teams;
- to decide on the amount of provisions that are required;
- to inform the competent committees regarding changes in these risks, proactively warning them that a limit or threshold has been exceeded.

The level of risk that is acceptable for SFIL and Caisse Française de Financement Local is defined by executive management and the Risks Committee at SFIL, in line with the risk appetites of the two companies. It is then approved by the SFIL Risks and Internal Control Committee and finally by the SFIL Board of Directors. It is also approved by the Executive and Supervisory Boards of Caisse Française de Financement Local.

The Quarterly Risks Review is presented to the Risks and Internal Control Committee every quarter by the head of risks of SFIL. This review 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 balance sheet 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 the control by different committees set up by SFIL. 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 Market Validation Committee is in charge of validating and implementing market risk and derivative pricing models. The Credit Model and Quality Assurance Validation Committee is in charge of internal rating systems that make it possible to calculate capital requirements.

The New Products Committee, chaired by the head of risks, examines all new products, management processes and transformation of a pre-existing product or process. It makes decisions in this respect. 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. It also determines and evaluates the risks of non-compliance connected to the creation or modifications of products or services based on the compliance opinion submitted to it.

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 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 of IT 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 the Risks division. The goal is to maintain synergies involving 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 the monitoring of certain controls. Second-level controls are conducted by the Operational Risks and Permanent Control division.

2. Activities

The management principles governing permanent control, excluding compliance, are described in the management policy for operational risks and permanent control. Permanent control is based on a control plan which is prepared in collaboration with the operating divisions and covers the range of SFIL's activities. It is reviewed every year. The objective of this review 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, their formalization and the pertinence of related measurement indicators);
- the review of incidents noted;
- the recommendations of the internal audit division, oversight bodies, and the statutory auditors;
- new products and processes at SFIL.

Thus, efforts to ensure continuous improvement make it possible to develop the control plan by adapting existing controls, while adding new ones and removing controls which are redundant or no longer relevant.

The Operational Risks and Permanent Control division and its correspondents conduct or evaluate controls within their scope at pre-determined frequencies (usually quarterly, though some are conducted biannually or annually). This evaluation is documented by a commentary and supporting documentation. The results of the controls are reviewed by the Operational Risks and Permanent Control division, which may validate or refuse them, particularly in the latter case if the documentation is deemed insufficient. Action plans are launched to obtain a satisfactory outcome in subsequent periods. These action plans are regularly monitored and a quarterly report is submitted to the Operational Risks and Permanent Control Committee.

As at the end of 2016, 136 permanent controls were in place.

3. Reporting

The accountable officers, the members of the Executive Committee and of the Board of Directors are kept regularly informed of permanent control activities through the Risk and Internal Control Committee. 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 Chief Executive Officer 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 and examines the permanent control process: results of evaluations of permanent controls, monitoring of action plans, additions, eliminations or modifications of controls. It also looks at the main issues linked to permanent control and at areas of anticipated improvements. The main points which are recognized are presented to the Risk and Internal Control Committee by the head of the Risks division as part of the Quarterly Risk Review.

At their meetings on January 26, 2017, and March 16, 2017, the Risk and Internal Control Committee and the Executive Board were informed of the results of the controls and improvements in terms of permanent control in 2016.

g. Compliance

1. Organization and governance

Compliance control is an integral part of the internal control system of credit institutions.

The Compliance division is in charge of managing non-compliance risk as it is defined by article 10 of the *arrêté* of November 3, 2014, for all SFIL and Caisse Française de Financement Local operations. Non-compliance risk management aims to ensure compliance with:

- laws, regulations, professional conduct rules and guidelines;
- protection of the reputation of the group, its investors and customers;
- ethical rules inherent in business practices, the prevention of conflicts of interest, the protection of customers' interests and market integrity;
- the fight against money laundering, corruption and the financing of terrorism, and compliance with financial embargoes.

Pursuant to article 29 of the *arrêté* of November 3, 2014, the SFIL compliance division is autonomous, independent of all operating divisions and particularly of any commercial activity. It is under the responsibility of the General Secretary in charge of compliance, who is a member of the Executive Committee 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. The General Secretary reports directly to SFIL's Chairman and Chief Executive Officer, and has direct and independent access to SFIL's Risk and Internal Control Committee. 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.

2. Activities

To ensure the effectiveness of the non-compliance risk management system of SFIL and Caisse Française de Financement Local, the Compliance division implements a control plan which aims to contain non-compliance risks and if possible remove them.

This control plan, which is based on a mapping of the non-compliance risks, is updated at least annually, in order to account for the changes occurring in the internal and external environments of SFIL and Caisse Française de Financement Local.

The Compliance division has developed its non-compliance risk mapping method and its related control plan to take into account the particularities of the refinancing of large export credits. The non-compliance risk scoring method was also developed so as to align it with the internal audit method.

In December 2016, the Compliance division conducted its annual risk evaluation and updated the mapping of non-compliance risks, which were used to review the annual control plan. The mapping and the control plan were approved by the Risk and Internal Control Committee on January 26, 2017. They were also presented to the Executive Board on March 2, 2017.

The main first-level controls are conducted by the compliance correspondents of the operating divisions that are most affected by non-compliance risks. The Compliance division establishes and documents the second-level controls and also conducts first-level controls when specific expertise is required. Specific action plans are systematically implemented if dysfunctional areas are identified during the controls. The action plan is monitored by the compliance correspondents and their overall progress is verified by the Compliance division.

3. Reporting

The accountable officers at SFIL and Caisse Française de Financement Local, the members of the Executive Committee and the Board of Directors and the Supervisory Board of Caisse Française de Financement Local receive regular

updates regarding the compliance system. The Compliance division prepares a semi-annual report which is presented to the Executive Committee, the Executive Board of Caisse Française de Financement Local and the Risk and Internal Control Committee. They examine the activities and the controls conducted by the Compliance division: results of the control evaluations, monitoring of the action plans, presentation of the non-compliance risk mapping and annual control plan. The Executive Committee issues decisions on the main stakes of the compliance system and of the areas requiring improvement.

At their meetings held on January 26, 2017, and March 2, 2017, the Risks and Internal Control Committee and the Executive Board were respectively informed of the results of the controls and improvements in terms of compliance in 2016.

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

Periodic control, in the sense of the *arrêté* of November 3, 2014, is exercised by the Internal Audit⁽¹⁾ and Inspection⁽²⁾ division which is 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.

These principles are reflected in the internal audit charter, updated in early 2017, and the inspection charter. They are approved by the SFIL Risks and Internal Control Committee. SFIL employees are then informed.

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, awareness 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 1, 2017, 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/Supervisor, 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 oversight, and the monitoring of recommendations for implementation by SFIL's operating divisions.

2. Activities

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⁽³⁾. The last update of this manual dates from August 2016. 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 2016, an annual assessment of risks was carried out in the second half and it gave rise to an update of the mapping of the major risks of SFIL and Caisse Française de Financement Local. This map was compared to the similar information culled in 2015. Based on this mapping, Internal Audit and Inspection prepared its 2017 map and multi-year audit and inspection plan. This plan was approved by the Risks and Internal Control Committee on January 26, 2017, and by the Executive Board on February 22, 2017. The Supervisory Board is also informed on a yearly basis.

(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.

(3) Institut Français de l'Audit et du Contrôle Interne.

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, depending on audit resources. These different missions include four main stages (preparation, accomplishment, conclusion and finalization). The audit methodology, which is based on IFACI methodology, was reviewed in 2016 in terms of operating efficiency and in particular to focus on the significant risks identified within the audited scope. 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 was in February 2017.

The audit missions are summed up in a report that is presented to the SFIL Executive Committee, which comprises:

- a general assessment regarding the subject of audit;
- an evaluation of residual risks to enable the Executive Committee to validate their match with SFIL's risks profile;
- recommendations to improve the efficiency of processes and internal controls.

In 2016, the internal audit missions focused on issues constituting the core of the SFIL Group's operations (acquisition of LBP assets by Caisse Française de Financement Local, refinancing of large export credits), key operating processes (budget, payroll), risk monitoring and internal models (management of bank counterparties, ICAAP procedures, internal rating system for credit risk), the information system (management of IT incidents, IT simplification program, and IT security) and outsourced services. In 2016, the audit plan was 82% 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 for discussion and decision, as well as to the Risks and Internal Control Committee on September 6, 2016, and January 26, 2017, and to the Executive Board of Caisse Française de Financement Local on February 22, 2017.

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 2016 and official reports based on the situations as of March 31 and October 31, 2016, as well as presentation to the Executive Committee (in July 2016 and January 2017), the Risks and Internal Control Committee on September 6, 2016, and January 26, 2017, and the Executive Board of Caisse Française de Financement Local on February 22, 2017.

Internal Audit and Inspection is also in charge of the preparation, organization, and follow-up of the missions regulatory authorities carried out at SFIL. It also coordinates the preparation of responses to reports and the monitoring of action plans subsequent to the recommendations made.

In addition, under the aegis of the Chairman of the Financial Statements 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 2016, Internal Audit and Inspection organized five 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 2016, inspection services focused on the rules governing the staff's use of SFIL's resources, access to sensitive computer applications and directories.

3. Reporting

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 2016, 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 division of SFIL, within the framework of the management agreement between the two companies. Accounting at SFIL reports to the Chief Financial Officer (CFO), who also oversees the Back-Office and Financial Performance Management divisions, including the oversight of balance sheets, management control and purchasing. 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, with the Risks division, 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 analyze the income, 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 gets all the information required in participating in committees either directly or through the Chief Financial Officer. 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, and management control 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 products, 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 by-laws.

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, 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 French Financial Markets Authority (AMF) through the regulatory information wire (NASDAQ). 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. Other information is also posted on the Website of the Company, through the Cover Bond Label.

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.

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 refinancing of large export credits. This data is accompanied by forecasts and evaluations of risks, which is directly supplied by the operating divisions or the Risks division before it 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 Financial Performance Management division 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 by-laws 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 carried out by 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.

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. Final approval is granted by the SFIL's Risks Committee.

Within the framework of its surveillance of credit risk, the Risks division provides for:

- the definition of credit risk policies in conformity with the risk appetites 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 public sector entities or bank counterparties that belong to the same group;
- the proactive monitoring of limits, which the Risks division may change at any time 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, as described below.

- The Credit Committee approves new commitments⁽¹⁾ by SFIL and Caisse Française de Financement Local (loans and market transactions) 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, the Treasury and Financial Markets 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 Credit 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 soliciting the opinion of 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.

⁽¹⁾ Except for commitments delegated to the Risks division, to the Debt Portfolio Management division, and the sales teams of La Banque Postale.

b. Market risk

By reason of its nature, the institution does not carry market risks in the regulatory sense of the term. Nonetheless, unregulated market risks are subject to continuous supervision by SFIL's Market and Balance Sheet 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 of risks associated with swaps that are not considered as hedges according to accounting standards.

The governance of market risks is built around the Market Risks Committee, which conducts a quarterly review of risk indicators for the different market activities (sensitivity, changes in mark to market swaps, monitoring of AFS reserves, provisions on placement securities in French GAAP, limits, cash collateral received, 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 Balance Sheet Risks division is in charge of defining the general policy concerning balance sheet risks, calibrating and monitoring the limits on ALM indicators and performing second-level controls on these indicators.

1. Definition of ALM policy

With regard to hedging for interest rate risk, the ALM management policy aims to protect the value of the Caisse Française de Financement Local equity. This involves neutralizing as much as possible the changes in the value of the company, in the event of interest rate fluctuations. To achieve this, interest rate risk is hedged in two stages by Caisse Française de Financement Local:

- In the first stage, all the preferred assets and the liabilities which are not naturally subject to a floating rate are hedged against Euribor until maturity, from recognition. In practice, the acquisitions of loan portfolios (the unit value of which is generally low) are generally macro-hedged. Loans granted individually or bond issues may be either micro- or macro-hedged. Assets and liabilities are usually hedged with interest rate swaps, but the same effect may be obtained whenever possible by the cancellation of swaps of opposite direction;
- In the second stage, Euribor lending and borrowing flows (naturally or after hedging) are swapped against Eonia generally over a sliding period of 2 years in order to eliminate the basis risk generated by Euribor differences (1, 3, 6, or 12 months) and the fixing risk due to refixing the dates of the reference indices which differ for the assets and the liabilities.

This interest rate risk is placed within a framework of 3 indicators subject to limits restricting the loss to 6% of stockholders' equity for a change in rates with 99% probability, i.e. EUR 80 million. These 3 indicators aim to limit losses in value in the event of a change 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 dynamic under stress scenarios by monitoring liquidity gaps, be they short-term (1 day to 3 months), medium-term (up to 3 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 benefiting from the legal privilege), 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. Governance

Balance sheet risk management is organized around three committees. The ALM Committee is composed of members of the ALM team, the Market and Balance Sheet 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 2016 remained well under fixed limits.

ALM manages the liquidity of SFIL and Caisse Française de Financement Local, while respecting regulatory liquidity ratios and the internal objectives for these ratios, 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 commercial policy (asset acquisition, reduction in sensitivity, export credit refinancing) and to the strategy of refinancing. Stressed liquidity forecasts are also performed. These analyses aim 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. For SFIL, sources of funding are drawn down from liquidity lines provided by its shareholders (Caisse des Dépôts et Consignations and La Banque Postale) or come from the issue of short-term debt securities or Euro Medium Term Notes (EMTN).

With regard to the management of foreign exchange risk, the covered bonds and assets denominated in foreign currencies give rise at the latest they are recorded on 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 risk. 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, within the Risks 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 and the reporting 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 operating divisions. The threshold of the mandatory declaration for financial impacts is EUR 2,500. The threshold of the mandatory declaration for non-financial impacts is 3 men-days. The identification and the analysis of the incidents are the responsibility of the operational 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 SFIL's exposure to operational risk.

Operational risk mapping involves evaluating operational risks incurred by each SFIL division every two years, in collaboration with the Operational Risks and Permanent Control division. In this manner, these risks can be identified and assessed regularly, the existing mitigation factors identified (available systems and controls), so as to determine the residual impacts, whether financial or non-financial, and decide on their acceptance thereof. If they are not accepted, improvement measures should be started as soon as possible (bolstering of organization and procedures, strengthening of permanent control plan, introduction of new surveillance and risk management systems). The operational risks mapping was updated in 2016, covering all SFIL divisions.

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 of growth in the level of operational risk, a decline in process performance, or of dysfunctions of the internal control system itself. They make it possible to survey in a continuous and dynamic manner the development of operational risks, together with operational risk mapping, which periodically gives a snapshot of SFIL's risk profile.

The operational risk profile in the different operating division is presented to the Operational Risks and Permanent Control Committee. It is chaired by SFIL's Deputy CEO, and its members are the entire Executive Committee, 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, IT security, back-up plan, etc.).

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 proposed or already implemented to limit operational risk was also organized for Risks and Internal Control Committee on January 26, 2017 and the Executive Board meeting of March 16, 2017.

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 2016.

The risk monitoring systems for information security were strengthened at the end of 2016 through the transfer of the head of IT security to the Operational Risks and Permanent Control division. The head of IT security works closely with the head of information systems security. 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 is also organized for the Risks and Internal Control Committee. This presentation has been made to this committee on January 26, 2017 and to the Executive Board on March 16, 2017.

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. The tests were conducted on March 25, 2016 and May 10, 2016.

Crisis scenarios have been identified and tested, particularly a major traffic-system breakdown as a result of a terrorist attack.

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 26, 2017 and for the Executive Board on March 16, 2017.

4. Operational risk insurance

To reduce the potential financial impact of operational risks, SFIL has subscribed to several insurance policies. Targeted policies cover the liability of members of the Company's management bodies, professional liability and fraud, as well as multi-risks premises, IT equipment. It also has a policy to protect it from cybercrime. These policies cover SFIL and Caisse Française de Financement Local.

e. Legal and tax 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. The legal risk control is in particular under the responsibility of the SFIL's Legal division, which is part of the General Secretariat. In its capacity, the Legal division has a dual role:

- to advise other SFIL divisions so as to allow them to measure the legal risks inherent in their activities;
- to defend the interests of SFIL and Caisse Française de Financement Local.

Furthermore, the Legal division contributes to the work of various committees:

- Within the framework of its Regulatory Watch Committee, it provides information on the principles underlying legal and regulatory provisions that affect the operations of SFIL and Caisse Française de Financement Local;
- Within the New Products Committee, it advises, as necessary, on the cases presented to it;
- It analyses legal risks associated with the cases presented for the Credit Committee;
- It reviews the cases under litigation and the progress of the procedures at the Loan Sensitivity Reduction Committee meeting. It also expresses its opinion when a loan sensitivity reduction operation involves a legal risk.

The Legal division may also participate in formulating the comments made as part of the audit and internal control operations.

The Board of Directors, management and Executive Committee of SFIL, as well as the Executive Board and Supervisory Board of Caisse Française de Financement Local receive regular updates on the progress of litigation. A management report regarding the disputes is presented at each meeting.

A detailed presentation of legal risks and litigation is included in the management report accompanying the financial statements.

The SFIL Finance Division is responsible for controlling tax risks. This division relies on the General Secretariat for advice on tax issues.

f. Risks of non-compliance

Article 10-p of the *arrêté* of November 3, 2014, regarding the internal control of banks, 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 for 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."

Risks of non-compliance which are inherent in the activities of SFIL and Caisse Française de Financement Local concern the following areas:

- ethics of employees, prevention of conflicts of interest and compensation policy;
- protection of the integrity and transparency of financial markets;
- protection of customers, compliance with the rules of good practice as these concern the interests of customers and the processing of claims;
- maintenance of the confidentiality of information and the protection of personal data;
- international financial sanctions, the fight against money laundering, against the financing of terrorism, and against corruption.

Pursuant to the provisions of the *arrêté* of November 3, 2014, 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. These documents are updated at least once per year. This mapping reviews the legislative, regulatory and professional provisions and those which refer exclusively to the company and are applicable to each line of business or function, and the procedures and controls implemented to ensure compliance with these provisions. It provides a visual indication of the company's exposure to non-compliance risks and outlines the bank's non-compliance risk profile. To this end, the non-compliance risks are:

- identified and classified;
- evaluated (frequency of occurrence and level of severity);
- compared and ranked;
- managed with the assistance of indicators.

Once the risk zones are identified through the non-compliance risk mapping, the Compliance division ensures that the risk control system is adequate and able to reduce the gross risk.

Moreover, the Compliance division and the Legal division monitor amendments to legal and regulatory provisions and developments in case law that can potentially affect the Group. To this end, they participate in the SFIL Regulatory Watch Committee. The Compliance division develops the procedures to apply these changes at SFIL and pre-emptively updates related IT systems. To this end, in 2016 the Compliance division actively participated in the operational implementation of the regulatory changes applicable to FATCA, Sapin II and EMIR, in collaboration with dedicated multidisciplinary project structures. Monitoring and compliance with regulations in certain specific areas (accounting standards, prudential ratios, large exposure risk to counterparty, recommendations relative to information system security, etc.) are under the responsibility of the appropriate SFIL divisions with efficient systems and expertise.

Furthermore, the Compliance division:

- updates its procedural guidelines;
- inculcate its rules of good conduct;
- makes all bank employees aware of the compliance system within SFIL and Caisse Française de Financement Local.

Within these different areas, in 2016:

- the system in place for the fight against money laundering and the financing of terrorism (LCB-FT) was adapted to include the refinancing of large scale export credits (revision of the country and financial security risk policy and the LCB-FT policy);
- the Compliance division updated the code of ethics and professional conduct. This code includes the ethical provisions which are applicable to all employees relative to compliance with the principles of confidentiality, with current legislation and regulations, and with professional integrity. Specific rules or manuals, which contain operating procedures implemented within each of the concerned divisions, can be added to these provisions;
- ten training sessions were organized for almost all SFIL employees. Indeed, the Compliance division provides mandatory training on the compliance systems to enable each employee to operate adequately and concretely and to comprehend the stakes involved for the bank and be correctly informed regarding the best practices. Therefore, through this training program, employees can better organize their work, in full compliance with the values of the SFIL Group.

Philippe Mills
Chairman of the Supervisory Board

Statutory Auditors' report

prepared in accordance with article L.225-235 of the Code of Commerce
(Code de commerce) on the report prepared by the Chairman
of the Supervisory Board
Year ended December 31, 2016

*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, 2016.

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.

Neuilly-sur-Seine and Courbevoie, March 28, 2017

French original signed by:

DELOITTE & ASSOCIÉS
Sylvie Bourguignon

MAZARS
Anne Veaute

Shareholders Meeting of May 30, 2017

Statutory Auditors' special report on regulated agreements and commitments Shareholders' Meeting held to approve the financial statements for the year ended December 31, 2016

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby report to you on regulated agreements and commitments.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or which we may have discovered during the course of our audit, without expressing an opinion on their usefulness and appropriateness or identifying such other agreements and commitments, if any. It is your responsibility, pursuant to article R.225-58 of the Code of Commerce (Code de Commerce), to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.

Our role is also to provide you with the information stipulated in article R.225-58 of the Code of Commerce relating to the implementation during the past year of agreements and commitments previously approved by the Shareholders' Meeting, if any.

We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (Compagnie Nationale des Commissaires aux Comptes) relating to this engagement.

AGREEMENTS AND COMMITMENTS SUBMITTED TO THE APPROVAL OF THE SHAREHOLDERS' MEETING

Agreements and commitments authorized during the year

We hereby inform you that we have not been advised of any agreement or commitment authorized during the year to be submitted to the approval of the Shareholders' Meeting pursuant to article L.225-86 of the Code of Commerce.

AGREEMENTS AND COMMITMENTS PREVIOUSLY APPROVED BY THE SHAREHOLDERS' MEETING

We hereby inform you that we have not been advised of any agreement or commitment previously approved by the Shareholders' Meeting which remained in force during the year.

Courbevoie and Neuilly-sur-Seine, March 28, 2017

The statutory auditors
French original signed by:

MAZARS
Anne Veaute

DELOITTE & ASSOCIÉS
Sylvie Bourguignon

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, 2016.

The Supervisory Board wishes to thank the Executive Board for the initiatives taken and the results achieved during the year ended December 31, 2016.

The Supervisory Board

Resolutions proposed to the Ordinary and Extraordinary Shareholders' Meeting of May 30, 2017

To the Ordinary Shareholders' Meeting

First 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, 2016, as presented, with all the transactions that generated these financial statements or are mentioned in the above reports, showing a net income of EUR 66,765,635.52. 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, 2016.

Second resolution: allocation of net income

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, resolves to allocate the net income for the year ended December 31, 2016, as follows.

ALLOCATION OF NET INCOME	EUROS
Net income for the year	66,765,635.52
Retained earnings	(4,922,988.81)
Income available	61,842,646.71
Legal reserve (5%)	(3,092,132.34)
Income available for distribution	58,750,514.37
Dividends distributed	(35,110,500.00)
Retained earnings after allocation	23,640,014.37

Each share will receive a dividend of EUR 2.67 eligible for a rebate of 40% according to article 158.3-2 of the French General Tax Code (Code Général des Impôts).

The dividend will be paid as of June 7, 2017.

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.

Third 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, 2016.

Fourth 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, 2016.

Fifth 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, 2016, were certified by the Statutory Auditors:

- Anne Veaute, Partner, representing the firm Mazars on the one hand,
- Sylvie Bourguignon, Partner, representing the firm Deloitte & Associés, on the other hand.

Sixth resolution: acknowledgement of expiration 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, takes note that the mandate of Stéphane Costa de Beauregard as a member of the Supervisory Board expires today.

Seventh 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 the mandate of Philippe Mills as a member of the Supervisory Board expires today, decides to renew his mandate for a period of four years, which will come to an end after the ordinary shareholders' meeting to be held in the year 2021 to approve the financial statements of the year ending December 31, 2020.

Eighth 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 the mandate of François Laugier as a member of the Supervisory Board expires today, decides to renew his mandate for a period of four years, which will come to an end after the ordinary shareholders' meeting to be held in the year 2021 to approve the financial statements of the year ending December 31, 2020.

Ninth 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 the mandate of Sami Gotrane as a member of the Supervisory Board expires today, decides to renew his mandate for a period of four years, which will come to an end after the ordinary shareholders' meeting to be held in the year 2021 to approve the financial statements of the year ending December 31, 2020.

Tenth 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 the mandate of Florent Lecinq as a member of the Supervisory Board expires today, decides to renew his mandate for a period of four years, which will come to an end after the ordinary shareholders' meeting to be held in the year 2021 to approve the financial statements of the year ending December 31, 2020.

Eleventh resolution: appointment of a new member of the Supervisory Board

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, decides to appoint Nathalie Argourd as a member of the Supervisory Board for a period of four years, which will come to an end after the ordinary shareholders' meeting to be held in the year 2021 to approve the financial statements of the year ending December 31, 2020.

Nathalie Argourd has already indicated that she would accept this mandate as a member of the Supervisory Board and declared that she does not hold any office in France, in other companies, that would prevent her from accepting this mandate.

Twelfth resolution: appointment of a new member of the Supervisory Board

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, decides to appoint Anne Crépin as a member of the Supervisory Board for a period of four years, which will come to an end after the ordinary shareholders' meeting to be held in the year 2021 to approve the financial statements of the year ending December 31, 2020.

Anne Crépin has already indicated that she would accept this mandate as a member of the Supervisory Board and declared that she does not hold any office in France, in other companies, that would prevent her from accepting this mandate.

Thirteenth resolution: appointment of a new Statutory Auditor

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, notes that the term of office of Mazars as a Statutory Auditor comes to an end, and resolves to appoint Ernst & Young et Autres as a Statutory Auditor for a period of six years, which will end after the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2022.

Fourteenth resolution: non-renewal of mandate of an Alternate Auditor

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, notes that the term of office of Franck Boyer as an Alternate Auditor comes to an end, takes act of the new provisions of article L.823-1 of the Code of Commerce which no longer requires, except in certain cases, that an alternate auditor be named, and resolves not to renew the mandate of Franck Boyer as an Alternate Auditor.

Fifteenth resolution: renewal of a Statutory Auditor

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, notes that the term of office of Deloitte & Associés as a Statutory Auditor comes to an end, and resolves to renew Deloitte & Associés as a Statutory Auditor for a period of six years, which will end after the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2022.

Sixteenth resolution: non-renewal of mandate of an Alternate Auditor

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, notes that the term of office of BEAS as an Alternate Auditor comes to an end, takes act of the new provisions of article L.823-1 of the Code of Commerce which no longer requires, except in certain cases, that an alternate auditor be named, and resolves not to renew the mandate of BEAS as an Alternate Auditor.

To the Extraordinary Shareholders' Meeting

Seventeenth resolution: Amendment of article 23 a) of the by-laws ("Statutory Auditors")

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for extraordinary shareholders' meetings, decides to amend article 23 a) ("Statutory Auditors") of the Company's by-laws so as to ensure compliance with (i) the provisions of instruction 2016-I-07 relating to the information to be transmitted to the Autorité de contrôle prudentiel et de résolution on the auditors, and (ii) the provisions of article L.823-1 of the Code of Commerce amended by law 2016-1691 of December 9, 2016 ("Sapin II law").

Consequently, it decides to replace article 23 a) of the Company's by-laws by the following article:

"Article 23: APPOINTMENT - POWERS

a) Statutory Auditors

The Shareholders' Meeting appoints one (or more) of the Company's statutory auditors under the conditions set by current legislation and regulations.

The Company informs the Autorité de contrôle prudentiel et de résolution that one or several statutory auditors have been appointed according to the conditions determined by current legislation and regulations or according to instructions from regulatory authorities.

The Statutory Auditors are appointed for a term of six years, and their functions come to an end after the shareholders' meeting called to approve the financial statements of the sixth year.

The Statutory Auditors are vested with powers granted by the law. Their compensation is determined according to regulatory provisions in effect."

Eighteenth resolution: capital increase in the amount of EUR 35 million by creating new shares in cash

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for extraordinary shareholders' meetings, after hearing the reports of the Executive Board, notes that the share capital is entirely paid up and decides to increase the share capital in the amount of EUR 35 million maintaining the right for shareholders to subscribe, from EUR 1,315 million to EUR 1,350 million *via* the creation and the issue of 350,000 new shares in cash with a par value of EUR 100 each.

The new shares are issued at par and will be fully paid up at subscription in cash. They will be created with effect as of January 1, 2017, whatever the date of the capital increase, and will be completely assimilated to existing shares and subject to all the provisions of the by-laws and decisions of the Shareholders' Meetings from their creation. Subscriptions will be received at the Company's registered offices between May 30 and June 16, 2017, included. Subscriptions may be closed early once all the shares issued by the terms of this resolution have been subscribed.

The funds paid to back the subscriptions will be deposited with La Banque Postale.

The capital increase will be sufficiently recognized by the latter in date of either the certificate of deposit of the funds issued by La Banque Postale, or the certificate of the depositor issued by the auditor in the event that the new shares are paid up in compensation for liquid and callable commitments to the Company.

Nineteenth resolution: subsequent amendment of article 6 of the by-laws

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for extraordinary shareholders' meetings, with the suspensive condition that there is, in fact, a capital increase, decides to amend article 6 of the Company's by-laws as follows:

"Article 6: SHARE CAPITAL

Share capital is set at the sum of EUR 1,350,000,000. It is divided into 13,500,000 shares."

Twentieth resolution: powers

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for extraordinary 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 respect of registration and publication required by laws.

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 by-laws)

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 by-laws)

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, page 12.

Allocation of income (article 39 of the by-laws)

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 by-laws)**

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 by-laws)

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 with a face value of EUR 100.

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 Extraordinary Shareholders' Meeting	Date of the capital increase	Amount of the capital increase EUR	Cumulated capital EUR
5/24/12	5/30/12	15,000,000	1,315,000,000
5/24/13	-	-	1,315,000,000
5/22/14	-	-	1,315,000,000
5/26/15	-	-	1,315,000,000
5/25/16	-	-	1,315,000,000

Breakdown of capital	2012	2013	2014	2015	2016
Dexia Crédit Local	99.99%	-	-	-	-
SFIL	-	99.99%	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%

From January 31, 2013 to May 18, 2016, Caisse Française de Financement Local is 99.9%-owned by SFIL (previously denominated 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).

Since May 18, 2016, only one individual, a member of the Supervisory Board, has kept a share of the Company.

Declaration of financial support

On January 31, 2013, SFIL (previously denominated Société de Financement Local) formalized a declaration of financial support for its subsidiary Caisse Française de Financement Local.

“Société de Financement Local acquired Caisse Française de Financement Local, previously called 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 ordonnance 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 28, 2017

Gilles Gallerne
Chairman of the Executive Board

Management Report

IFRS Financial
Statements

French GAAP
Financial Statements

Supplemental
Disclosures

Shareholders' Meeting

General Information

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 1,350,000,000

R.C.S. NANTERRE 421 318 064

Headquarters

1-3, rue du Passeur de Boulogne

92130 Issy-les-Moulineaux

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This annual financial report is available in French and in English at

www.caissefrancaisedefinancementlocal.fr

www.caffil.fr

Graphics: Baï-Bao – Paris / Nord Compo – Villeneuve d'Ascq

Production: Nord Compo – Villeneuve d'Ascq

English translation: Thomas Michael Gunther/Solten – Paris



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