



Annual report

**2013**

**Caisse Française de Financement Local**

Local public sector assets - *Obligations foncières*



# Foreword

Caisse Française de Financement Local<sup>(1)</sup> and its parent company, Société de Financement Local (Sfil), play a key role in the new organization of local government financing and funding for public hospitals in France that was introduced by the French State in 2013. This organization is based on the commercial activities developed by La Banque Postale, with refinancing provided by Caisse Française de Financement Local.

Sfil's shareholders are the French State (75%), Caisse des Dépôts et Consignations (20%) and La Banque Postale (5%). Sfil is the sole shareholder of Caisse Française de Financement Local, which it manages.

The shared goal is to enable local governments and public healthcare facilities in France to benefit from better financing conditions reflecting high ratings and irreproachable risk control.

Caisse Française de Financement Local targets issues of approximately EUR 4 to 6 billion per year, with the ambition to rank among the most highly prized issuers in its category.

(1) formerly Dexia Municipal Agency (Dexma)



# ANNUAL REPORT 2013

## Caisse Française de Financement Local

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for the convenience of English-speaking readers.**



# Management Report

## Caisse Française de Financement Local 2013

### 1. General introduction on the nature of the company and the general framework of activities

#### 1.1 - NATURE OF THE COMPANY

Caisse Française de Financement Local is a specialized credit institution that is authorized to operate as a *société de crédit foncier*. As a credit institution, it conducts banking transactions in its ordinary course of business. As a *société de crédit foncier*, these transactions are specialized and have an exclusive purpose, as defined in articles L.513-2 and following of the Monetary and Financial Code. In the case of Caisse Française de Financement Local, this specialization is reinforced by its own by-laws and by the July 23, 1999, authorization of CECEI (Comité des établissements de crédit et des entreprises d'investissement), which limit its activity to transactions with public sector entities or entities they guarantee.

*Sociétés de crédit foncier*, created by a French law passed in June 1999, are well known to bond issuers and investors. They issue covered bonds called *obligations foncières* or contract other covered debt, which may or may not be traded on regulated markets. All these instruments are characterized by a legal privilege that in priority allocates the sums from the Company's assets to serve bond interest and reimbursement. *Sociétés de crédit foncier* may also issue or contract non-covered debt.

*Obligations foncières* have become one of the significant components of the international covered bond market.

#### 1.2 - CHANGES IN THE LEGAL FRAMEWORK IN 2013

With ordinance 2013-544 of June 27, 2013, French law was aligned with European regulations (transposition of the new Basel III prudential framework) in order to harmonize the status of *établissement de crédit* (credit institution) at the level of the European Community. This ordinance on *établissements de crédit* and *sociétés de financement* modified the status of certain institutions and in particular that of *sociétés financières*. Thus, since January 1, 2014, *sociétés de crédit foncier*, like *sociétés de financement de l'habitat* have become *établissements de crédit spécialisés*.

This ordinance also modified the numbers of the articles of the Monetary and Financial Code that define the legal framework of *sociétés de crédit foncier*. Articles L.513-2 to L.513-27 replace articles L.515-13 to L.515-33.

#### 1.3 - GENERAL FRAMEWORK OF ACTIVITIES

The assets held by Caisse Française de Financement Local, 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 flow of 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 was contracted from Dexia Credit Local until January 31, 2013, and is now provided by Société de Financement Local, the sole shareholder of Caisse Française de Financement Local.

##### a. Assets

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 articles L.513-4 and following 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.

Exposures are materialized by loans and debt securities representing a commitment on - or totally guaranteed by - these public sector entities. Other assets, which the law considers as replacement assets, may be acquired if they correspond to exposures vis-à-vis credit institutions benefiting from a Step 1 rating (triple A or double A range) or a Step 2 rating (single A range) when maturity does not exceed 100 days.

Their total amount is limited to 15% of all privileged debt (*obligations foncières* and registered covered bonds for Caisse Française de Financement Local).

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

##### b. Liabilities

In addition to 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 that benefit from the legal privilege by reason of their contract. Caisse Française de Financement Local thus issues registered covered bonds that benefit contrac-

tually from the legal privilege on the same basis as *obligations foncières*. Designed for German institutional investors, these private placements are governed by German law and benefit from the French legal privilege specific to issues by *sociétés de crédit foncier*;

- debt that does not benefit from the legal privilege, i.e. debt that is not covered by the assets and are, therefore, considered as subordinated debt with regard to debt benefiting from the legal privilege (see below chapter 5). With equity, such debt finances over-collateralization. There are primarily three types:
  - debt negotiated according to the terms of a financing agreement signed with the parent company. Since January 31, 2013, such debt is contracted with Société de Financement Local, through a financing agreement between Caisse Française de Financement Local and its new parent company. This debt was previously contracted with Dexia Credit Local;
  - refinancing obtained from the Banque de France. As a credit institution, Caisse Française de Financement Local may benefit, in its own name, from access to Banque de France refinancing operations. Caisse Française de Financement Local implements the organizational and IT procedures required to participate in the refinancing operations of the Banque de France. The financing obtained does not benefit from the privilege specified by the legislation on *sociétés de crédit foncier*, but is guaranteed by assets pledged 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 in the form of repurchase agreements.

In addition, on January 31, 2013, Société de Financement Local, 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 report of Caisse Française de Financement Local.

### c. Legal privilege

The legal privilege is governed by article L.513-11 of the Monetary and Financial Code and has the following characteristics:

- 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;
- 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.

In addition, current legislation stipulates that:

- in order to maintain the privilege granted to investors who have acquired *obligations foncières* and other covered bonds, legislation stipulates that a *société de crédit foncier* must not have any direct employees (who, under French law, would benefit from a priority). A *société de crédit foncier* must, therefore, entrust the management of its operations to another credit institution with which it has signed an agreement (article L.513-15 of the Monetary and Financial Code). The management agreement itself benefits from the privilege of article L.513-11, to the same degree as holders of privileged debt;
- the bankruptcy or liquidation of the shareholder of a *société de crédit foncier* cannot be extended to the *société de crédit foncier* (article L.513-20 of the Monetary and Financial Code).

### d. Various prudential provisions concerning management

Items concerning the over-collateralization, i.e. the ratio between the assets covering privileged debt to debt benefiting from the privilege, and the management of interest rate and liquidity risks, are discussed below in the chapters on these subjects.

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

This management was carried out by Dexia Credit Local until the end of January 2013. It has been ensured by Société de Financement Local since January 31, 2013. Specific agreements were also drawn up with entities that transferred assets to the *société de crédit foncier* and continue to provide management services for their national customers. At the end of 2013, operative agreements were signed with the following entities: Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium) and Dexia Crediop (Italy). These management agreements already existed in the past.

Lastly, as a reminder, since Caisse Française de Financement Local is not allowed by current legislation to have any subsidiary or affiliate, the Company does not publish consolidated accounts, and is not required to produce its financial statements in IFRS format. Nevertheless, wishing to ensure comparability and transparency, Caisse Française de Financement Local published quarterly and annual financial statements in IFRS format in 2013.

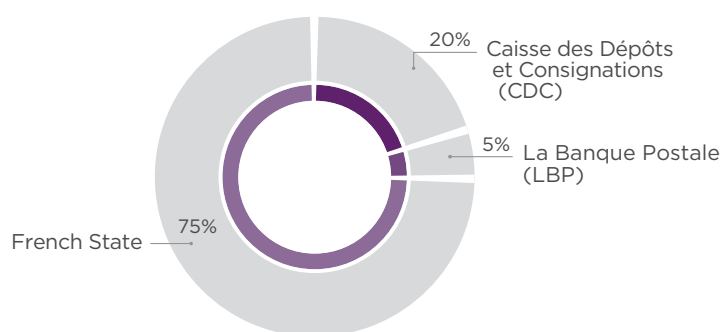
## 2. Shareholding structure, economic model and ratings of Caisse Française de Financement Local

### 2.1 - SHAREHOLDING STRUCTURE OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

On January 31, 2013, Société de Financement Local (Sfil) acquired 100% of the capital of Dexia Municipal Agency,



## Shareholding structure of Société de Financement Local



which took the name Caisse Française de Financement Local. Sfil is a credit institution approved by the Autorité de contrôle prudentiel et de résolution. It plays a key role in the French State's new organization of local government financing and funding for public hospitals in France.

Sfil's shareholders are the French State (75%), Caisse des Dépôts et Consignations (20%) and La Banque Postale (5%). The French State is also the direct shareholder of Caisse des Dépôts et Consignations and an indirect shareholder of La Banque Postale.

For French regulatory authorities (Autorité de contrôle prudentiel et de résolution), the French State is the "reference" shareholder of Sfil and Caisse Française de Financement Local, underlining its commitment to ensure oversight and to influence strategic decisions, as well as its determination to ensure ongoing financial transactions by Sfil and Caisse Française de Financement Local if so required.

## 2.2 ECONOMIC MODEL OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

### a. Servicing by Société de Financement Local

The role of Société de Financement Local is to support the activities of Caisse Française de Financement Local as a servicer, as defined by the regulations that apply to *sociétés de crédit foncier*, in particular article L.513-15 of the Monetary and Financial Code. The three missions of Sfil are the following.

- Sfil is the servicer of Caisse Française de Financement Local, and within this framework, in particular conducts comprehensive operational management for the Company and provides Caisse Française de Financement Local with the non-privileged funding and derivatives its activity requires.
- Sfil also operationally manages the reduction in the sensitivity of the structured loans booked on Caisse Française de Financement Local's balance sheet.
- Sfil likewise provides services for La Banque Postale and the joint venture La Banque Postale Collectivités Locales in the fields of commercial support, financial control, risk management and back office.

In addition, Sfil has replaced Dexia Credit Local in derivative transactions with Caisse Française de Financement Local which were operative as of January 31, 2013, the date of acquisition of Dexia Municipal Agency. Caisse des Dépôts et Consignations (CDC) makes available to Sfil the resources it needs to finance operations booked prior to the date of sale. It contributes for 35% to the needs created by new business originated by La Banque Postale, versus 65% by La Banque Postale.

On January 31, 2013, Sfil signed a declaration of support of Caisse Française de Financement Local, which is reproduced in this annual report - General information.

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

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

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

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

- When the loan is originated, an initial analysis of the customer is carried out simultaneously at the two entities. The loans that do not meet the credit criteria of Caisse Française de Financement Local will not be transferred to its balance sheet.

Caisse Française de Financement Local's eligibility criteria are strictly monitored by internal management policies and limit eligible counterparties to exposures on the French local public sector and public hospitals

- Before loans originated by La Banque Postale are transferred to Caisse Française de Financement Local, a new analysis of the assets is conducted, and Caisse Française de Financement Local may refuse a loan prior to the transfer if it does not meet its criteria.

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

### c. CRR / CRD IV and Covered Bond Label

Current and future *obligations foncières* issued by Caisse Française de Financement Local respect the new conditions of eligibility for refinancing by the European Central Bank and meet the new CRR / CRD IV standards.

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

To meet Label requirements, Caisse Française de Financement Local has committed to increase the

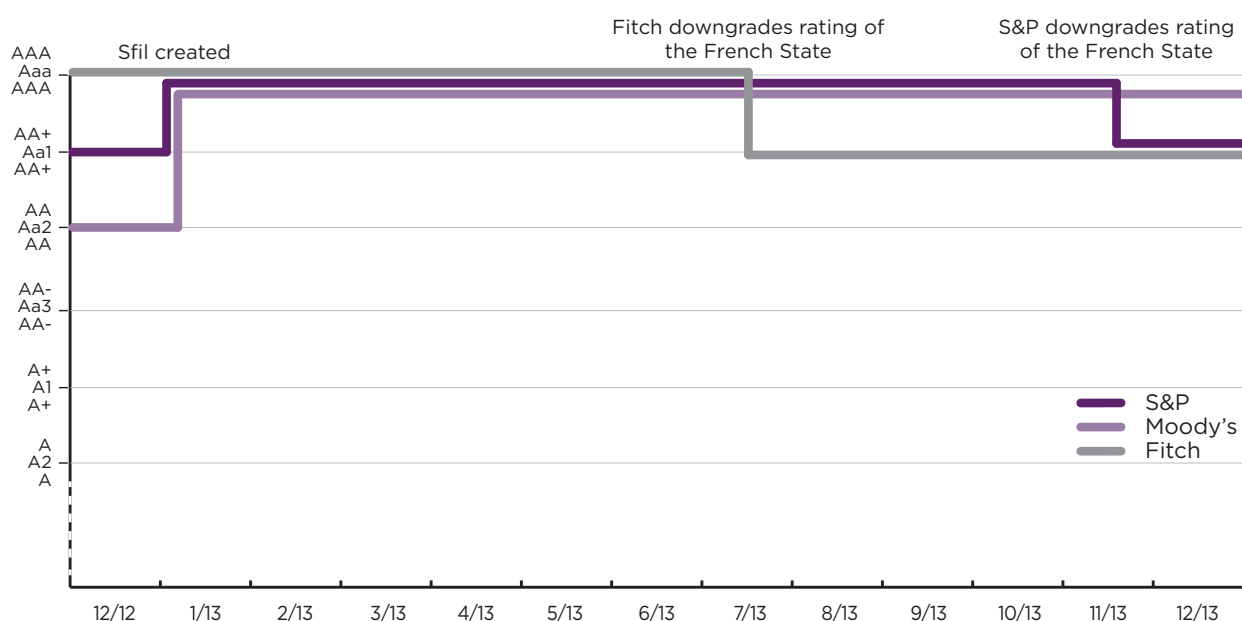
transparency of its communication to investors. All information on Caisse Française de Financement Local issues and its cover pool is now posted on the Covered Bond Label site.

### 2.3 - RATINGS OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

The issuance program of Caisse Française de Financement Local is rated by the three main rating agencies – Standard & Poor's, Moody's and Fitch. This requires that the quality of the cover pool and the strict management rules conform to the criteria and approaches of the three agencies.

Caisse Française de Financement Local *obligations foncières* have an excellent credit rating. Its performance in 2013 is presented below:

**Ratings of Caisse Française de Financement Local in 2013**



Readers are reminded that, as of December 31, 2012, the ratings of Dexia Municipal Agency were under review or surveillance by two agencies, reflecting the situation of the Dexia Group and/or the agencies' introduction of new rating criteria. It was rated AA+ / creditwatch negative by S&P, Aa2 by Moody's, and AAA / watch negative by Fitch.

At the beginning of February 2013, with the change in the nature and shareholding structure of the parent company, the rating agencies reviewed the ratings of Caisse Française de Financement Local, and raised their ratings to the highest possible level:

- AAA / outlook negative by S&P,
- Aaa by Moody's,
- AAA / watch negative by Fitch.

The S&P and Fitch ratings were characterized by a negative outlook/watch, which reflected the negative outlook attached to the sovereign rating as well as the rating of Société de Financement Local.

Following the downgrade of the rating of France, the rating of the *obligations foncières* of Caisse Française de Financement Local was lowered from AAA (outlook negative) to AA+ (outlook stable) by Fitch on July 17 and by S&P on November 15, 2013.

In fact, the agencies consider that there is a ceiling for the rating of Caisse Française de Financement Local in relation to the sovereign rating, given the strong link between the Caisse Française de Financement Local and the French State and the concentration of the cover pool on the French local public sector.

Therefore at the end of March 2014, the rating of the *obligations foncières* of Caisse Française de Financement Local was as follows:

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

These ratings were qualified with a stable outlook.

## 3. Highlights of 2013 and post-closing events

### 3.1 – CHANGE IN THE SHAREHOLDING STRUCTURE OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

See 2.1

### 3.2 – SALE OF SECURITIZATION UNITS

Caisse Française de Financement Local sold all the in securitization units it held, partly in the market in April and May 2013 and the rest to its parent company, Société de Financement Local, on July 1, 2013. These sales represented a total amount of EUR 8,264 million. They followed the application of the new conditions of eligibility for refinancing by the European Central Bank and the new CRR / CRD IV requirements.

Since July 2013, there are no longer any securitization units in the cover pool and the current and future *obligations foncières* issued by Caisse Française de Financement Local respect these new regulations.

### 3.3 – THE COVERED BOND MARKET

Issuance in the euro-denominated covered bond market remained generally stable in 2013 with a primary offering of EUR 100 billion (compared with EUR 106 billion in 2012). This stability has maintained the euro-denominated covered bond market at a reduced offering level compared with the previous ten years. The context can be attributed to the decline in the needs of financial institutions, linked to ongoing deleverage operations in combination with the reduction in asset production. It is also due to increased dynamics in the senior unsecured funding market, enabling financial institutions to adjust their funding mix, while regulators are focused on the balance between free and pledged assets in bank balance sheets (asset encumbrance).

Nevertheless, the covered bond class of assets benefits from a particularly positive treatment in a context of changing regulations (Basel III and Solvency 2), encouraging investors to favor such in their allocation of assets. In addition, the demand for covered bond assets is naturally buoyed as significant volumes reach maturity, creating for the first time a major negative net offering (EUR 48 billion). This negative net offering has made it possible to accompany the trend for tighter spreads in all segments of the secondary market.

In this context, Caisse Française de Financement Local benefited from good conditions to launch its *obligations foncières* financing program in order to provide the long-term liquidity required to develop the commercial offer of La Banque Postale to the local public sector in France and to accompany its policy to reduce loan sensitivity.

### 3.4 – LITIGATION AND GOVERNMENTAL MEASURES

Certain customers have sued Dexia Credit Local, Caisse Française de Financement Local and/or Société de

Financement Local for sensitive structured loans that were granted by Dexia Credit Local and which are on the balance sheet of Caisse Française de Financement Local. At the end of December 2013, the number of customers who had undertaken legal proceedings totaled 205 versus 57 at the end of 2012.

Three legal decisions concerning the suit brought against Dexia Credit Local by the Département de la Seine-Saint-Denis were handed down on February 8, 2013, by the Tribunal de Grande Instance de Nanterre. It was a question of three structured loans representing a total capital of EUR 178 million. The Tribunal de Grande Instance de Nanterre rejected the claims of the Département de la Seine-Saint-Denis, which sought to have the three disputed loan agreements canceled and asked for compensation. In particular, the Tribunal considered that these loans were not of a speculative character, that the Département was competent to sign these loan agreements, and that Dexia Credit Local acted in the respect of its duty to inform and advise the Département. The Tribunal de Grande Instance de Nanterre however estimated that the faxes which had preceded the signing of the agreements could be qualified as “loan agreements”, and that the lack of mention of the annual percentage rate of charge (Taux Effectif Global – TEG) implied the application of an official interest rate (*taux légal*). Dexia Credit Local appealed this decision on April 4, 2013. Since the loans subject to the litigation were recorded on its balance sheet, Caisse Française de Financement Local decided to intervene voluntarily in the proceedings that oppose the Département de la Seine-Saint-Denis and Dexia Credit Local. Such voluntary intervention should enable Caisse Française de Financement Local to defend its interests by taking part in the proceedings.

Since the decisions concerning the Département de la Seine-Saint-Denis were made public in February 2013, only one new decision has been handed down. On March 7, 2014, the Tribunal de Grande Instance of Nanterre in the suit the municipality of Saint-Maur-des-Fossés brought against Dexia Credit Local (and Caisse Française de Financement Local, which had decided to intervene voluntarily in the proceedings in order to defend its interests). This decision concerned a structured loan marketed by Dexia Credit Local and recognized on the balance sheet of Caisse Française de Financement Local, with initial capital of EUR 10 million. As in the February 2013 decisions, the Tribunal's decision did not address the core issue (structured interest rates), but it was motivated by the formal absence in the loan agreement of intermediary data with which to calculate the annual rate of charge (TEG). This item led the Tribunal to decide to apply the official interest rate (*taux légal*) instead of the contractual rate. This decision may be appealed.

In line with the commitments made by the French government in its press releases dated June 18 and July 16, 2013, the 2014 Finance Bill included measures designed to provide a comprehensive, long-lasting solution to the problem of the most sensitive structured loans contracted by local governments. The French government's plan comprises two main items:

- the creation of a multi-year support fund “endowed with significant resources” enabling local governments to finance the unwinding of structured loans;

- legislative measures targeting a legal basis to secure loan agreements in effect with local governments omitting the formal mention of the annual percentage rate of charge and better proportion the consequences of an error in calculating this rate.

The multi-year support fund will be endowed with EUR 1.5 billion and will have a maximum life of 15 years (EUR 100 million per year). Basic features involve the following:

- eligible customers: local governments and groups of such holding the most sensitive loans;
- use of the assistance received by local governments: refinancing of a part of the indemnity of early reimbursement (preferred option) or in an initial phase and for a limited period of time, to finance a part of the interest on the loan in question;
- renunciation by the fund's beneficiaries of present or future litigation concerning the fundamental issue of the loans;
- management of the fund ensured by the State: a strategy and monitoring committee associating representatives of the State, local governments and qualified individuals will be formed;
- this fund will be supplied, for half, by the banks and for the other half, by the State. Caisse Française de Financement Local has committed to contribute to the fund EUR 10 million per year for 15 years once it is operational.

On December 29, 2013, the Conseil Constitutionnel published its decision on the 2014 Law of Finances voted in December 2013.

In its decision, the Conseil validated the creation of the support fund and the principle of access to the fund, conditioned by the signing of an agreement by which the borrower renounces any claim on the assisted loans. This decision enables Société de Financement Local and Caisse Française de Financement Local to pursue their strategy to reduce sensitivity and to organize as planned their participation in the support fund. Within this framework, Caisse Française de Financement Local recorded in its 2013 accounts a liability of EUR 150 million for its commitment to contribute to the fund.

The Conseil Constitutionnel nonetheless considered that legislative measures designed to secure loan agreements (validation of the absence of any mention of the rate in the loan agreements) were too broad since they applied to all types of legal entities and all types of loans agreements. The Conseil also considered that the error in the calculation of the rate modified the consumers' code and could not be included in a Law of Finances.

In a press release published on December 29, 2013, the Ministry of the Economy and Finances noted this decision and announced that "legislative measures taking into account the arguments raised by the Conseil Constitutionnel would be presented in the near future". In the preparation of its financial statements, Caisse Française de Financement Local opted for the hypothesis that these measures would be voted and would take effect in 2014.

### 3.5 – APPLICATION OF IFRS 13

Since January 1, 2013, Caisse Française de Financement Local has adjusted the method used to calculate the fair value of its derivatives and accounts for a credit value adjustment (CVA) and a debit value adjustment (DVA) in the context of the application of IFRS 13. The impact of the first-time application of the standard was a loss of EUR -9 million for the CVA and a profit of EUR +127 million for the DVA as of December 31, 2013. These amounts include the overall effects of the first time application of this standard and changes throughout the year 2013.

Such CVA/DVA represent an adjustment of the fair value of the portfolio of derivatives contracted by Caisse Française de Financement Local with other banks. These adjustments represent the measurement of counterparty risk on derivative instruments, whether this risk is borne by Caisse Française de Financement Local or its counterparties. Thus the CVA measures the losses that Caisse Française de Financement Local would assume in the event of the default of a swap counterparty. The measurement of this risk takes into account the cash collateral received for these operations.

The DVA represents an evaluation of the losses that the counterparties would assume in the event of the default of Caisse Française de Financement Local. Considering the privilege granted by the law on *société de crédit foncier*, Caisse Française de Financement Local does not pay any cash collateral to its derivative counterparties. This explains why the amount of DVA is high despite Caisse Française de Financement Local's very good rating. The DVA is sensitive to changes in Caisse Française de Financement Local's own credit risk.

The obligation to report these adjustments, in effect since the beginning of 2013, can be a source of volatility in net banking income in the future. This will depend among other items on the spreads of Caisse Française de Financement Local and its counterparties.

Caisse Française de Financement Local also modified the method it uses to value collateralized derivatives to account for changes in market practices. It opted for a valuation against Eonia for its derivatives subject to the payment of collateral to its benefit. The derivatives for which no payment is made to the benefit of the counterparties remain valued against Euribor. Whereas the valuation of the items hedged was not modified, this change in the valuation of hedging derivatives introduced an element of inefficiency in hedging relations. The impact of this change was a gain of EUR +19 million. Finally, the Company corrected the way it evaluated the hedged risk of certain assets and liabilities that were swapped against a Euribor index different from that of the traditional curve that served to value the instruments on the balance sheet. The impact of this change for previous years was recognized in equity (error correction) and the impact for the year, which reflected accounting inefficiency and stood at EUR -20 million, was recorded in Net banking income.

### 3.6 – CLOSING OF THE DUBLIN BRANCH

In 2013, Caisse Française de Financement Local closed its branch in Dublin.

## 4. Changes in main balance sheet items

(EUR billions - value after swaps)	12/31/2011	12/31/2012	12/31/2013	Change 2013 / 2012
<b>Cover pool</b>	<b>76.0</b>	<b>69.2</b>	<b>63.7</b>	<b>(8.0)%</b>
<i>Loans</i>	54.9	51.7	53.2	2.8%
<i>Securities</i>	18.9	15.1	9.0	(40.3)%
<i>Banque de France cash deposit</i>	2.2	2.4	1.5	(37.5)%
<b>Assets assigned in guarantee to Banque de France</b>	<b>3.2</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Privileged debt</b>	<b>65.6</b>	<b>59.7</b>	<b>55.3</b>	<b>(7.3)%</b>
<i>Obligations foncières*</i>	63.1	56.2	52.8	(6.1)%
<i>Cash collateral received</i>	2.5	3.5	2.5	(27.3)%
<b>Non-privileged debt</b>	<b>12.2</b>	<b>7.6</b>	<b>6.8</b>	<b>(10.3)%</b>
<i>Parent company</i>	9.5	7.6	6.8	(10.3)%
<i>Banque de France</i>	2.7	-	-	-
<b>Equity IFRS (excluding unrealized gains and losses)</b>	<b>1.3</b>	<b>1.5</b>	<b>1.5</b>	<b>0.0%</b>

\* Including registered covered bonds

As of December 31, 2013, Caisse Française de Financement Local's cover pool, composed of loans, debt securities and cash (temporary cash surplus) totaled EUR 63.7 billion, excluding accrued interest not yet due. As of December 31, 2012, the total was EUR 69.2 billion; the decrease was therefore EUR 5.5 billion (-8.0%).

As of December 31, 2013, no asset was excluded from the cover pool in order to be sold to a bank in a repurchase agreement or assigned in guarantee to the Banque de France.

Outstanding debt benefiting from the legal privilege was EUR 55.3 billion, including cash collateral received, down 7.3% from December 2012.

Debt vis-à-vis the parent company totaled EUR 6.8 billion. This amount corresponds to the financing of both structural (commitment of Caisse Française de Financement Local and requirements of the rating agencies) and complementary (including assets waiting to be refinanced by *obligations foncières*) over-collateralization, and does not benefit from the legal privilege.

Equity, according to IFRS, but excluding reserves for unrealized gains and losses, totaled EUR 1.5 billion at the end of December 2013.

## 5. Cover pool

### 5.1 - CHANGE IN ASSETS IN 2013

The net change in the cover pool as of December 31, 2013, corresponds to a decrease in assets in the amount of EUR 5.5 billion. This change is explained by the following items.

(EUR billions)	2013
<b>1- Amortization of portfolio of loans and securities</b>	<b>-5.5</b>
<b>2- Sale of the securitization units</b>	<b>-0.1</b>
Sale of external securitization units	-0.1
Sale of internal securitization units (DSFB, DCC)	-7.8
Loans granted to Sfil	7.8
<b>3- Unwinding of Italian securitizations (DCC)</b>	<b>-0.3</b>
Acquisition of the underlying Italian assets	2.9
Early reimbursment of loans granted to Sfil	-3.2
<b>4- Acquisition of loans to La Banque Postale</b>	<b>1.0</b>
Loans to the French public sector (vanilla loans in euros)	1.0
<b>5- Reduction of loan sensitivity</b>	<b>0.1</b>
Sensitive structured loans removed	-0.4
Refinancing loans (vanilla loans in euros)	0.4
New loans (vanilla loans in euros)	0.1
<b>6- Other changes</b>	<b>-0.7</b>
Change in Banque de France cash deposit	-0.9
Other loans to the French public sector	0.1
Early reimbursments	-0.1
Divestments	0.0
Impairment and currency adjustment	0.1
<b>Net change in the cover pool</b>	<b>-5.5</b>

The natural amortization of the portfolio of loans and securities represented EUR 5.5 billion as of December 31, 2013.

Caisse Française de Financement Local sold all the securitization units it held, partly in the market in April and May 2013 and the rest to its parent company, Société de Financement Local on July 1, 2013. These sales followed the application of the new conditions of eligibility for refinancing by the European Central Bank and the new CRR / CRD IV requirements.

Since July 1, 2013, there are no longer any securitization units in the cover pool and the current and future *obligations foncières* issued by Caisse Française de Financement Local respect these new regulations.

The DSFB and DCC securitizations sold were replaced in the cover pool by loans to Sfil in the same amount, with the same amortization profile of the securitizations sold. In this context, the new financing arrangements set up are recognized as replacement assets, in compliance with French regulations.

For EUR 2.9 billion, Caisse Française de Financement Local acquired certain Italian securities underlying DCC securitizations that were unwound.

For EUR 1.0 billion, Caisse Française de Financement Local acquired French local public sector loans originated by La Banque Postale.

In 2013, operations undertaken to attenuate loan sensitivity made it possible to reduce the amount of outstanding loans considered as sensitive by EUR 0.4 billion. They were transformed into fixed rate loans and were accompanied by new fixed rate loans in the amount of EUR 0.1 billion.

The other changes in assets mainly corresponded to the payment of EUR 0.2 billion for loan agreements that took effect prior to the change in the shareholders of Caisse Française de Financement Local, as well as to the reduction in the balance of the Banque de France cash deposit in the amount of EUR 0.9 billion.

## 5.2 - OUTSTANDING ASSETS AS OF DECEMBER 31, 2013

Caisse Française de Financement Local's pool of assets is exclusively composed of exposures on public sector entities, or guaranteed by the same, and replacement assets.

(EUR billions)	12/31/2012	12/31/2013
Loans and bonds to the public sector	66.3	57.8
<i>including securitizations</i>	8.3	-
Banque de France cash deposit	2.4	1.5
Replacement assets	0.5	4.4
<b>TOTAL</b>	<b>69.2</b>	<b>63.7</b>

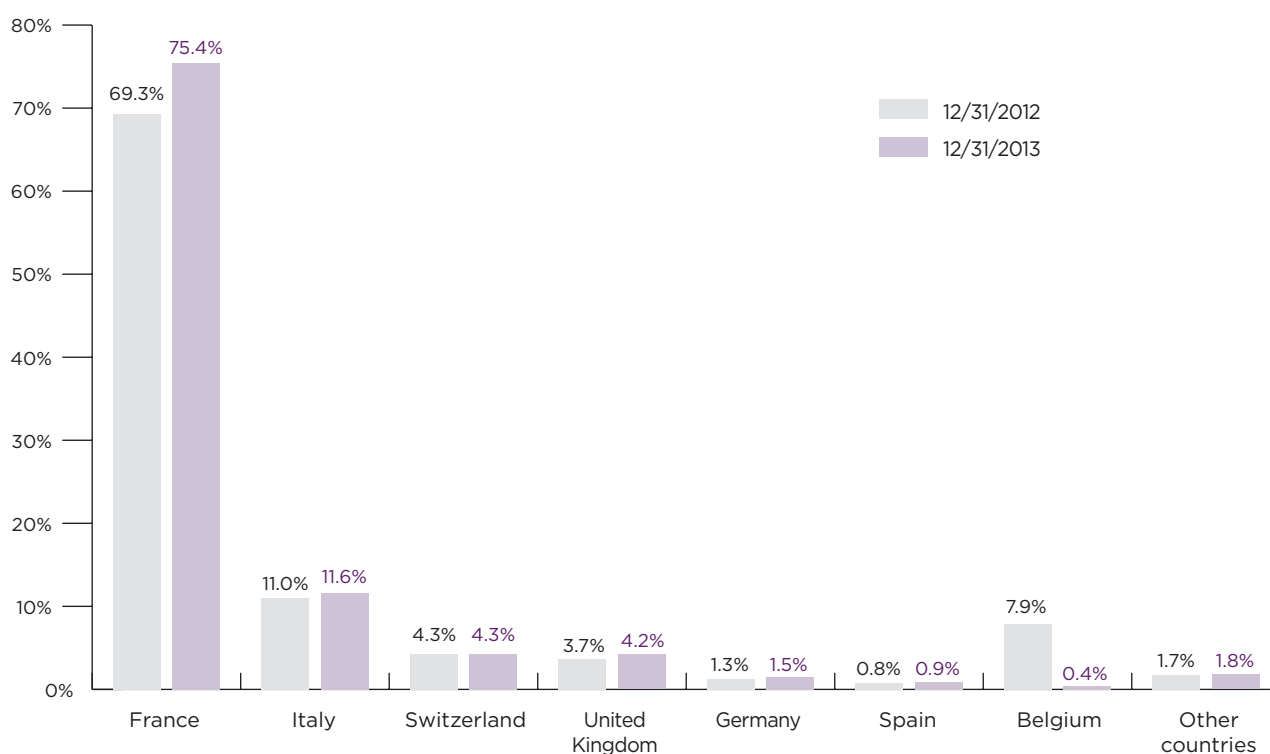
Surplus cash is deposited in an account Caisse Française de Financement Local opened at the Banque de France.

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

#### 1. Geographic breakdown

French assets are predominant in the cover pool (75%), and the other assets correspond to granular and geographically diversified exposures on foreign public sector entities. They were originated by the subsidiaries of the Dexia Group and are managed in extinction.

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



The decrease in the relative share of Belgium in the cover pool was due to the sale of the DSFB 2 and 4 securitizations, which were composed of exposures on the Belgian local public sector.

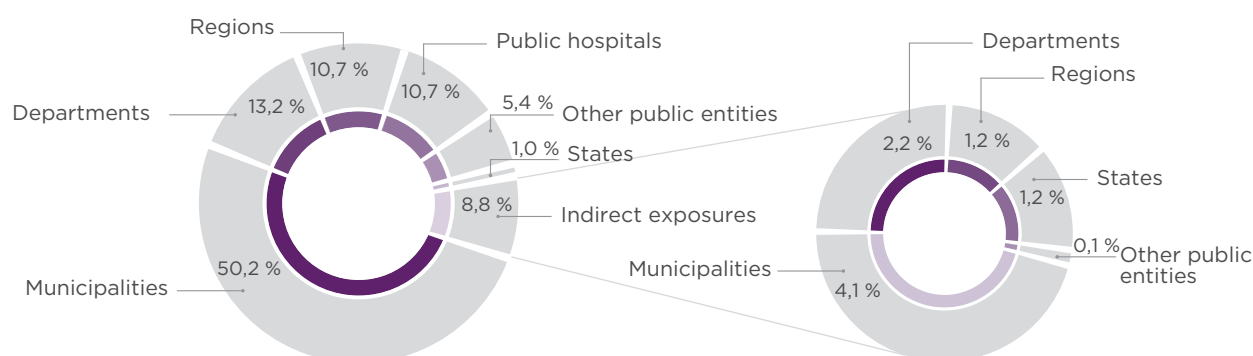
Exposures on Other countries are broken down by country in the section Bonds and public sector loans as of December 31, 2013, presented in this report.



## 2. Breakdown by type of counterparty

The portfolio of Caisse Française de Financement Local is made up for more than 80% of direct exposures on

municipalities, departments or regions. Indirect exposures are composed of exposures guaranteed by public sector entities, most of which are local.



## 3. Securitizations

Caisse Française de Financement Local sold all the securitization units it held, partly in the market in April and May 2013 and the rest to its parent company, Société de Financement Local, on July 1, 2013. These sales followed the application of the new conditions of eligibil-

ity for refinancing by the European Central Bank and the new CRR / CRD IV requirements. Since July 2013, there are no longer any securitization units in the cover pool and the current and future *obligations foncières* issued by Caisse Française de Financement Local respect these new regulations.

## 4. Exposures on sovereign countries

(EUR millions)	Ratings**	12/31/2012	12/31/2013	in % of the cover pool
France*	AA/Aa1/AA+	171	147	0.2%
United Kingdom	AAA/Aa1/AA+	608	555	1%
Germany	AAA/Aaa/AAA	12	-	-
Italy	BBB/Baa2/BBB+	560	580	1%
<b>TOTAL</b>		<b>1,351</b>	<b>1,282</b>	<b>2.2%</b>

\* Excluding the Banque de France sight account

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

Caisse Française de Financement Local has limited exposure on sovereign countries. Most of these exposures are concentrated on countries benefiting from very good ratings as of December 31, 2013, and which guaranteed these loans. No new sovereign exposure was acquired in 2013, as was the case in 2012.

### b. Replacement assets

Assets considered by law as replacement assets correspond to exposures on credit institutions benefiting of at least a Step 1 rating, or a Step 2 rating when their duration does not exceed 100 days, and their total amount

is limited to 15% of all debt benefiting from the legal privilege.

As of December 31, 2013, the replacement assets of Caisse Française de Financement Local were comprised of long-term loans to Société de Financement Local, then rated AA by S&P, Aa2 by Moody's and AA by Fitch, as well as bank account balances with a Step 2 rating. They represented 8.0% of the privileged debt (*obligations foncières* and registered covered bonds) of Caisse Française de Financement Local.

Outstanding *cedulas territoriales* in the amount of EUR 500 billion matured at the beginning of January 2013.

Replacement assets	Country	Issuer	(EUR millions)	
			12/31/2012	12/31/2013
Step 1 credit rating				
Loans to sponsor bank	France	Société de Financement Local	-	4,363
Step 2 credit rating				
Bank account balances	Miscellaneous	Miscellaneous	23	18
Other assets				
Cedulas territoriales	Spain	Dexia Sabadell	500	-
TOTAL			523	4.381



### c. Assets removed from the cover pool

Because of its status as a *société de crédit foncier*, Caisse Française de Financement Local has access to refinancing operations offered to banks by the Banque de France. In steering its cover pool and its level of over-collateralization, Caisse Française de Financement Local may also remove certain assets from the cover pool and assign them in guarantee to the central bank in order to obtain funding through tenders organized by the Banque de France. As of December 31, 2013, Caisse Française de Financement Local mobilized no assets with the Banque de France.

### d. Structured loans

#### Definition

Certain loans to French public sector entities in the cover pool of Caisse Française de Financement Local may be qualified as structured loans.

To define this notion, Caisse Française de Financement Local refers to the charter of good practices signed by banks and local governments (the Gissler charter), which can be consulted on the Internet site of the French Ministry of the Interior<sup>(1)</sup>. This document was signed on December 7, 2009, by several organizations that are representative of local governments in France (Associ-

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

ation des maires de France, Fédération des maires des villes moyennes, Association des petites villes de France, Association des maires de grandes villes de France and Assemblée des communautés de France) as well as certain banks.

Therefore, structured loans are defined as:

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

According to this definition, outstanding structured loans on the balance sheet of Caisse Française de Financement Local at the end of 2013 represented EUR 13.6 billion (versus EUR 15.4 billion at the end of 2012).

#### Sensitive structured loans

The most structured loans according to the Gissler categories (3E, 4E and 5E as well as loans which the charter does not allow to be marketed), may be qualified as "sensitive". They are closely monitored and specific measures are taken to reduce their sensitivity. These loans represented a total of EUR 7.6 billion at the end of 2013 compared with EUR 8.5 billion at the end of 2012.

(EUR billions)	Amount	%	Number of customers
<b>TOTAL COVER POOL</b>	<b>63.7</b>		
<b>FRENCH PUBLIC SECTOR LOANS</b>	<b>42.8</b>	<b>67.3%</b>	<b>18,526</b>
Sensitive structured loans not in the charter	3.7	5.8%	402
Sensitive structured loans (3E/4E/5E)	3.9	6.1%	441
Other structured loans	6.0	9.4%	1,364
Vanilla loans	29.3	45.9%	16,319

The most sensitive structured loans (not in the charter) represented 5.8% of the cover pool and 402 customers.

These loans concern the following customer categories:

<b>Sensitive structured loans not in the charter</b>	<b>Amounts</b> (EUR billions)	<b>Number of customers</b>
Municipalities with fewer than 10,000 inhabitants	0.3	78
Municipalities with more than 10,000 inhabitants and groups of municipalities	1.9	230
Regions and departments	0.9	27
Other customers	0.6	67
<b>TOTAL</b>	<b>3.7</b>	<b>402</b>

### Interest rates

The average rate paid by customers with sensitive loans in 2013 was 4.9%. The 10% of customers who paid the highest rates in 2013 for these sensitive loans paid an average of 11% and the 10% of customers having paid the lowest rate in 2013 paid an average of 2.5%.

%	2013
Decile 1	11.0
Decile 2	7.2
Decile 3	5.5
Decile 4	4.9
Decile 5	4.4
Decile 6	4.1
Decile 7	3.9
Decile 8	3.7
Decile 9	3.3
Decile 10	2.5
<b>AVERAGE RATE PAID</b>	<b>4.9</b>

### Reduction in loan sensitivity

The policy implemented by Sfil in 2013 to reduce the sensitivity of outstanding loans on the balance sheet of its subsidiary Caisse Française de Financement Local was carried out in accordance with the schemas validated by the Supervisory Board.

The method used consists in reducing the sensitivity of loans definitively. To this end, Caisse Française de Financement Local may allocate if necessary new liquidity to investors in the form of new funding at the market price or refinancing of early reimbursement indemnities at cost.

## 6. Debt benefiting from the legal privilege as of December 31, 2013

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

(EUR billions)	12/31/2012	12/31/2013
<i>Obligations foncières</i> and registered covered bonds	56.2	52.8
Cash collateral received	3.5	2.5
<b>TOTAL</b>	<b>59.7</b>	<b>55.3</b>

### 6.1 - CASH COLLATERAL IN 2013

Cash collateral received by Caisse Française de Financement Local totaled EUR 2.5 billion at the end of 2013, down 27% (EUR 1.0 billion) compared with the situation at the end of December 2012. This significant decline was mainly due to the trend in interest rates in 2013.

### 6.2 - ISSUES IN 2013

The issuance policy of Caisse Française de Financement Local is manifested by a strong presence in the euro market, as it builds a consistent curve and prompts the good performance of its benchmarks in the secondary market, and by active diversification in several selected markets.

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

#### a. New issues in 2013

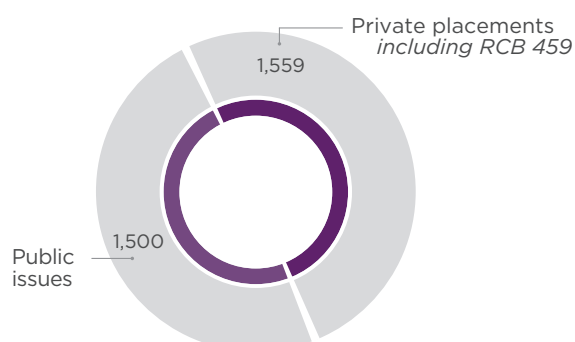
In 2013, Caisse Française de Financement Local raised a total of EUR 3.1 billion by issuing debt benefiting from the legal privilege through the development of an issuance policy in both public and private formats. All the issues were conducted on the euro market, which is Caisse Française de Financement Local's domestic market.

Caisse Française de Financement Local launched two public sector issues: a jumbo inaugural transaction (EUR 1 billion) with maturity of 7 years in July, thereby making it possible to respond to the heart of the demand, and a benchmark transaction (EUR 500 billion) with maturity of 15 years. For this latter issue, Caisse Française de Financement Local was the first French issuer of covered bonds, attacking this long-term market segment in the last three years. These two transactions have established Caisse Française de Financement Local as a reference euro-denominated issuer and created the first points of its euro public curve, which will be completed in the next few years.

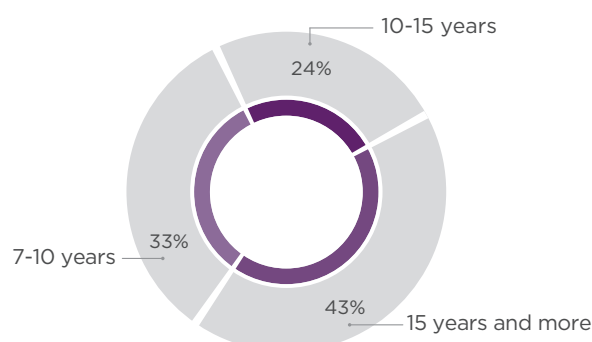
In addition to its public sector issues, Caisse Française de Financement Local wanted to introduce an active policy of private placements, especially on long maturities, in order to respond to the investor demand which was not satisfied by the public primary offering. This activity made it possible to raise EUR 1.6 billion with an average life of more than 15 years; of this amount, 71% was issued in the EMTN program, the remaining 29% was issued in the format of registered covered bonds.

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

**Issues in 2013 by format**  
(EUR millions)



**Issues in 2013 by maturity**



Caisse Française de Financement Local thus completed its full annual issue program of EUR 3.1 billion during the third quarter of 2013.

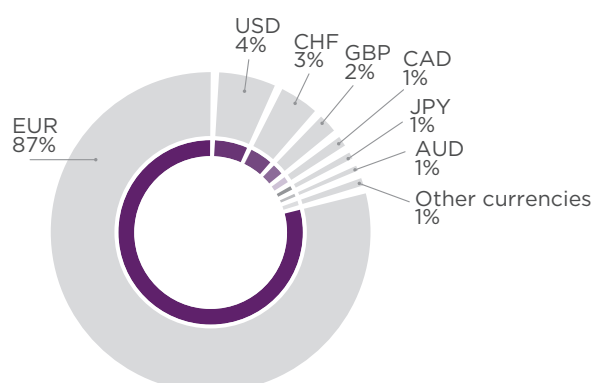
Issues in 2013 were exclusively in euros.

## b. Outstanding debt as of December 31, 2013

Outstanding *obligations foncières* and registered covered bonds totaled EUR 52.8 billion in swapped value at the end of December 2013, including the new *obligations foncières* for EUR 3.1 billion and the amortization of issues arriving at maturity for EUR 6.1 billion. The buyback of *obligations foncières* during the year made it possible to smooth out the amortization profile of Caisse Française de Financement Local's privileged debt.

(EUR millions - swapped value)	2012	2013
Beginning of the year	63,152	56,216
Issues	-	3,059
Amortizations	(5,693)	(6,056)
Buyback	(1,243)	(424)
<b>TOTAL</b>	<b>56,216</b>	<b>52,795</b>

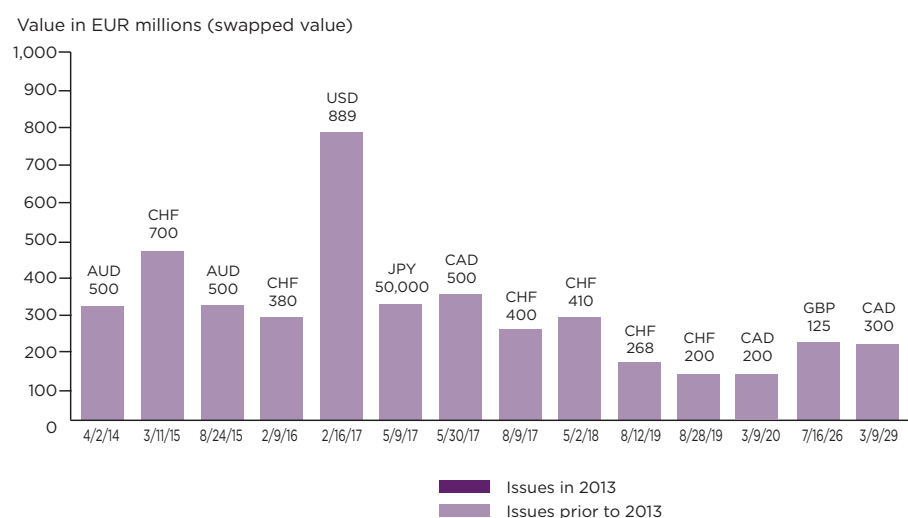
As of December 31, 2013, issues can be broken down by currency as follows.



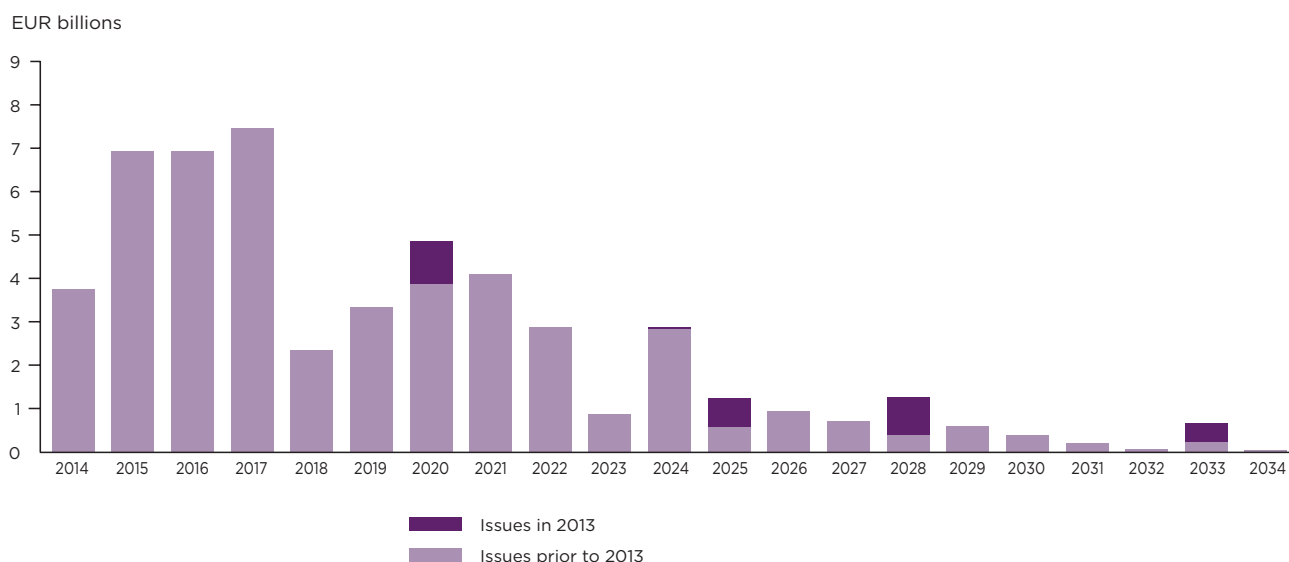
## Benchmarks in euros



## Main issues in non-euro currencies



## Amortization of obligations foncières and registered covered bonds



## 7. Changes in the over-collateralization ratio in 2013

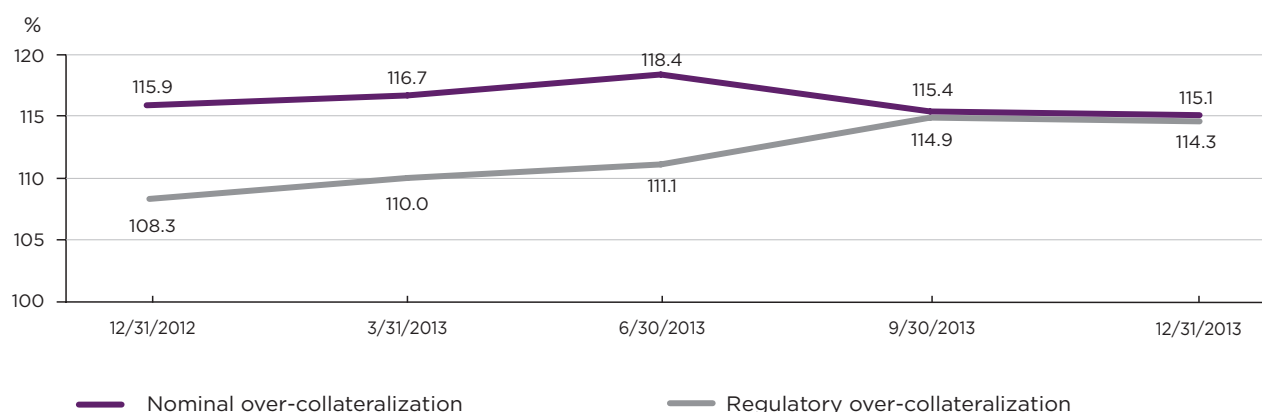
The over-collateralization ratio, which is calculated on the basis of regulatory standards governing *sociétés de crédit foncier*, is the ratio between the assets and the resources benefiting from the legal privilege. The Over-collateralization ratio should be higher than 102%.

Caisse Française de Financement Local decided to maintain a minimum regulatory over-collateralization ratio of 105%, which is considered a safe margin. In practice, the over-collateralization ratio is regularly higher than 105%. To maintain an adequate level of credit rating, a level of over-collateralization of more than 5% may be required.

This requirement depends on the method applied by each of the rating agencies and on the new assets and liabilities on Caisse Française de Financement Local's balance sheet, and it may vary over time. Caisse Française de Financement Local takes these particular requirements into account in the management of its activity in order to make sure they are constantly met.

Any assets that Caisse Française de Financement Local may have assigned in guarantee to borrow funds from the Banque de France were excluded from the calculation of over-collateralization.

### Quarterly over-collateralization



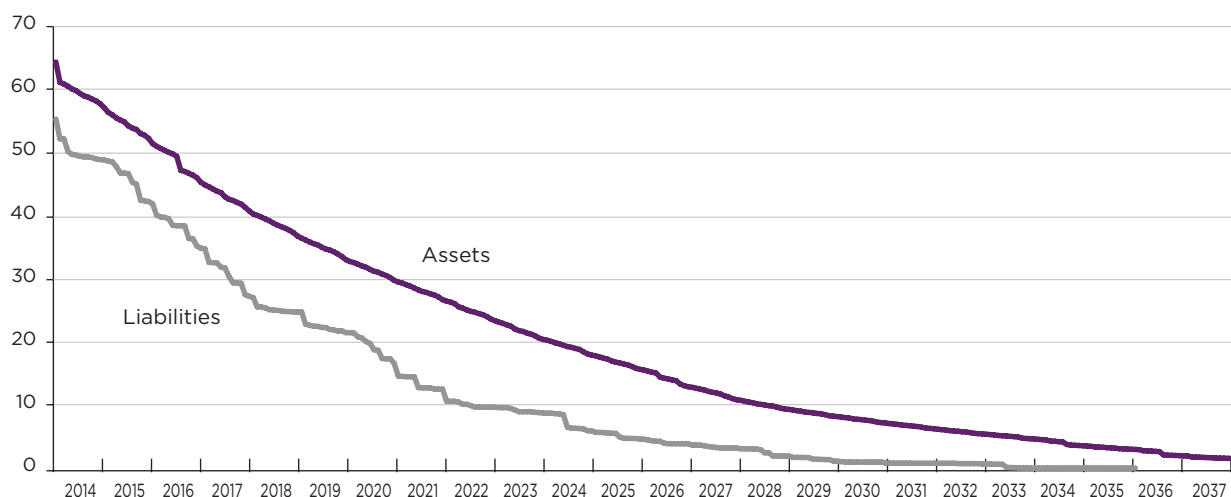
Regulatory over-collateralization is less than nominal over-collateralization because it is calculated on the basis of the rules determined by the Autorité de contrôle prudentiel et de résolution (ACPR). In particular, these rules require different weighting levels according to the assets. The assets in Caisse Française de Financement Local's cover pool are generally weighted at 100%, except for certain units of securitization vehicles which were present in Caisse Française de Financement Local's cover pool

until July 1, 2013. These particular weightings were the primary reason for the gap that existed between regulatory over-collateralization and nominal over-collateralization prior to the sale of the securitization units on July 1, 2013.

The following graph on over-collateralization presents amortization curves of the assets and the issues benefiting from the legal privilege as of December 31, 2013.

### Amortization of assets and liabilities as of December 31, 2013

EUR billions - end of December



## 8. Change in debt that does not benefit from the legal privilege

The asset surplus (assets exceeding *obligations foncières* and registered covered bonds) and miscellaneous needs are financed by equity and debt that does not benefit from the privilege of the law on *sociétés de crédit foncier*.

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

At the end of December 2013, the funding borrowed from Sfil within the framework of the financing agreement was made up of different loans with maturities initially running from one day to seven years borrowed with an Euribor or Eonia index.

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

As of December 31, 2013, Caisse Française de Financement Local had not borrowed any funds from the Banque de France.

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)	12/31/2012	12/31/2013
Parent company	7.6	6.8
Banque de France	-	-
<b>TOTAL</b>	<b>7.6</b>	<b>6.8</b>

The decrease in debt not benefiting from the legal privilege was due to the reduced size of the balance sheet and especially of the cover pool compared with December 31, 2012, while maintaining a comparable level of nominal over-collateralization.

## 9. Risk management

### 9.1 – CREDIT RISK

#### a. Breakdown of exposures according to risk weighting

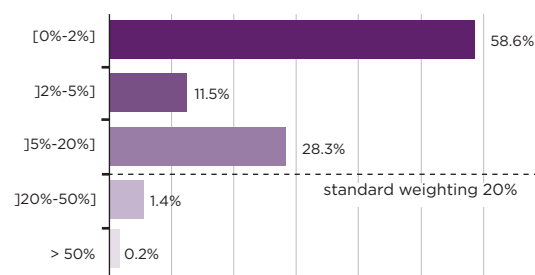
The quality of Caisse Française de Financement Local's portfolio can also be seen in the weighting of its assets within the framework of the calculation of the Group's solvency ratio.

The Company chose the advanced method within the framework of the calculation of the solvency ratio and capital adequacy. Banking regulators authorized the Company to use the advanced internal models developed for the calculation and reporting of capital requirements for credit risk. This enables Caisse Française de Financement Local to present an analysis of its exposures as of December 31, 2013, broken down

by risk weighting, such as used for the calculation of capital requirements for credit risk.

The calculation of such weighting in particular combines the probability of default and loss given default of the counterparty.

#### Risk weighting of Caisse Française de Financement Local's portfolio as of December 31, 2013



This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio, since only 1.6% of the portfolio has a weighting of more than 20%.

The average weighting of the cover pool risk is 7.0%, versus 20% for European local governments in the Basel II / III standard model.

By the credit quality of its assets, combined with its high level of regulatory equity (EUR 1.4 billion in Basel II, EUR 1.3 billion in Basel III as of December 31, 2013), Caisse Française de Financement Local was able to post a solvency ratio of 28% as of December 31, 2013.

#### b. Concentration by customer

As of December 31, 2013, the 20 largest exposures (excluding replacement assets and cash accounts) represented 14.4% of the cover pool, versus 18.7% as of December 31, 2012.

The largest exposure accounted for only 1.7% of the cover pool and the twentieth exposure less than 0.4%. The decrease in the outstanding amounts of the 20 largest exposures was mainly the result of the sale of the Belgian securitization units, the underlying exposures of which were transparently visible.

#### 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. The Company has the intention to hold them until maturity. They are valued at their historical cost and, if necessary, are covered by 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 Finance-

ment Local uses a credit risk model combining probability of default and loss given default, in line with the model of incurred losses. This model is regularly tested *a posteriori*.

The small amount of non-performing loans observed highlights the portfolio's overall high quality.

Non-performing and litigious loans as of December 31, 2013, amounted to EUR 254 million, i.e. approximately 0.4% of the total cover pool (EUR 63.7 billion).

They can be broken down as follows:

- EUR 188 million of non-performing loans corresponding to customers whose total unpaid commitments stand at EUR 10.4 million;
- EUR 66 million of litigious loans corresponding to unpaid interest on structured loans subject to litigation.

Non-performing loans and litigious loans (EUR millions)	12/31/2012		12/31/2013	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
<b>FRANCE</b>				
State	-	-	0	-
Departments	-	13	2	17
Group of municipalities	45	6	46	20
Municipalities	40	9	88	28
Public sector entities	6	0	52	1
<b>TOTAL</b>	<b>92</b>	<b>29</b>	<b>188</b>	<b>66</b>

The major increase in non-performing loans during the year (EUR +96 million) was mainly attributable to customers whose total outstanding commitments were classified as

non-performing loans although they were only behind in the payment of minor sums or have not yet been in arrears.

Non-performing loans and litigious loans (number of customers)	12/31/2012		12/31/2013	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
Beginning of the year	25	-	33	25
New	17	25	23	28
Outgoing	9	-	9	-
<b>END OF THE YEAR</b>	<b>33</b>	<b>25</b>	<b>47</b>	<b>53</b>

No litigation was resolved in 2013 given the long delays in procedures (see 5.2.d. Structured loans).

Non-performing loans are carried by a limited number of counterparties and turnover is frequent. In 2013, nine files were resolved and 23 new cases were identified.

The specific impairment for non-performing loans increased by EUR +6 million in 2013. This rise reflects the increase in non-performing loans and the obligation to recognize full impairment for the unpaid interest of these loans. In addition, collective impairment to cover the credit risk of the entire portfolio was bolstered and stood at EUR 70 million.

(EUR millions)	12/31/2012	12/31/2013
Specific impairment	8	14
Collective impairment	44	70
<b>TOTAL</b>	<b>52</b>	<b>84</b>

To account for the implementation of governmental measures designed to solve the problem of sensitive structured loans (see 3.4 - Litigation and governmental measures). Caisse Française de Financement Local has cancelled the provisions it made to cover this risk.

#### d. Bank counterparty risk

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

- loans to Société de Financement Local, the parent company of Caisse Française de Financement Local, which are considered as replacement assets;
- bank account balances in euros and other currencies, representing EUR 18 million, excluding cash deposited on the Banque de France account;
- its derivative contracts, entered into within the framework of its management of interest rate and foreign exchange risks.

All of Caisse Française de Financement Local's derivative operations are conducted within the framework of standard ISDA or AFB contracts with major international banks. These contracts have particular characteristics, since they must meet the standards set by rating agencies for *sociétés de crédit foncier* (and other issuers of covered bonds). These interest rate and currency swaps all benefit from the same legal privilege as *obligations foncières*. For this reason, Caisse Française de Financement Local does not pay its derivative counterparties any collateral, whereas they have to pay Caisse Française de Financement Local unless they benefit from the agencies' highest short-term rating. As of December 31, 2013, Caisse Française de Financement Local was exposed (positive fair value of the swaps) on 15 banking counterparties. Fourteen of these paid collateral for EUR 2.5 billion, offsetting total exposure, and



one paid no collateral because of its very good short-term ratings. This counterparty represented an exposure of EUR 2.5 million. All derivative exposures as of December 31, 2013, are listed below.

(EUR billions)	Short-term notional	Long-term notional	% Long-term	Mark to Market		Collateral received	Number of counterparties
				-	+		
Sfil	0.3	19.1	18.8%	(3.0)	-	-	1
Other counterparties	58.2	82.2	81.2%	(3.4)	2.5	2.5	28
<b>TOTAL</b>	<b>58.5</b>	<b>101.3</b>	<b>100.0%</b>	<b>(6.4)</b>	<b>2.5</b>	<b>2.5</b>	<b>29</b>

In January 2013, Société de Financement Local, the new parent company of Caisse Française de Financement Local, acquired all the long-term swaps with the Dexia Group. There are thus no more long-term swaps between the Dexia Group and Caisse Française de Financement Local.

The swaps negotiated with external counterparties represented 81.2% of outstanding long-term swaps and those signed with Société de Financement Local 18.8%. Long-term swaps signed with the five largest counterparties represented a total of 33.3% of notional amounts. Short-term swaps (Eonia) were principally contracted with external counterparties.

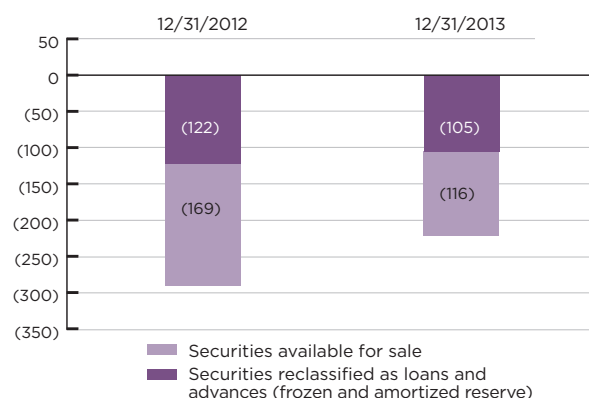
#### e. AFS securities and reserves

Because of their liquidity, in particular, certain securities remain classified for accounting purposes as available for sale according to IFRS and are valued for accounting purposes on the basis of their fair value.

To determine the fair value of these securities, the reference is the market price when such data is available. When no price is listed in a market, the fair value is obtained by estimating the value using price valuation models or the discounted cash flow method, including observable and non-observable market data. When there is no price listed for these instruments, the valuation model attempts to apprehend as best as possible the market conditions at the date of the valuation, as well as any changes in the quality of the credit risk of these financial instruments and in market liquidity. The methods that have served to determine the fair value of AFS securities are indicated in the notes to the financial statements according to IFRS. The difference with the accounting value gives rise to a positive or negative AFS reserve. These reserves would only represent gains or losses if Caisse Française de Financement Local were to sell these securities, but Caisse Française de Financement Local acquired these assets with the intention of holding them to maturity.

As of December 31, 2013, the overall AFS reserve, before taxes, improved to EUR -221 million, versus EUR -291 million as of December 31, 2012.

#### AFS reserve (EUR million)



Italian sovereign issues contributed to the AFS reserve (excluding the frozen reserve, the result of the reclassification in 2008 in loans and advances) for EUR -110 million and securities from other countries for EUR -6 million.

## 9.2 - OTHER BALANCE SHEET RISKS

### a. Interest rate risk

The management of the interest rate risk involves two steps.

- In the first stage, all the assets and the liabilities benefiting from the privilege which do not naturally have a floating rate are hedged against Euribor until maturity as soon as they are recorded on the balance sheet. A residual fixed rate gap remains on certain fixed rate assets that are hedged by macro-swaps (in particular, small loans to customers). This gap is monitored within very strict limits.
- In the second step, Euribor lending and borrowing flows are swapped against Eonia over a sliding period of two years in order to protect income from the basis risk generated by differences in Euribor periods (1, 3, 6 or 12 months) and from the fixing risk due to differences in re-fixing dates of reference indexes in the assets and the liabilities.

A residual gap remains after the first and second levels of hedging and is also monitored within strict limits.

(EUR million)		Average	Maximum	Minimum	Limit
Fixed Rate	1Q 2013	16.4	18.1	15.7	31.0
	2Q 2013	15.6	16.5	14.4	31.0
	3Q 2013	16.0	19.7	14.1	31.0
	4Q 2013	12.2	16.5	3.2	31.0
Monetary	1Q 2013	(0.3)	0.5	(0.7)	9.0
	2Q 2013	(0.1)	1.4	(1.1)	9.0
	3Q 2013	1.5	1.7	1.3	9.0
	4Q 2013	(0.3)	2.9	(4.7)	9.0
<b>TOTAL</b>	1Q 2013	16.1	18.6	15.1	40.0
	2Q 2013	15.5	16.8	14.2	40.0
	3Q 2013	17.5	21.1	15.9	40.0
	4Q 2013	11.9	19.5	(1.5)	40.0



The strategies employed to hedge interest rate and foreign exchange risk are reflected in the notional outstanding swaps analyzed in the table below between external counterparties and the internal counterparty (Sfil) as of December 31, 2013.

Breakdown of outstanding swaps	Notional* (EUR billions)	Sfil (%)	External counterparties (%)
<b>Euribor against Eonia</b>			
Macro-hedges	58.5	0.5%	99.5%
<b>TOTAL SHORT-TERM SWAPS</b>	<b>58.5</b>	<b>0.5%</b>	<b>99.5%</b>
<b>Fixed rate swaps against Euribor</b>			
Micro-hedges on <i>obligations foncières</i>	46.0	7.3%	92.7%
Micro-hedges on loans and debt securities	24.0	10.5%	89.5%
Macro-hedges on loans	20.2	38.2%	61.8%
<b>Subtotal</b>	<b>90.2</b>	<b>15.1%</b>	<b>84.9%</b>
<b>Currency swaps</b>			
Micro-hedges on <i>obligations foncières</i>	7.1	45.5%	54.5%
Micro-hedges on loans	2.9	54.3%	45.7%
Micro-hedges on debt securities	1.1	59.1%	40.9%
<b>Subtotal</b>	<b>11.1</b>	<b>49.2%</b>	<b>50.8%</b>
<b>TOTAL LONG-TERM SWAPS</b>	<b>101.3</b>	<b>18.8%</b>	<b>81.2%</b>

\* Absolute value

In January 2013, Société de Financement Local, the new parent company of Caisse Française de Financement Local, acquired all the long-term swaps with the Dexia Group. There are thus no more long-term swaps between the Dexia Group and Caisse Française de Financement Local.

## b. Foreign exchange risk

Caisse Française de Financement Local has no foreign exchange risk. Assets and liabilities initially in non-euro currencies are swapped into euros when they are recorded on the balance sheet and until their final due date.

## c. Transformation risk

The difference in maturity between the assets and the liabilities may create a liquidity risk.

With the interest rate risk under control, as presented above, Caisse Française de Financement Local manages the congruence of maturities between the assets and the liabilities by maintaining the duration gap between the assets and the liabilities within a maximum limit of three years.

From the point of view of the method, since both the assets and the resources benefiting from the privilege have a floating rate after swaps, Caisse Française de Finance-

ment 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 fluctuations of cash surpluses deposited in a sight account at the Banque de France, and of cash collateral received (short-term debt benefiting from the privilege) lead to significant variations in the duration of the assets

The management policy of Caisse Française de Financement Local is a commitment not to exceed three years for the duration gap between the assets in the cover pool and the resources benefiting from the privilege. In practice, the real sensitivity is maintained below this limit, as can be seen in the following table.

Duration (in years)	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013
Cover pool	7.31	7.47	7.44	7.11	6.99
Privileged liabilities	4.94	5.00	4.96	5.02	4.91
<b>Gap in asset-liability duration</b>	<b>2.37</b>	<b>2.47</b>	<b>2.48</b>	<b>2.09</b>	<b>2.08</b>
<i>Duration gap limit</i>	3	3	3	3	3

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

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

Weighted average life (in years)	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013
Cover pool	8.38	8.56	8.61	8.32	8.23
Privileged liabilities	5.25	5.33	5.32	5.45	5.36
<b>Gap in asset-liability weighted average life</b>	<b>3.13</b>	<b>3.23</b>	<b>3.29</b>	<b>2.87</b>	<b>2.87</b>

#### d. Liquidity risk

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

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

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

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

Until January 31, 2013, this support took the form presented below:

- an unlimited current account facility, with Dexia Credit Local;
- a firm and irrevocable commitment by Dexia Credit Local to make available to its subsidiary the funds it requires to reimburse *obligations foncières* that reach maturity in the coming 12 months on a sliding scale.

Since January 31, 2013, this debt is contracted with Société de Financement Local through a financing

agreement between Caisse Française de Financement Local and its new parent company.

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

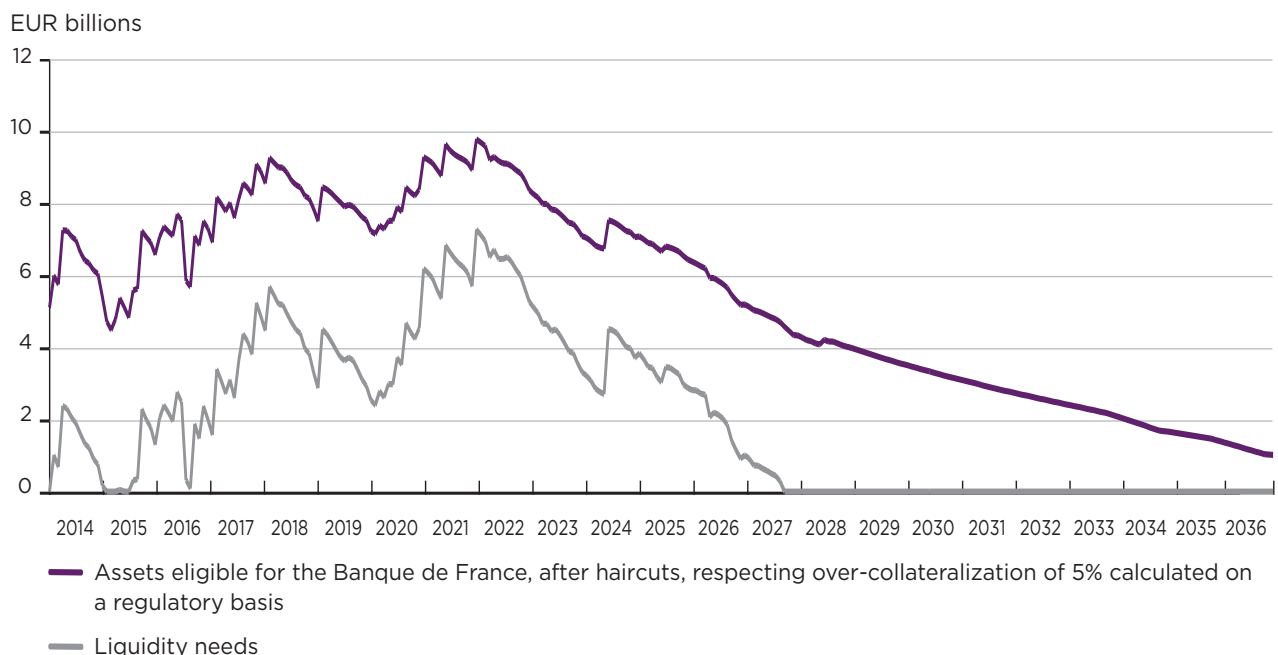
Since it is a credit institution, Caisse Française de Financement Local can post these eligible assets:

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

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

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

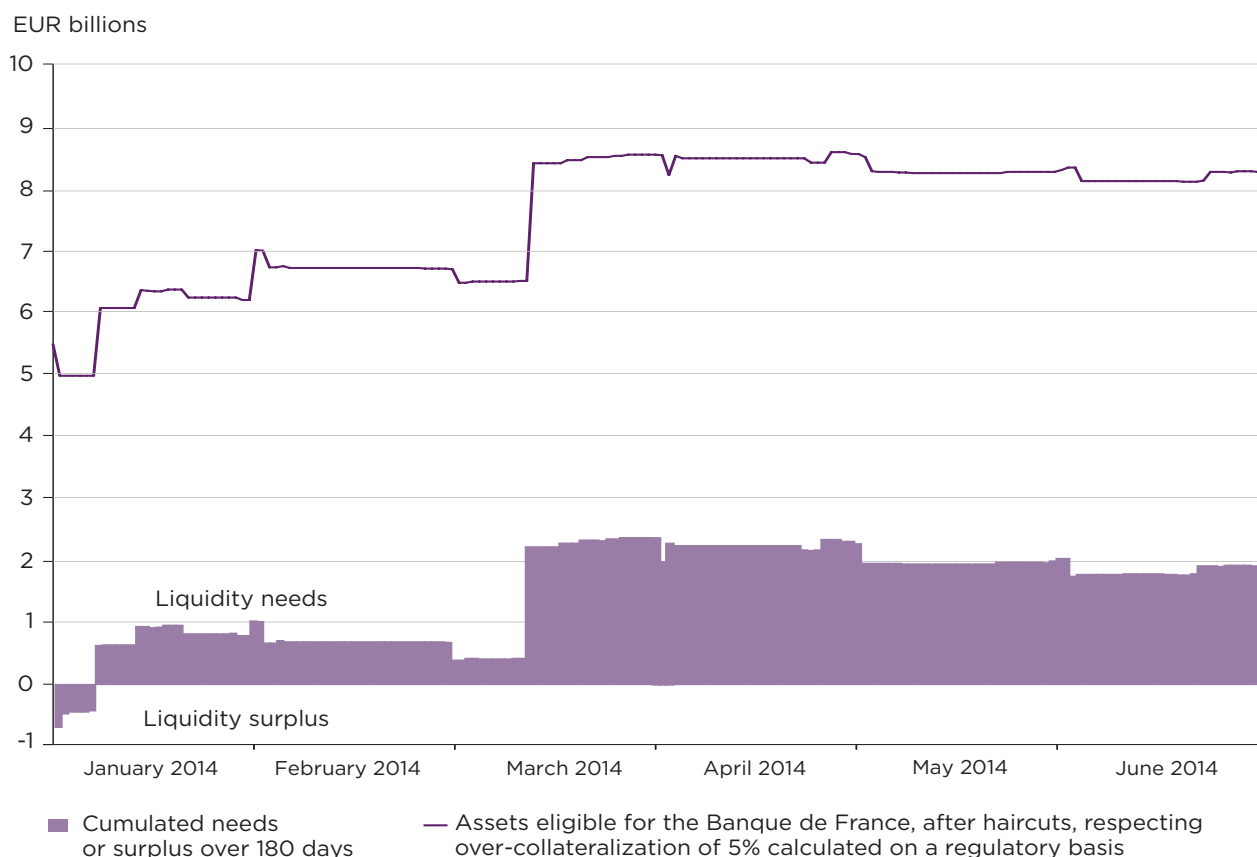
The forecast of liquidity needs, as defined above, and of available assets is presented in the following graph.



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

- the liquidity ratio for one month (regulatory reporting to the Autorité de contrôle prudentiel et de résolution);
- the duration gap between the assets and the resources benefiting from the legal privilege (limited to three years), which is published quarterly;

- cash needs over the next 180 days: Caisse Française de Financement Local ensures that at any time, its cash needs over a period of 180 days are covered by replacement assets, by assets eligible for refinancing by the Banque de France, or by liquidity agreements signed with credit institutions with the best short-term credit rating. This forecast is published quarterly in the Asset Quality Report and is presented below.



The need for liquidity that appears at a week's distance corresponds to the very conservative hypothesis of total reimbursement of the cash collateral received, after

deduction of available cash, i.e. EUR 1 billion. The other fluctuations correspond to cash flows from the amortization of *obligations foncières* and from assets.

### 9.3. MANAGEMENT OF OTHER RISKS

#### a. Legal risks

There is no litigation involving Caisse Française de Financement Local other than that mentioned in paragraph 3.4 - Litigation and governmental measures.

#### b. Operational risks and permanent control

Caisse Française de Financement Local delegates to Société de Financement Local the functions of internal control within the framework of a management agreement. The management processes for operational risks and permanent control are described in the report of the Chairman of the Supervisory Board included in this annual report.

#### c. Security of means of payment

Caisse Française de Financement Local does not provide its customers with means of payment.

## 10. Commitments granted – commitments received

Commitments granted as of December 31, 2013, were mainly composed of EUR 0.2 billion in loans granted to French local governments before the change in the shareholding structure of Caisse Française de Financement Local, and not yet paid out.

Commitments received were principally:

- authorization to overdraw the current account as stipulated in the financing agreement set up with Société de Financement Local for EUR 50 million;
- the assignment of securities to the benefit of Caisse Française de Financement Local to guarantee the reimbursement of loans granted to its parent company, Société de Financement Local for EUR 4.4 billion;
- guarantees received on loans to customers for EUR 7.1 billion.

## 11. 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, 2013, all supplier accounts were settled. The only supplier debt recorded corresponded to invoices not yet received.

## 12. 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.

## 13. Non-tax-deductible charges and expense

In accordance with article 233 (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 reintegrated following a definitive tax assessment (article 223 (5), article 39-5 and 54 (4) of the General Tax Code) is zero given the absence of any tax audit.

## 14. Income for the period

### 14.1. INCOME FOR THE PERIOD IN IFRS

Caisse Française de Financement Local publishes its financial statements according to IFRS as adopted by the European Commission in order to ensure a better understanding and greater comparability of its accounts internationally. For 2013, the first application of IFRS 13 produced very significant effects that make it difficult to compare net banking income with previous periods.

The income statement for 2013 is presented synthetically in the following table

IFRS (EUR millions)	2011	2012	2013	Change 2013/2012
Interest margin	208	239	141	(41)%
Net commissions	(5)	(4)	(24)	
Net result of assets at fair value	-	1	119	
Net result of financial assets available for sale	2	21	6	
Other income and expense	-	-	-	
<b>NET BANKING INCOME</b>	<b>205</b>	<b>257</b>	<b>242</b>	<b>(6)%</b>
General operating expenses	(89)	(87)	(74)	
Taxes	(3)	(4)	(5)	
<b>OPERATING INCOME BEFORE COST OF RISK</b>	<b>113</b>	<b>166</b>	<b>163</b>	<b>(2)%</b>
Cost of risk	(8)	(28)	(178)	
<b>PRE-TAX INCOME</b>	<b>105</b>	<b>138</b>	<b>(15)</b>	<b>(111)%</b>
Income tax	(37)	(47)	18	
<b>NET INCOME</b>	<b>68</b>	<b>91</b>	<b>3</b>	<b>(97)%</b>

At EUR 242 million, net banking income decreased in comparison with the same period in 2012. This variation was the result of trends in the Interest margin on the one hand and in Net result of assets at fair value on the other.

While the latter item previously corresponded to the inefficiency of the hedges (non-existent or minor), it included for the first time the effects of the credit value adjustment / debit value adjustment (CVA / DVA) introduced by the application of the new IFRS 13. The impact of this standard on net banking income in 2013 totaled for the CVA EUR -9 million and for the DVA EUR +127 million. The situation is described in paragraph 3.4 of this report. Caisse Française de Financement Local also modified the method it uses to value collateralized derivatives to account for changes in current market practices. It opted for valuation against Eonia for its derivatives for which there is a cash collateral payment to its benefit. The derivatives for which no payment is made to the benefit of the counterparties remains valued against Euribor. The change in the valuation of hedging derivatives, whereas the valuation of the hedged items is not modified, creates inefficiency in hedging relations. The impact of this change totaled EUR +19 million, and is also recognized in Net income of assets at fair value. Finally, the Company corrected the way it evaluated the hedged risk of certain assets and liabilities that were swapped against a Euribor index different from that of the traditional curve that served to value the instruments on the balance sheet. The impact of this change for previous years was recognized in equity (error correction) and the impact for the year, which reflected accounting inefficiency and stood at EUR -20 million, was recorded in Net banking income.

Corrected for fair value adjustments recorded in 2013, net banking income totaled EUR 126 million, down from the year 2012.

Indeed, the Interest margin declined sharply and decreased by 41%, down EUR 98 million. The Interest margin corresponds to the difference between income from assets and the cost of the liabilities (generally hedged against the risk of interest rates and foreign exchange). The decrease in interest margin primarily attributable to the reduction of the size of the cover pool and the financing of over-collateralization. The item Net result of financial assets available for sale was also down from the same period in 2012. In the previous year, it included more significant net gains on early reimbursements of issues and loans.

The increase in net commissions paid mainly corresponded to the payment to Sfil within the framework of the contract described in article L. 513-15 of the Monetary and Financial Code.

Operating expenses were mainly comprised of commissions billed by the parent company for the operational management of the Company.

Cost of risk was impacted by the recognition of the contribution of Caisse Française de Financement Local to the support fund in the amount of EUR 150 million and by the EUR 32 million increase in specific and collective impairment (see 9.1.c Non-performing loans, litigious loans, provisions), of which EUR 28 million recorded in Cost of risk. Net income for the period was EUR 3 million as of December 31, 2013.

## 14.2. INCOME FOR THE PERIOD IN FRENCH GAAP

The income statement for 2013 is presented synthetically in the following table.

French GAAP (EUR millions)	2011	2012	2013	Change YTD 2013 / 2012
Interest margin	188	237	160	(32)%
Net commissions	(5)	(4)	(24)	
Provisions and income on trading portfolio	-	-	-	
Provisions and income on <i>placement</i> portfolio	(57)	13	41	
Other income and expense	-	-	-	
<b>NET BANKING INCOME</b>	<b>126</b>	<b>246</b>	<b>177</b>	<b>(28)%</b>
General operating expenses	(93)	(91)	(79)	
Taxes	-	-	-	
<b>OPERATING INCOME BEFORE COST OF RISK</b>	<b>33</b>	<b>155</b>	<b>98</b>	<b>(37)%</b>
Cost of risk	(8)	(41)	(183)	
<b>OPERATING INCOME</b>	<b>25</b>	<b>114</b>	<b>(85)</b>	<b>(175)%</b>
Income (loss) on fixed assets	-	(26)	-	
Income tax	(19)	(50)	(5)	
Regulated provision on long- and medium-term loans	(1)	(1)	70	
<b>NET INCOME</b>	<b>5</b>	<b>37</b>	<b>(20)</b>	<b>(154)%</b>

Net banking income decreased by 28%, i.e. EUR 69 million, in comparison with 2012, down from EUR 246 million to EUR 177 million.

This trend was principally due to the following items:

- Interest margin decreased by 32% (EUR 77 million). The interest margin corresponds to the difference between income from the assets and the expense of the liabilities (generally hedged against interest rate and foreign exchange risks). It was linked in 2013 with the decrease of the balance sheet and with the variation of the over-collateralization financing structure.
- Provisions and income on *placement* portfolio rose in 2013 (reversal of provisions) with EUR 41 million, compared with EUR 13 million in 2012.

The interest margin varies differently when it is presented in IFRS (economic presentation) or in French GAAP (tax presentation). The way debt management is accounted for is, in certain cases, asymmetrical in French GAAP (see below), a fact that can make it difficult to interpret the changes, especially the years in which local government debt management is very active.

Readers are reminded that Caisse Française de Financement Local applies an accounting treatment to early loan reimbursement indemnities and swap unwinding payments that is in compliance with the tax treatment specified by government tax authorities.

This accounting method introduces accelerated recognition of income compared with systematic amortization. These indemnities and payments are generated by early

reimbursements, but also by renegotiations, which generally accompany active debt management by borrowers. 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.

The increase in net commissions paid mainly corresponded to the compensation paid to Sfil within the framework of the contract described in article L.513-15 of the Monetary and Financial Code.

Operating expenses were mainly comprised of commissions billed by the parent company for the operational management of the Company.

Cost of risk was impacted by the recognition of the contribution of Caisse Française de Financement Local to the support fund in the amount of EUR 150 million and by the EUR 2 million increase in specific impairment (see 9.1.c Non-performing loans, litigious loans, provisions). Collective impairment (identical to the impairment in the IFRS accounts) increased by EUR 31 million. In addition, following the elimination of the Regulated provision for medium- and long-term loans by the 2014 Law of Finances, this provision was completely reversed for EUR 70 million.

Net income for the period was down EUR -57 million from the same period in 2012, with EUR -150 million corresponding to the contribution of Caisse Française de Financement Local to the support fund.

## 15. Proposed allocation of net result

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

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

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

<b>Net result for the year 2013</b>	<b>(20,519,278.02)</b>
Allocated to the legal reserve (5%)	-
<b>Income available</b>	<b>-</b>
Prior retained earnings	45,633,981.27
<b>Amount available for distribution</b>	<b>25,114,703.25</b>
Proposed distribution	-
<b>Retained earnings after distribution</b>	<b>25,114,703.25</b>

## 16. Outlook for 2014

The year 2013 saw the full success of the Company's issues. The accomplishment of the 2013 issue program in three months confirmed the capacity of Caisse Française de Financement Local to marshal the resources required in terms of amounts and maturities for its financing mission in the French public sector. The arrival of Caisse Française de Financement Local in the financial markets is a major achievement, the result of the regular efforts made throughout 2013 to explain to the full range of large investors the new organization set up by the French State around Caisse Française de Financement Local to finance the French local public sector with La Banque Postale and Caisse des Dépôts et Consignations.

In 2013, Caisse Française de Financement Local also successfully launched its commercial partnership with La Banque Postale, which in its first year of existence became a major player in the French local public sector financing market. In addition, Caisse Française de

Financement Local applied its new strategy to reduce the sensitivity of structured loans, the outstanding amount of which decreased by EUR 1.0 billion during the year.

2014 will be a year of consolidation. The goal is to bolster the Company's issuance policy, in particular by continuing to expand its investor base, intensify its commercial partnership with La Banque Postale, and pursue the deployment of its strategy to reduce loan sensitivity by relying on active participation in support funds and a secured legal framework (see the commitment of the French State to propose, as soon as possible, new legislation following the decision of the Conseil Constitutionnel on December 29, 2013).

Within this framework, Caisse Française de Financement Local launched at the beginning of January its third public issue, the results of which confirmed its excellent credit standing, as witnessed by the very considerable participation of the central banks, but also of traditional covered bond investors, in particular German. This success enables Caisse Française de Financement Local to get a head start on its 2014 financing program, while remaining attentive to developments in the market and its environment.

Caisse Française de Financement Local plans to issue *obligations foncières* for a total amount of EUR 4 billion to EUR 6 billion in 2014. The total volume of issues will mainly be comprised of public issues denominated in euros, making it possible to complete the euro benchmark curve of Caisse Française de Financement Local. It should also include a significant proportion of long-term private placements in order to respond to investor requirements.

## Bonds and public sector loans as of December 31, 2013

(EUR millions)	12/31/2013					12/31/2012
	Direct exposure		Indirect exposure			
COUNTRY	Loans	Bonds	Loans	Bonds	Total	Total
<b>France</b>						
State			147		147	170
Banque de France	1,471				1,471	2,400
Regions	1,746	124	290		2,160	2,298
Departments	5,855		301		6,156	6,305
Municipalities	15,790	102	734		16,626	17,582
Groups of municipalities	9,255	107	239		9,601	10,065
Public sector entities :						
- health	6,168				6,168	6,511
- social housing	1,795				1,795	1,934
- other	989		9		998	1,038
Credit institutions	4,381				4,381	23
<b>Subtotal</b>	<b>47,450</b>	<b>333</b>	<b>1,720</b>		<b>49,503</b>	<b>48,326</b>
<b>Germany</b>						
State						12
Länder		512		342	854	847
<b>Subtotal</b>		<b>512</b>		<b>342</b>	<b>854</b>	<b>859</b>
<b>Austria</b>						
Länder	199				199	202
ABS						70
<b>Subtotal</b>	<b>199</b>				<b>199</b>	<b>272</b>
<b>Belgium</b>						
Regions	55		59		114	244
Communities		50			50	50
Public sector entities	74				74	79
Securities issued by DSFB						4,831
<b>Subtotal</b>	<b>129</b>	<b>50</b>	<b>59</b>		<b>238</b>	<b>5,204</b>
<b>Canada</b>						
Provinces		22			22	22
Communities	202				202	220
Public sector entities	129				129	129
<b>Subtotal</b>	<b>331</b>	<b>22</b>			<b>353</b>	<b>371</b>
<b>Spain</b>						
Cedulas territoriales						500
Regions		229			229	228
Municipalities	267				267	279
<b>Subtotal</b>	<b>267</b>	<b>229</b>			<b>496</b>	<b>1,007</b>
<b>United States</b>						
Federated states		253			253	253
<b>Subtotal</b>		<b>253</b>			<b>253</b>	<b>253</b>
<b>Finland</b>						
Municipalities	5				5	11
Public sector entities	42				42	43
<b>Subtotal</b>	<b>47</b>				<b>47</b>	<b>54</b>



(EUR millions)	12/31/2013					12/31/2012
	Direct exposure		Indirect exposure			
COUNTRY	Loans	Bonds	Loans	Bonds	Total	Total
<b>Italy</b>						
State		580			580	560
Regions		3,051			3,051	1,544
Provinces		717			717	276
Municipalities	12	2,339			2,351	1,543
ABS						3
Securities issued by DCC						3,360
<b>Subtotal</b>	<b>12</b>	<b>6,687</b>			<b>6,699</b>	<b>7,286</b>
<b>Japan</b>						
Municipalities		25			25	25
<b>Subtotal</b>		<b>25</b>			<b>25</b>	<b>25</b>
<b>Portugal</b>						
Municipalities	58				58	66
Public sector entities	8				8	9
<b>Subtotal</b>	<b>66</b>				<b>66</b>	<b>75</b>
<b>United Kingdom</b>						
State				555	555	608
Counties			398		398	398
Districts			28		28	28
Municipalities			1,368		1,368	1,368
Public sector entities			56		56	56
<b>Subtotal</b>			<b>1,850</b>	<b>555</b>	<b>2,405</b>	<b>2,458</b>
<b>Sweden</b>						
Municipalities	28		27		55	112
Public sector entities	5				5	17
<b>Subtotal</b>	<b>33</b>		<b>27</b>		<b>60</b>	<b>129</b>
<b>Switzerland</b>						
Cantons	1,067		554		1,621	1,907
Municipalities	778				778	845
Public sector entities	91				91	91
<b>Subtotal</b>	<b>1,936</b>		<b>554</b>		<b>2,490</b>	<b>2,843</b>
<b>Supranational</b>						
International organizations	43				43	46
<b>Subtotal</b>	<b>43</b>				<b>43</b>	<b>46</b>
<b>TOTAL COVER POOL</b>	<b>50,513</b>	<b>8,111</b>	<b>4,210</b>	<b>897</b>	<b>63,731</b>	<b>69,208</b>

Loans and securities are off premium / discount.

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

## Supervisory Board and Executive Board

### Supervisory Board (March 2014)

**Chairman**  
Philippe Mills

**Vice Chairman**  
François Laugier

Stéphane Costa de Beauregard

Florent Lecinq

Béatrice Gosserez

Marc Robert

Sami Gotrane

### Executive Board (March 2014)

**Chairman**  
Gilles Gallerne

**Chief Executive Officer**  
Caroline Gruson

Cyril Cudennec

Pierre-Marie Debreuille

Emmanuel Moritz

## Directorships 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 functions exercised in 2013 by every corporate officer of Caisse Française de Financement Local who served during the year.

### Supervisory Board

#### CHAIRMAN

##### **Philippe Mills** (since January 31, 2013)

48 years old

Chairman of the Board of Directors and Chief Executive Officer, Société de Financement Local  
Société de Financement Local – 1, Passerelle des Reflets – La Défense 2 – 92913 La Défense Cedex

- Chairman of the Board of Directors and Chief Executive Officer, Société de Financement Local (since January 2013)
- Alternate Expert, Board of Directors, European Investment Bank (since July 2013)
- Chairman of the Executive Committee, Société de Financement Local (since January 2013)

##### **Philippe Rucheton** (until January 31, 2013)\*

65 years old

Member of the Management Board, Dexia SA

Dexia SA – Place du Champs de Mars 5 – B-1050 Brussels

- Member of the Board of Directors and Deputy Chief Executive Officer, Dexia Credit Local
- Member of the Board of Directors, Dexia Asset Management Luxembourg
- Member of the Board of Directors, Dexia Crediop
- Member of the Board of Directors and Chairman, Dexia Holdings, Inc.
- Member of the Board of Directors, Dexia FP Holdings Inc.
- Member of the Board of Directors, Dexia Financial Products Services LLC
- Member of the Board of Directors, FSA Asset Management LLC
- Member of the Board of Directors, FSA Capital Markets Services LLC
- Member of the Board of Directors, FSA Capital Management Services LLC
- Member of the Board of Directors, Dexia Participation Belgique SA
- Permanent representative of Dexia SA, member of the Board of Directors, DCL Investissements
- Permanent representative of Dexia SA, member of the Board of Directors, Dexia Rail
- Member of the Board of Directors, Bernard Controls SA

#### VICE CHAIRMAN

##### **François Laugier** (since January 31, 2013)

49 years old

Deputy Chief Executive Officer, Société de Financement Local

Société de Financement Local – 1, Passerelle des Reflets – La Défense 2 – 92913 La Défense Cedex

- Chairman of the Board of Directors and Chief Executive Officer (until January 2013) and Deputy Chief Executive Officer (since January 2013), Société de Financement Local (formerly Dexint Développement)
- Chairman of the Executive Board (until January 2013), Dexia Municipal Agency (now Caisse Française de Financement Local)
- Member of the Executive Committee, Société de Financement Local (since January 2013)

##### **Benoît Debroye** (until January 31, 2013)\*

53 years old

Member of the Group Committee, Dexia SA

Dexia SA – Place du Champs de Mars 5 – B-1050 Brussels

- Member of the Board of Directors, Dexia Microcredit Fund
- Member of the Board of Directors, Dexia Holdings, Inc.
- Member of the Board of Directors, Dexia FP Holdings Inc.
- Member of the Board of Directors, Dexia Financial Products Services LLC
- Member of the Board of Directors, FSA Asset Management LLC
- Member of the Board of Directors, FSA Capital Markets Services LLC
- Member of the Board of Directors, FSA Capital Management Services LLC
- Member of the Board of Directors, FSA PAL
- Member of the Supervisory Board, Dexia Kommunalbank Deutschland AG

#### MEMBRES

##### **Stéphane Costa de Beauregard** (since January 31, 2013)

47 years old

Vice President, Debt Management, Société de Financement Local

Société de Financement Local – 1, Passerelle des Reflets – La Défense 2 – 92913 La Défense Cedex

- Member of the Executive Committee, Société de Financement Local (since January 2013)

\* The following directorships are those held at the date of the end of the term of office in the Company.

**Béatrice Gosserez**

48 years old

General Secretary, Société de Financement Local  
Société de Financement Local – 1, Passerelle des Reflets –  
La Défense 2 – 92913 La Défense Cedex

- Permanent representative of Dexia Credit Local, member of the Management Board, Le Monde Investisseurs (until April 2013)
- Member of the Board of Directors (until January 2013), Dexint Développement (now Société de Financement Local)
- Member of the Executive Committee, Société de Financement Local (since January 2013)

**Sami Gotrane  
(since January 31, 2013)**

49 years old

Vice President, Cash Management and Financial Markets,  
Société de Financement Local  
Société de Financement Local – 1, Passerelle des Reflets –  
La Défense 2 – 92913 La Défense Cedex

- Chairman of the Board of Directors, CTG Financial Consulting
- Member of the Executive Committee, Société de Financement Local (since January 2013)

**Florent Lecinq  
(since February 25, 2013)**

38 years old

Chief Financial Officer, Société de Financement Local  
Société de Financement Local – 1, Passerelle des Reflets –  
La Défense 2 – 92913 La Défense Cedex

- Member of the Executive Committee, Société de Financement Local (since January 2013)

**Marc Robert  
(since January 31, 2013)**

40 years old

Vice President, Operations and Information Systems,  
Société de Financement Local  
Société de Financement Local – 1, Passerelle des Reflets –  
La Défense 2 – 92913 La Défense Cedex

- Manager, CBX IA 1 (until January 2013)
- Manager, CBX IA 2 (until January 2013)
- Chairman of the Board of Directors and Chief Executive Officer, CBX.GEST (until January 2013)
- Permanent representative of Dexia Credit Local, member of the Board of Directors, Floral (until April 2013)
- Member of the Executive Board, Dexia Kommunalkredit Bank AG (until February 2013)
- Member of the Supervisory Board, Dexia Kommunalkredit Bank Polska (until March 2013)
- Member of the Board of Directors (until January 2013), Dexint Développement (now Caisse Française de Financement Local)
- Member of the Executive Committee, Société de Financement Local (since January 2013)

**Dexia Sabadell (until January 31, 2013)\*  
represented by José Luis Castillo**

59 years old

Dexia Sabadell – Calla Mahonia 2, 4a planta – 28043 Madrid

- Chief Executive Officer, Dexia Sabadell
- Member of the Board of Directors, Popular Banca Privada

**Edouard Daryabegui-Guilani  
(until January 31, 2013)\***

46 years old

Dexia Credit Local – Tour Dexia – La Défense 2 –  
1, Passerelle des Reflets – 92913 La Défense Cedex

**Jean-Luc Guitard  
(until January 23, 2013)\***

48 years old

Dexia Credit Local – Tour Dexia – La Défense 2 –  
1, Passerelle des Reflets – 92913 La Défense Cedex

- Chairman of the Board of Directors, Dexia CLF Banque (until January 2013)
- Chairman of the Board of Directors and Chief Executive Officer, Floral (until January 2013)
- Member of the Board of Directors, Sofaxis (until January 2013)
- Member of the Board of Directors, Domiserve (until January 2013)
- Permanent representative of Dexia Credit Local, member of the Board of Directors, Domiserve + (until January 2013)
- Member of the collegial committee, Exterimmo (until January 2013)
- Permanent representative of Dexia Credit Local, member of the Board of Directors, SETE (until January 2013)
- Member of the Board of Directors, Fédération des entreprises publiques locales (until January 2013)

**Executive Board****CHAIRMAN****Gilles Gallerne  
(since January 31, 2013)**

50 years old

Vice President in charge of the coordination of Caisse Française de Financement Local within Société de Financement Local Cedex

Société de Financement Local – 1, Passerelle des Reflets –  
La Défense 2 – 92913 La Défense Cedex

- Chief Executive Officer (until January 2013), Dexia Municipal Agency (now Caisse Française de Financement Local)
- Member of the Board of Directors, CBX.GEST (until January 2013)
- Member of the Executive Committee, Société de Financement Local (since January 2013)

\* The following directorships are those held at the date of the end of the term of office in the Company.

## MEMBERS

### Caroline Gruson - Chief Executive Officer (since January 31, 2013)

40 years old

Deputy to the Vice President in charge of the coordination of Caisse Française de Financement Local within Société de Financement Local

Société de Financement Local - 1, Passerelle des Reflets - La Défense 2 - 92913 La Défense Cedex  
• Member of the Executive Board of Dexia Municipal Agency (now Caisse Française de Financement Local)

### Cyril Cudennec (since January 31, 2013)

37 years old

Vice President, Market Activities, Deputy to the Vice President, Cash Management and Financial Markets, Société de Financement Local

Société de Financement Local - 1, Passerelle des Reflets - La Défense 2 - 92913 La Défense Cedex

### Pierre-Marie Debreuille (since January 31, 2013)

38 years old

Vice President, Financial Steering, Deputy to the Chief Financial Officer, Société de Financement Local

Société de Financement Local - 1, Passerelle des Reflets - La Défense 2 - 92913 La Défense Cedex

### Emmanuel Moritz (since January 31, 2013)

38 years old

Vice President, Credit Risks, Société de Financement Local

Société de Financement Local - 1, Passerelle des Reflets - La Défense 2 - 92913 La Défense Cedex

### Christophe Piatte (until January 31, 2013)\*

40 years old

Dexia Credit Local - Tour Dexia - La Défense 2 - 1, Passerelle des Reflets - 92913 La Défense Cedex

• Member of the Board of Directors, SISL

## Compensation of members of management bodies

In 2013, Caisse Française de Financement Local paid no compensation to the members of its management bodies, all of whom were employees of Société de Financement Local 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 management body and in this role receives no compensation.

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

## 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 Virginie Chauvin, Partner, and Anne Veaute, Partner.

Alternate: Franck Boyer

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 José-Luis Garcia, Partner, and Charlotte Vandeputte, Partner

Alternate: BEAS, represented by Mireille Berthelot, Partner

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

## Specific Controller

### Fidus

12, rue de Ponthieu - 75008 Paris

represented by Jean-Michel Thierry

This appointment was renewed by the Supervisory Board on March 23, 2011, for a term of four years.

Alternate:

### Groupe d'expertise de France

10, rue de la Grange Batelière - 75009 Paris

represented by François Dumenil.

## Information on labor, environmental and society-related issues

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

# Attestation of completeness of the Statutory Auditors, appointed as independent third-parties, on the environmental, social and societal information published in the management report

## Year ended December 31, 2013

*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 Auditors of Caisse Française de Financement Local, and appointed as independent third-parties, for whom the application request for accreditation request has been approved by the French National Accreditation Body (COFRAC), we hereby present you with our statement of completeness on the social, environmental and societal information prepared for the year ended December 31, 2013 presented in the management report included in the management report (hereinafter the “CSR Information”), pursuant to article L.225-102-1 of the French Commercial Code.

### RESPONSIBILITY OF THE COMPANY

The Executive Board of Caisse Française de Financement Local is responsible for preparing a management report including CSR Information in accordance with the provisions of article R.225-105-1 of the French Commercial Code.

### 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 French Commercial Code. 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 AUDITORS

Based on our work, our responsibility is to attest that the required CSR Information 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 French Commercial Code.

Our work was carried out by a team of two people in March 2014 for a period of nearly one week. To assist us in conducting our work, we referred to our corporate responsibility experts.

### NATURE AND SCOPE OF PROCEDURES

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:

- based on interviews with management, we familiarized ourselves with the Group's sustainable development strategy, with regard to the social and environmental impacts of the company's business and its societal commitments and, where appropriate, any resulting actions or programs;
- we have compared the CSR Information presented in the management report with the list set forth in article R.225-105-1 of the French Commercial Code;
- in the event of omission of certain consolidated information, we have verified that explanations were provided in accordance with the third paragraph of the article R.225-105 of the French Commercial Code.

### CONCLUSION

Based on these procedures, we attest that the required CSR Information is presented in the management report.

Neuilly-sur-Seine and Courbevoie, March 31, 2014

The Statutory Auditors

French original signed by:

**DELOITTE & ASSOCIÉS**  
Charlotte Vandeputte  
Partner

**MAZARS**  
Virginie Chauvin  
Partner

# IFRS Financial Statements

## Assets as of December 31, 2013

(EUR millions)	Note	12/31/2011	12/31/2012 <sup>(1)</sup>	12/31/2013
Central banks	2.1	2,198	2,400	1,471
Financial assets at fair value through profit or loss		-	-	-
Hedging derivatives	4.1	8,874	9,748	6,501
Financial assets available for sale	2.2	1,254	1,125	1,084
Loans and advances due from banks	2.3	7,781	3,741	7,314
Loans and advances to customers	2.4	77,836	71,995	61,929
Fair value revaluation of portfolio hedge		2,203	3,056	1,511
Financial assets held to maturity		-	-	-
Current tax assets	2.5	47	1	13
Deferred tax assets	2.5	199	89	90
Accruals and other assets	2.6	17	3	4
<b>TOTAL ASSETS</b>		<b>100,409</b>	<b>92,169</b>	<b>80,017</b>

## Liabilities as of December 31, 2013

(EUR millions)	Note	12/31/2011	12/31/2012 <sup>(1)</sup>	12/31/2013
Central banks	3.1	2,700	-	-
Financial liabilities at fair value through profit or loss		-	-	8
Hedging derivatives	4.1	13,703	14,110	10,605
Due to banks	3.2	9,517	7,620	6,774
Customer borrowings and deposits		-	-	-
Debt securities	3.3	68,536	62,739	57,129
Fair value revaluation of portfolio hedge		2,340	2,861	1,398
Current tax liabilities	3.4	2	6	2
Deferred tax liabilities	3.4	34	-	-
Accruals and other liabilities	3.5	2,533	3,546	2,742
Provisions		-	-	-
Subordinated debt		-	-	-
<b>Equity</b>		<b>1,044</b>	<b>1,287</b>	<b>1,359</b>
Capital and related reserve		1,300	1,315	1,315
Reserves and retained earnings		24	125	215
Gains and losses through equity		(348)	(244)	(174)
Net income		68	91	3
<b>TOTAL LIABILITIES</b>		<b>100,409</b>	<b>92,169</b>	<b>80,017</b>

(1) The financial statements as of December 31, 2012, have been restated (see Accounting policies and valuation methods, note 1.2.g)

## Income statement

(EUR millions)	Note	2011	2012	2013
Interest income	5.1	6,963	5,742	5,086
Interest expense	5.1	(6,755)	(5,503)	(4,945)
Fee and commission income	5.2	-	-	0
Fee and commission expense	5.2	(5)	(4)	(24)
Net result of financial instruments at fair value through profit or loss	5.3	-	1	119
Net result of financial assets available for sale	5.4	2	21	6
Other income		-	-	0
Other expense		-	-	0
<b>NET BANKING INCOME</b>		<b>205</b>	<b>257</b>	<b>242</b>
Operating expense	5.5	(92)	(91)	(79)
<b>GROSS OPERATING INCOME</b>		<b>113</b>	<b>166</b>	<b>163</b>
Cost of risk	5.6	(8)	(28)	(178)
<b>OPERATING INCOME</b>		<b>105</b>	<b>138</b>	<b>(15)</b>
Net gains (losses) on other assets		-	-	-
<b>INCOME BEFORE TAX</b>		<b>105</b>	<b>138</b>	<b>(15)</b>
Income tax	5.7	(37)	(47)	18
<b>NET INCOME</b>		<b>68</b>	<b>91</b>	<b>3</b>
Earnings per share (in EUR)				
- Basic		5.22	6.93	0.24
- Diluted		5.22	6.93	0.24

## Net income and unrealized or deferred gains and losses through equity

(EUR millions)	2011	2012	2013
<b>Net income</b>	68	91	3
<b>Items will be reclassified subsequently to profit or loss</b>	<b>(93)</b>	<b>104</b>	<b>70</b>
Unrealized or deferred gains and losses of financial assets available for sale	(75)	107	71
Unrealized or deferred gains and losses of cash flow hedges	(95)	60	21
Taxes on items reclassified subsequently to profit or loss	77	(63)	(22)
<b>Items will not be reclassified subsequently to profit or loss</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total of unrealized or deferred gains and losses through equity</b>	<b>(93)</b>	<b>104</b>	<b>70</b>
<b>NET INCOME AND GAINS AND LOSSES THROUGH EQUITY</b>	<b>(25)</b>	<b>195</b>	<b>73</b>



## Equity

(EUR millions)	Capital and reserves			Unrealized or deferred gains and losses			Total equity
	Share capital, additional paid-in capital	Retained earnings and net income for the period	Total	Net change in fair value of available-for-sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax	Total	
<b>EQUITY AS OF DECEMBER 31, 2012</b>	<b>1,315</b>	<b>167</b>	<b>1,482</b>	<b>(192)</b>	<b>(51)</b>	<b>(244)</b>	<b>1,238</b>
Correction of prior period's errors <sup>(1)</sup>	-	48	48	-	-	-	48
<b>EQUITY AS OF JANUARY 1ST, 2013</b>	<b>1,315</b>	<b>215</b>	<b>1,530</b>	<b>(192)</b>	<b>(51)</b>	<b>(244)</b>	<b>1,287</b>
Shares issued	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Changes in fair value of available-for-sale financial assets through equity	-	-	-	49	-	49	49
Changes in fair value of derivatives through equity	-	-	-	-	21	21	21
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	-	3	3	-	-	-	3
Other movements	-	-	-	-	-	-	-
<b>EQUITY AS OF DECEMBER 31, 2013</b>	<b>1,315</b>	<b>218</b>	<b>1,533</b>	<b>(143)</b>	<b>(30)</b>	<b>(174)</b>	<b>1,359</b>

(1) The financial statements as of December 31, 2012, have been restated (see Accounting policies and valuation methods, note 1.2.g)

Share capital currently stands at EUR 1,315,000,000 represented by 13,150,000 nominative shares with a part value of EUR 100.

## Cash flow statement

(EUR millions)	2011	2012	2013
<b>NET INCOME BEFORE TAXES</b>	<b>105</b>	<b>138</b>	<b>(15)</b>
+/- Depreciation and write-downs	1	70	178
+/- Expense/income from investing activities	(38)	245	5
+/- Expense/income from financing activities	50	(124)	(110)
+/- Other non-cash items	(976)	(609)	40
<b>= Non-monetary items included in net income before tax and other adjustments</b>	<b>(963)</b>	<b>(418)</b>	<b>113</b>
+/- Cash from interbank operations	1,604	(3,007)	(474)
+/- Cash from customer operations	1,202	3,207	2,610
+/- Cash from financing assets and liabilities	3,847	8,706	4,775
+/- Cash from not financing assets and liabilities	0	0	0
- Income tax paid	(50)	5	(14)
<b>= Decrease/(increase) in cash from operating activities</b>	<b>6,603</b>	<b>8,911</b>	<b>6,897</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES (A)</b>	<b>5,745</b>	<b>8,631</b>	<b>6,995</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>
+/- Cash from or for shareholders	-	-	-
+/- Other cash from financing activities	(502)	(6,934)	(3,417)
<b>CASH FLOW FROM FINANCING ACTIVITIES (C)</b>	<b>(502)</b>	<b>(6,934)</b>	<b>(3,417)</b>
<b>EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>INCREASE/(DECREASE) IN CASH EQUIVALENTS (A + B+ C + D)</b>	<b>5,243</b>	<b>1,697</b>	<b>3,578</b>
Cash flow from operating activities (A)	5,745	8,631	6,995
Cash flow from investing activities (B)	-	-	-
Cash flow from financing activities (C)	(502)	(6,934)	(3,417)
Effect of changes in exchange rates on cash and cash equivalents (D)	-	-	-
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>(9,030)</b>	<b>(3,787)</b>	<b>(2,090)</b>
Cash and balances with central banks (assets & liabilities)	2	2,198	2,400
Interbank accounts (assets & liabilities) and loans/deposits at sight	(9,032)	(5,985)	(4,490)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>(3,787)</b>	<b>(2,090)</b>	<b>1,488</b>
Cash and balances with central banks (assets & liabilities)	2,198	2,400	1,471
Interbank accounts (assets & liabilities) and loans/deposits at sight	(5,985)	(4,490)	17
<b>CHANGE IN NET CASH</b>	<b>5,243</b>	<b>1,697</b>	<b>3,578</b>

# Notes to the IFRS Financial Statements

## 1. Accounting policies and valuation methods

### 1.1 - CONTEXT OF PUBLICATION

Caisse Française de Financement Local decided to publish a set of individual financial statements according to IFRS. This publication is voluntary and the reference for the preparation of the financial statements is consistently, in compliance with legislation applicable in France, French generally accepted accounting principles (French GAAP). Caisse Française de Financement Local presented its first annual financial statements prepared according to IFRS to report the fiscal year 2008. The financial statements as of December 31, 2013 were examined by the Executive Board on March 24, 2014.

As indicated in paragraph 1.3.a on Applicable accounting standards, in preparing its financial statements, the management of Caisse Française de Financement Local 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. Thus the accounts as of December 31, 2013, of Caisse Française de Financement Local were prepared by taking into account, in particular, the hypothesis according to which the legislative measures aiming to provide a solid legal base for the loan agreements in effect with public sector entities (validation law), which were part of the 2014 Law of Finance and were rejected by the Conseil Constitutionnel on December 29, 2013, will be voted in 2014 and their application will make it possible to eliminate the corresponding legal and financial risks. This hypothesis is based on the government's commitment to find a lasting and comprehensive solution to the problem of structured loans contracted by public sector entities, and in particular on its press release, published on December 29, 2013, which specified that "a legal framework taking into account the arguments raised by the Conseil Constitutionnel will be prepared rapidly".

### 1.2 - HIGHLIGHTS OF 2013 AND POST-CLOSING EVENTS

#### a. Change in the shareholding structure of Caisse Française de Financement Local

On January 31, 2013, Société de Financement Local (Sfil) acquired a 100% interest in Dexia Municipal Agency, which took the name Caisse Française de Financement Local. Société de Financement Local is a credit institution approved by the Autorité de contrôle prudentiel et de résolution.

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

Société de Financement Local's shareholders are the French State (75%), Caisse des Dépôts et Consignations (20%) and La Banque Postale (5%). The French State is also the direct shareholder of Caisse Française de Financement Local and an indirect shareholder of La Banque Postale.

The French State is the "reference shareholder" of Sfil and Caisse Française de Financement Local for the Autorité de contrôle prudentiel et de résolution, underlining its commitment to ensure oversight and to influence strategic decision-making, as well as its determination to ensure ongoing financial transactions by Sfil and Caisse Française de Financement Local if so required.

#### b. Ratings of Caisse Française de Financement Local

The issuance program of Caisse Française de Financement Local is rated by the three major rating agencies: Standard and Poor's, Moody's and Fitch. This requires that the quality of the cover pool and its strict management rules comply with the criteria and approaches of the three agencies.

Readers are reminded that as of December 31, 2012, the ratings of Caisse Française de Financement Local were under review or surveillance by two agencies reflecting of the situation of the Dexia Group and/or the application of new rating criteria. It was rated AA+ / credit watch negative by S&P, Aa2 by Moody's and AAA / watch negative by Fitch.

At the beginning of February 2013, with the change in the nature and shareholding structure of the parent company, the rating agencies reviewed the ratings of Caisse Française de Financement and raised their ratings to the highest possible level:

- AAA / outlook negative by S&P,
- Aaa by Moody's,
- AAA / watch negative by Fitch.

The S&P and Fitch ratings were characterized by a negative outlook/watch, which reflected the negative outlook attached to the sovereign rating as well as the rating of Société de Financement Local.

Following the downgrade of the rating of France, the rating of the *obligations foncières* of Caisse Française de Financement Local was lowered from AAA (watch negative) to AA+ (watch stable) by Fitch on July 17 and by S&P on November 15, 2013.

In fact, the agencies consider that there is a ceiling for the rating of Caisse Française de Financement Local in relation to the sovereign rating, given the strong link between the Caisse Française de Financement Local and the French State and the concentration of the cover pool on the French local public sector.

Therefore at the end of March 2014, the rating of the *obligations foncières* of Caisse Française de Financement Local was as follows:

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

These ratings were qualified with a stable outlook.

#### c. Sale of securitization units

Caisse Française de Financement Local sold all the securitization units it held, partly in the market in April and May 2013 and the rest to its parent company, Société de

Financement Local on July 1, 2013. These sales represented a total amount of EUR 8,264 million. They followed the application of the new conditions of eligibility for refinancing by the European Central Bank and the new CRR / CRD IV requirements.

Since July 2013, there are no longer any securitization units in the cover pool and the current and future *obligations foncières* issued by Caisse Française de Financement Local respect these new regulations.

### Covered bond market

Business in the euro-denominated covered bond market remained generally stable in 2013 with a primary offering of EUR 100 billion (compared with EUR 106 billion in 2012). This stability has maintained the euro-denominated covered bond market at a reduced offering level compared with the previous ten years. The context can be attributed to the decline in the needs of financial institutions, linked to ongoing deleverage operations in combination with the reduction in asset production. It is also due to increased dynamics in the senior unsecured funding market, enabling financial institutions to adjust their funding mix, while regulators are focused on the balance between free and pledged assets in bank balance sheets (asset encumbrance).

Nevertheless, the covered bond class of assets benefits from a particularly positive treatment in a context of changing regulations (Basel III or Solvency 2), encouraging investors to favor such in their allocation of assets. In addition, the demand for covered bond assets is naturally buoyed as significant volumes reach maturity, creating for the first time a very marked negative net offering (EUR 48 billion). This negative net offering has made it possible to accompany the trend for tighter spreads in all segments of the secondary market.

In this context, Caisse Française de Financement Local benefited from good conditions to launch its *obligations foncières* financing program in order to provide the long-term liquidity required to develop the commercial offer of La Banque Postale to the local public sector in France and to accompany its policy to reduce loan sensitivity.

### d. Litigation and governmental measures

Certain customers have sued Dexia Credit Local, Caisse Française de Financement Local and/or Société de Financement Local for sensitive structured loans that they were granted by Dexia Credit Local and which are on the balance sheet of Caisse Française de Financement Local. At the end of December 2013, the number of customers who had undertaken legal proceedings totaled 205 versus 57 at the end of 2012.

Three legal decisions concerning the suit brought against Dexia Credit Local by the Département de la Seine-Saint-Denis were handed down on February 8, 2013, by the Tribunal de Grande Instance de Nanterre. It was a question of three structured loans representing a total capital of EUR 178 million.

The Tribunal de Grande Instance de Nanterre rejected the claims of the Département de la Seine-Saint-Denis, which sought to have the three disputed loan agreements canceled and asked for compensation. In particular, the Tribunal considered that these loans were not of a speculative character, that the Département was competent to sign these

loan agreements, and that Dexia Credit Local acted in the respect of its duty to inform and advise the Département. The Tribunal de Grande Instance de Nanterre however estimated that the taxes which had preceded the signing of the agreements could be qualified as “loan agreements”, and that the lack of mention of the annual percentage rate of charge (Taux Effectif Global – TEG) implied the application of the official interest rate (*taux légal*).

Dexia appealed this decision on April 4, 2013. The loans subject to the litigation were recorded on its balance sheet. Caisse Française de Financement Local decided to intervene voluntarily in the proceedings that oppose the Département de Seine-Saint-Denis and Dexia Credit Local. This voluntary intervention should enable Caisse Française de Financement Local to defend its interests by becoming a party in the proceedings.

Since the decisions concerning the Département de la Seine-Saint-Denis were made public in February 2013, only one new decision has been handed down. On March 7, 2014, the Tribunal de Grande Instance (TGI) of Nanterre in the suit the municipality of Saint-Maur-des-Fossés brought against Dexia Credit Local (and Caisse Française de Financement Local, which had decided to intervene voluntarily in the proceedings in order to defend its interests). This decision concerned a structured loan marketed by Dexia Credit Local and recognized on the balance sheet of Caisse Française de Financement Local, with initial capital of EUR 10 million. As in the February 2013 decisions, the Tribunal's decision did not address the core issue (structured interest rates), but it was motivated by the formal absence in the loan agreement of intermediary data with which to calculate the annual rate of charge (TEG). This item led the Tribunal to decide to apply the official interest rate (*taux légal*) instead of the contractual rate. This decision may be appealed.

In line with the commitments made by the French government in its press releases dated June 18 and July 16, 2013, the 2014 Finance Bill included measures designed to provide a comprehensive, long-lasting solution to the problem of the most sensitive structured loans contracted by local governments. The French government's plan comprises two main items:

- the creation of a “multi-year support fund” “endowed with significant resources” enabling local governments to finance the unwinding of structured loans;
- legislative measures targeting “a legal basis to secure loan agreements in effect with local governments omitting the formal mention of the annual percentage rate of charge” and “better proportion the consequences of an error in calculating this rate”.

The multi-year support fund will be endowed with EUR 1.5 billion and will have a maximum life of 15 years (EUR 100 million per year). Basic features involve the following:

- eligible customers: local governments and groups of such holding the most sensitive loans;
- use of the assistance received by local governments: refinancing of a part of the indemnity of early reimbursement (preferred option) or in an initial phase and for a limited period of time, to finance a part of the interest on the loan in question;
- renunciation by the fund's beneficiaries of present or future litigation concerning the fundamental issue of the loans;

- management of the fund ensured by the State: a strategy and monitoring committee associating representatives of the State, local governments and qualified individuals will be formed;
- this fund will be supplied, for half, by the banks and for the other half, by the State. Caisse Française de Financement Local has committed to contribute to the fund EUR 10 million per year for 15 years once it is operational.

On December 29, 2013, the Conseil Constitutionnel published its decision on the 2014 Law of Finances. In its decision, the Conseil validated creation of the fund to support local governments and the principle of access to the fund, conditioned by the signing of an agreement by which the borrower renounces any claim on the assisted loans.

This decision enables Société de Financement Local and Caisse Française de Financement Local to pursue their strategy to reduce sensitivity and to organize as planned their participation in the support fund.

Within this framework, Caisse Française de Financement Local recorded in its 2013 accounts a liability of EUR 150 million for its commitment to contribute to the fund.

The Conseil Constitutionnel nonetheless considered that legislative measures designed to secure loan agreements (validation of the absence of any mention of the rate in the loan agreements) were too broad since they applied to all types of legal entities and all types of loans agreements. The Conseil also considered that the error in the calculation of the rate modified the consumers' code and could not be included in a Law of Finances.

In a press release published on December 29, 2013, the Ministry of the Economy and Finances noted this decision and announced that "legislative measures taking into account the arguments raised by the Conseil Constitutionnel would be presented in the near future".

#### f. Application of IFRS 13

Since January 1, 2013, Caisse Française de Financement Local has adjusted the method used to calculate the fair value of its derivatives and accounts for a credit value adjustment (CVA) and a debit value adjustment (DVA) in the context of the application of IFRS 13. The impact of the first time application of the standard was a loss of EUR -9 million for the CVA and a profit of EUR +127 million for the DVA as of December 31, 2013. These amounts include the overall effects of the first time application of this standard and changes throughout the year 2013.

Assets	Note	12/31/12	Restatement	12/31/12
Loans and advances to customers	2.4	71,859	137	71,996
Fair value revaluation of portfolio hedge		3,046	20	3,066
Deferred tax assets	2.5	114	-25	89
<b>TOTAL ASSETS</b>		<b>92,037</b>	<b>132</b>	<b>92,169</b>
Liabilities	Note	12/31/12	Restatement	12/31/12
Debt securities	3.3	62,659	80	62,739
Fair value revaluation of portfolio hedge		2,858	3	2,861
Equity	3.6	1,238	49	1,287
<b>TOTAL LIABILITIES</b>		<b>92,037</b>	<b>132</b>	<b>92,169</b>

Such CVA/DVA represents an adjustment of the fair value of the portfolio of derivatives contracted by Caisse Française de Financement Local with other banks. These adjustments represent the measurement of counterparty risk on derivative instruments, whether this risk is borne by Caisse Française de Financement Local or its counterparties. Thus the CVA measures the losses that Caisse Française de Financement Local would assume in the event of the default of a swap counterparty. The measurement of this risk takes into account the cash collateral received for these operations.

The DVA represents an evaluation of the losses that the counterparties would assume in the event of the default of Caisse Française de Financement Local. The fact that, pursuant to the law on *société de crédit foncier*, Caisse Française de Financement Local does not pay any cash collateral to its derivative counterparties. This explains why the amount of DVA is high despite Caisse Française de Financement Local's very good rating. The DVA is sensitive to changes in Caisse Française de Financement Local's own credit risk.

The obligation to report these adjustments, in effect since the beginning of 2013, can be a source of volatility in net banking income in the future. This will depend among other items on the spreads of Caisse Française de Financement Local and its counterparties.

Caisse Française de Financement Local also modified the method it uses to value collateralized derivatives to account for changes in market practices. It opted for a valuation against Eonia for its derivatives subject to the payment of collateral to its benefit. The derivatives for which no payment is made to the benefit of the counterparties remain valued against Euribor. Whereas the valuation of the items hedged was not modified, this change in the valuation of hedging derivatives introduced an element of inefficiency in hedging relations. The impact of this change was a gain of EUR +19 million.

#### g. Correction of a prior period's errors

Caisse Française de Financement Local, within the framework of a review of its valuation methods, has corrected the fair value of certain assets and liabilities hedged by derivatives in hedging relations. According to IAS 8, the Company restated its financial statements and notes published for 2012.

The impact for the restatement is as follows.

## h. Closing of Dublin Branch

In 2013, Caisse Française de Financement Local closed its branch in Dublin.

## 1.3 - APPLICABLE ACCOUNTING STANDARDS

### a. Application of IFRS adopted by the European Commission (IFRS EU)

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

Since its publication in 2002, regulation EC 1606/2002 has been updated several times. Caisse Française de Financement Local's financial statements have therefore been prepared in accordance with all IFRS as adopted and endorsed by the European Commission up to the accounting closing on December 31, 2013, including the conditions for the application of an interest rate portfolio hedging and the possibility of hedging deposits.

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

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

Judgments were principally made in the following areas:

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

These judgments are set out 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 at closing on December 31, 2013.

### IASB and IFRIC texts endorsed by the European Commission and applied as of January 1, 2013

- IFRS 13 Fair Value Measurement: this standard introduces a new definition of fair value and new disclosure requirements to be presented in the notes to the financial statements. It has an impact on the measurement of the fair value of the assets and liabilities of Caisse Française de Financement Local (see notes 1.4.g and 5.3).
- Amendment to IFRS 7: Financial instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities: additional disclosures are required for all financial instruments accounted for which were offset pursuant to IAS 32 § 42. Disclosures on financial instruments accounted for subject to offsetting agreements, and similar contracts, even if they are not offset pursuant to IAS 32, are also required (see note 7.2 to the financial statements).  
This amendment has no impact on the valuation and accounting of transactions.
- Amendment to IAS 1: Presentation of Items of Other Comprehensive Income: this amendment requires that all entities present profit or loss and other comprehensive income (OCI) in separate sections of a single continuous statement, as well as the taxes relating to these items, between those that will be reclassified later in net income and those that will never be reclassified in net income.

The other standards, amendments and interpretations adopted by the European Union and required to be applied as of January 1, 2013, have no impact on the financial statements of Caisse Française de Financement Local.

- Amendment to IAS 19 Employee Benefits principally changes the recognition and measurement of post employment defined benefit plans (e.g. removal of corridor mechanism) and enhances the disclosure requirements for these plans in the notes to the financial statements.
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine.
- Amendment to IAS 12 Deferred Tax: Recovery of Underlying Assets: Caisse Française de Financement Local measures these assets at amortized cost.
- Amendment to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters: Caisse Française de Financement Local is no longer a first-time adopter.
- Annual Improvements 2009-2011 cycle: a collection of minor amendments to existing International Financial Reporting Standards.
- Amendment to IFRS 1 Government Loans: Caisse Française de Financement Local is no longer a first-time adopter.

### IASB and IFRIC texts endorsed by the European Commission during the year but not applicable as of January 1, 2013

- Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance.
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities.



- Amendment to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets.
- Amendment to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting.

These amendments are effective as from January 1, 2014, and will not impact the financial statements of Caisse Française de Financement Local.

#### **New standards (IFRS), interpretations (IFRIC) and amendments issued during the year but not yet endorsed by the European Commission**

- IFRIC 21 Levies.
- Amendment to IAS 19, Defined Benefit Plans: Employee Contributions.
- Annual Improvements 2010-2012 cycle.
- Annual Improvements 2011-2013 cycle.

Caisse Française de Financement Local does not foresee any significant impact of these texts on its financial statements.

### **1.4 - ACCOUNTING PRINCIPLES APPLIED TO THE FINANCIAL STATEMENTS**

#### **a. Offsetting financial assets and financial liabilities**

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

#### **b. Foreign currency transactions**

Foreign currency transactions are accounted for using the exchange rate on the transaction date.

Monetary assets and liabilities denominated in foreign currencies are recognized at closing rates. Non-monetary assets and liabilities recognized at fair value and denominated in foreign currencies existing at the closing 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 accounting**

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.

Caisse Française de Financement Local's 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 due from banks and customers**

IFRS define loans as non-derivative financial assets with fixed or determinable payments that are not quoted 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 as being 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 estimates are made at amortized cost, less any impairment.

Interest is calculated by the effective interest rate method and recognized in net interest income. 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 and which, by reason of their nature, are an integral part of the effective interest rate, of transaction costs and of any premiums and discounts.

#### **Financial assets held to maturity and available for sale**

##### **Financial assets held to maturity**

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

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

##### **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 (AFS). Assets recognized by Caisse Française de Financement Local as Financial assets available for sale are, except for certain cases, intended to be held to maturity.

Assets available for sale are initially recognized at fair value (including transaction costs). Interest is recognized based on the effective interest rate method in the interest margin. Unrealized gains and losses arising from

changes in the fair value of financial assets available for sale 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 financial assets available for sale 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 financial assets available for sale as presented in the financial statements as of December 31, 2013, 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.

### Financial assets designated at fair value through profit or loss (fair value option)

Caisse Française de Financement Local does not make use of 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 not revalued through profit or loss, realized gains or losses on disposals are the differences between the proceeds received (net of transaction costs) and the costs or amortized costs of the assets. The cost is systematically determined based on the "first in, first out" approach (FIFO method) on a portfolio basis. When a financial asset available for sale is sold, the total of gains or losses previously recognized in equity is reversed in the income statement.

### Accounting for 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.

Regarding the method of accounting for early reimbursement indemnities, there are several possibilities 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, 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 discounted net present value of the cash flows remaining from the original loan.

Early reimbursement indemnities are recognized directly in income or else amortized over the life of the new loan depending on the results of the eligibility test. If the eligibility test is passed (i.e. the difference in net present value is less than 10%), any early reimbursement indemnities are amortized over the term of the new loan. If not

(i.e. 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 the early reimbursement indemnities and any gains or losses of unamortized premium or discount, as income for the period, as required by IFRS.

### 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, as a result of one or more events occurring since initial recognition and when that loss event has an impact on the estimated future cash flows that can be reliably estimated, in accordance with IAS 39. The impairment represents the management's best estimate of losses in the value of assets at each balance-sheet 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.
  - **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 II data and risk models, consistent with the incurred loss model.
- **Accounting treatment of the 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 accounted for in this item

### Reclassified financial assets

Regarding impairment, reclassified financial assets follow the rules as financial assets initially valued at amortized cost for calculation of the impairment. If there is objective evidence that reclassified financial assets are impaired, the amount of the impairment on reclassified assets is calculated as the difference between the net carrying amount of the asset, excluding the amount of revaluations at fair value due to former classification in AFS, and the net present value of the expected cash flows discounted at the effective interest rate at the time of reclassification. Any existing unamortized AFS reserve will be taken to profit or loss account in Cost of risk.

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

### Financial assets available for sale

Impairment of available for sale 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. Financial assets available for sale (AFS) are subject only to specific impairment.

- Determination of the impairment  
In the case of interest bearing debt instruments, impairment is triggered based on the same criteria as those applied to financial assets valued at amortized cost (see above).
- Accounting treatment of the impairment  
When financial assets available for sale are impaired, the total AFS reserve is recycled into profit or loss and Caisse Française de Financement Local reports these impairment losses in the income statement in Cost of risk (for financial asset available for sale with fixed income) or Net result of financial assets available for sale (for financial assets available for sale 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 (for financial assets available for sale with fixed income).

### 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 repayment of any loan and associated interest payments doubtful.

### 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 treated 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.

### e. Financial liabilities

#### Liabilities designated at fair value through profit or loss

Caisse Française de Financement Local does not use this option.

#### Borrowings

Borrowings 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.

Borrowings are mainly *obligations foncières* and other resources benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code, as of December 31, 2012.

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

Interest related to *obligations foncières* is accounted for as banking operating charges for accrued amounts, due and not yet due, calculated *pro-rata temporis* on the basis of contractual rates.

Fees and commissions on bond issues are amortized over the life of the bonds to which they are attached. Bonds denominated in other currencies are treated in the same way as foreign exchange transactions (see above b. Foreign currency transactions).

Registered covered bonds are private placements recorded at nominal value. Issue premiums are dealt with in the same way as *obligations foncières* (see above). Pursuant to article L.513-12 of the Monetary and Financial Code and article 6 of CRBF standard 99-10 of July 27, 1999, total assets must at all times be greater than total liabilities benefiting from the privilege mentioned in article L.513-11 of the above-mentioned Monetary and Financial Code.

## f. Derivatives

### Derivatives not used in a hedging relationship

Caisse Française de Financement Local is not authorized to conduct derivative transactions that would not be documented as hedging relations.

Nevertheless, as of December 31, 2013, transaction derivatives were recorded. They resulted from operations in which the hedging instruments were not settled, whereas the items hedged were declassified as non-performing loans. Gains and losses (realized and unrealized) were recognized as Net result of financial instruments at fair value through profit and loss.

### Hedging derivatives

Hedging derivatives can be categorized as either:

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

Hedge accounting may be used for derivatives designated in this way, provided certain criteria are met:

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

Changes in the fair value of derivatives that are designated and documented in a fair value hedging relationship, and that respect the criteria set out above, are recorded in the income statement, along with the corresponding change in fair value of the hedged assets or liabilities which are attributable to that specific hedged risk.

If at any time the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortized to profit or loss over the residual maturity of the hedged item by adjusting the yield on the hedged item.

The effective portion of the changes in the fair value of derivatives that are designated in a cash-flow hedging relationship, that respect the criteria set out above, and that prove to be effective in relation to the hedged risk, is recognized in equity as Unrealized or deferred gains and losses of cash-flow hedges. The non-effective portion of the changes in the fair value of the derivatives is recognized in the income statement.

Amounts deferred in equity are transferred to the income statement and classified as income or expense in the periods during which the hedged firm commitment or forecast transaction affect the income statement.

### Hedging 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.

Quoted prices are used to determine the fair value of financial assets and liabilities when there is an active market, defined as so by the existence sufficient frequency and volume to provide pricing information on

an ongoing basis. Active market prices are not, however, available for a significant number of the financial assets and liabilities held or issued by Caisse Française de Financement Local.

If the financial instrument is not quoted 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 closing date.

#### **Financial instruments measured at amortized cost (valuations in IFRS notes on fair value)**

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 instrument measured at fair value (available for sale, derivatives)**

Financial investments classified as available for sale and derivatives are measured at fair value by reference to quoted market prices when available. When quoted 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 financial assets classified as available for sale, when quoted prices are not available, the pricing models attempt to reflect as accurately as possible the market conditions on the valuation date as well as any changes in the credit quality of these financial instruments and the market liquidity.

To determine the fair value of its derivatives, Caisse Française de Financement Local uses different discounting curves in function of the effective exchange of collateral with its counterparty. When Caisse Française de Financement Local receives collateral, future derivative cash flows are discounted with an overnight indexed swap (OIS). On the other hand, when no collateral is exchanged, they are discounted with a Euribor-type curve. As a reminder, Caisse Française de Financement Local does not pay collateral to its derivative counterparties, since they benefit from the legal privilege on assets for the same reason as holders of *obligations foncières*.

In addition, a value adjustment is taken into account in the valuation of derivatives to reflect the impact of a counterparty's credit risk (credit value adjustment) or the counterparty's net exposure to the credit risk of Caisse Française de Financement Local (debt value adjustment). This value adjustment makes it possible to go from a fair value based on the discounting of

future cash flows with a risk-free rate, 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 not valued at fair value, interest income and expense are recognized in the income statement using the effective interest rate method (including transaction costs).

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.

Accrued interest is recognized on the balance sheet in the same item as the related financial asset or liability. Once an interest bearing financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognized based on the interest rate used to discount the future cash flows in order to measure the recoverable amount.

#### **i. Commission income and expense**

Commissions are recognized in accordance with IAS 18. Pursuant to this standard, most of the commissions arising from Caisse Française de Financement Local's activities are recognized on an accrual basis over the life of the underlying transaction.

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

#### **j. Deferred taxes**

Deferred taxes are recognized using the liability method to account for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The tax rates enacted or substantively enacted at the balance-sheet 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 comprehensive income, are also credited or charged directly to 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 used is the pre-tax rate that reflects current market assessments of the time value of money.

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 same method as that applied for the impairment of financial assets measured at amortized cost.

## l. Dividends and ordinary shares

Dividends on ordinary shares are recognized in liabilities in the period in which they are declared (they must be authorized). Dividends for the year that are declared after the balance sheet 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 party 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 Société de Financement Local, a *société anonyme* incorporated in France, itself a subsidiary of the French State, Caisse de Dépôts et Consignations and La Banque Postale, incorporated in France. Within this framework, related party transactions are those with companies accounted for by the equity method and with members of the Company's management bodies.

## o. Segment reporting

Caisse Française de Financement Local's sole activity is the financing or refinancing of commitments on public sector entities.

Caisse Française de Financement Local conducts its business solely from France. The Company has no direct activity in other countries and is unable to present a relevant breakdown of its results by geographic region. Geographic breakdown of assets by country of residence of the counterparty is presented quarterly at the end of the Management Report.

## p. Cash and cash equivalents

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

## 2 NOTES TO THE ASSETS

### 2.1 - CENTRAL BANKS

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Mandatory reserve deposits with central banks	-	-	-
Other deposits	2,198	2,400	1,471
<b>TOTAL</b>	<b>2,198</b>	<b>2,400</b>	<b>1,471</b>

### 2.2 - FINANCIAL ASSETS AVAILABLE FOR SALE

#### a. Analysis by nature

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Loans	-	-	-
Bonds	1,254	1,125	1,084
<b>TOTAL</b>	<b>1,254</b>	<b>1,125</b>	<b>1,084</b>

#### b. Analysis by counterparty

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Public sector	760	784	742
Credit institutions guaranteed by the public sector	494	341	342
<b>Total public sector</b>	<b>1,254</b>	<b>1,125</b>	<b>1,084</b>
Replacement assets	-	-	-
<b>TOTAL</b>	<b>1,254</b>	<b>1,125</b>	<b>1,084</b>
<i>of which eligible for central bank refinancing</i>	<i>840</i>	<i>824</i>	<i>835</i>

#### c. Impairment

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Public sector	1,222	1,125	1,084
Replacement assets	-	-	-
<b>Total performing assets</b>	<b>1,222</b>	<b>1,125</b>	<b>1,084</b>
Public sector	39	-	-
Replacement assets	-	-	-
<b>Total impaired assets</b>	<b>39</b>	<b>-</b>	<b>-</b>
Specific impairment	(7)	-	-
<b>TOTAL ASSETS AFTER IMPAIRMENT</b>	<b>1,254</b>	<b>1,125</b>	<b>1,084</b>

#### d. Analysis by residual maturity

See note 7.4

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

See note 4.4

## 2.3 - LOANS AND ADVANCES DUE FROM BANKS

### a. Analysis by nature

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Sight accounts	22	23	18
Other loans and advances due from banks	7,759	3,718	7,296
<b>Performing assets</b>	<b>7,781</b>	<b>3,741</b>	<b>7,314</b>
Impaired loans and advances	-	-	-
<b>Impaired assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets before impairment</b>	<b>7,781</b>	<b>3,741</b>	<b>7,314</b>
Specific impairment	-	-	-
Collective impairment	0	-	-
<b>TOTAL</b>	<b>7,781</b>	<b>3,741</b>	<b>7,314</b>

### b. Breakdown by counterparty

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Credit institutions	22	-	8
Swiss cantonal banks benefiting from their cantons' legal guarantee	1,129	924	686
Banks guaranteed by a local government, <i>crédits municipaux</i>	132	169	129
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	2,121	2,110	2,105
Credit institutions guaranteed by the State	14	15	-
Assets assigned in guarantee to the central bank	3,012	-	-
Replacement assets	1,351	523	4,386
<b>TOTAL</b>	<b>7,781</b>	<b>3,741</b>	<b>7,314</b>
<i>of which eligible for central bank refinancing</i>	<i>4,363</i>	<i>-</i>	<i>-</i>

### c. Replacement assets

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Dexia Sabadell - <i>cedulas territoriales</i>	-	500	-
Dexia LdG Banque - <i>lettres de gage publiques</i>	1,351	-	-
Dexia Credit Local - loans secured by public sector assets	-	-	-
Société de Financement Local - loans secured by public sector assets	-	-	4,368
Credit institutions - sight accounts	22	23	18
<b>TOTAL</b>	<b>1,373</b>	<b>523</b>	<b>4,386</b>

### d. Analysis by residual maturity

See note 7.4

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

See note 4.4

## 2.4 - LOANS AND ADVANCES TO CUSTOMERS

### a. Analysis by counterparty

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Public sector <sup>(1)</sup>	63,325	59,792	58,234
Other - guaranteed by a State or local government	4,139	3,864	3,525
Other - ABS made up solely of public commitments	10,364	8,270	-
<b>Performing assets</b>	<b>77,828</b>	<b>71,926</b>	<b>61,759</b>
Impaired loans and advances	29	122	254
<b>Impaired assets</b>	<b>29</b>	<b>122</b>	<b>254</b>
<b>Total assets before impairment</b>	<b>77,857</b>	<b>72,04</b>	<b>62,013</b>
Specific impairment	(3)	(8)	(14)
Collective impairment	(18)	(44)	(70)
<b>TOTAL</b>	<b>77,836</b>	<b>71,996</b>	<b>61,929</b>
<i>of which eligible for central bank refinancing</i>	<i>40,067</i>	<i>38,585</i>	<i>42,118</i>
<i>Assets assigned in guarantee to the central bank</i>	<i>189</i>	<i>-</i>	<i>-</i>

(1) The financial statements as of December 31, 2012, have been restated (see Accounting policies and valuation methods, note 1.2.g)

The loans depreciated concern customers that represent an identified credit risk (non-performing loans: EUR 188 million) and customers with unpaid loans corresponding to disagreement on the amount due (compromised non-performing loans: EUR 66 million).

During the year, Caisse Française de Financement Local strengthened its hedges on the portfolio of loans by increasing collective impairment which amounted to EUR 70 million.

### b. Public sector ABS

(EUR millions)	Rating	12/31/2011	12/31/2012	12/31/2013
Colombo	-	6	3	-
Astrea	-	1	0	-
Blue Danube	-	78	70	-
DCC - Dexia Crediop per la Cartolarizzazione	-	3,546	3,361	-
DSFB - Dexia Secured Funding Belgium 2	-	2,792	1,303	-
DSFB - Dexia Secured Funding Belgium 4	-	3,941	3,533	-
<b>TOTAL</b>		<b>10,364</b>	<b>8,270</b>	<b>-</b>

Caisse Française de Financement Local sold all the securitization units it held, partly in the market in April and May 2013, and the rest to its parent company, Société de Financement Local, on July 1, 2013.

### c. Analysis by residual maturity

See note 7.4

### d. Unrealised or deferred gains and losses breakdown by country

See note 4.4

## 2.5 - TAX ASSETS

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Current income tax	45	1	13
Other taxes	2	0	0
<b>Current tax assets</b>	<b>47</b>	<b>1</b>	<b>13</b>
<b>Deferred tax assets (see note 4.2)<sup>(1)</sup></b>	<b>199</b>	<b>89</b>	<b>90</b>
<b>TOTAL TAX ASSETS</b>	<b>246</b>	<b>90</b>	<b>103</b>

(1) The financial statements as of December 31, 2012, have been restated (see Accounting policies and valuation methods, note 1.2.g)

## 2.6 - ACCRUALS AND OTHER ASSETS

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Cash collateral paid	-	-	-
Other accounts receivable	-	-	0
Prepaid charges	-	-	1
Other assets	17	3	3
<b>TOTAL ACCRUALS AND OTHER ASSETS</b>	<b>17</b>	<b>3</b>	<b>4</b>



**2.7 - RESTATEMENT OF FINANCIAL ASSETS (IAS 39 AMENDED)**

(EUR millions)	From Financial assets held for trading to Loans and advances (1)	From Financial assets held for trading to Financial assets available for sale (2)	From Financial assets available for sale to Loans and advances (3)
Carrying amount of assets reclassified, as of October 1, 2008	-	-	17,855
Carrying amount of reclassified assets, as of December 31, 2013	-	-	5,261
Fair value of reclassified assets as of December 31, 2013	-	-	4,790
<b>AMOUNT NOT RECOGNIZED THROUGH PROFIT AND LOSS (1) AND (2) DUE TO RECLASSIFICATION</b>	-	-	-
<b>AMOUNT NOT RECOGNIZED THROUGH ASSETS AVAILABLE FOR SALE (3) DUE TO RECLASSIFICATION</b>	-	-	<b>(471)</b>
Premium/discount amortization through profit and loss	-	-	-
Premium/discount amortization through AFS reserve	-	-	24

**3. NOTES TO THE LIABILITIES****3.1 - CENTRAL BANKS**

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

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Overnight borrowing	-	-	-
Term borrowing	2,700	-	-
Accrued interest	0	-	-
<b>TOTAL FUNDING FROM BANQUE DE FRANCE</b>	<b>2,700</b>	<b>-</b>	<b>-</b>

**3.2 - DUE TO BANKS****a. Analysis by nature**

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Demand deposits	6,004	4,510	1
Term deposits	3,513	3,110	6,773
<b>TOTAL</b>	<b>9,517</b>	<b>7,620</b>	<b>6,774</b>

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

At the end of December 2013, the funding borrowed from Sfil within the framework of the financing agreement was made up of different loans with maturities initially running from one day to seven years borrowed with an Euribor or Eonia index.

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Current account - parent company	5,999	4,510	-
Interest accrued not yet due	5	-	-
Term borrowing - parent company	3,500	3,100	6,758
Interest accrued not yet due	13	10	15
Sight accounts	0	-	1
<b>TOTAL</b>	<b>9,517</b>	<b>7,620</b>	<b>6,774</b>

**b. Analysis by residual maturity**

See note 7.4



### 3.3 - DEBT SECURITIES

#### a. Analysis by nature

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
<i>Obligations foncières</i> <sup>(1)</sup>	63,518	57,303	51,522
Registered covered bonds	5,018	5,436	5,607
<b>TOTAL</b>	<b>68,536</b>	<b>62,739</b>	<b>57,129</b>

(1) The financial statements as of December 31, 2012, have been restated (see Accounting policies and valuation methods, note 1.2.g)

#### b. Analysis by residual maturity

See note 7.4

### 3.4 - TAX LIABILITIES

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Current income tax	-	3	-
Other taxes	2	3	2
<b>Current tax liabilities</b>	<b>2</b>	<b>6</b>	<b>2</b>
Deferred tax liabilities (see note 4.2)	34	-	-
<b>TOTAL TAX LIABILITIES</b>	<b>36</b>	<b>6</b>	<b>2</b>

### 3.5 - ACCRUALS AND OTHER LIABILITIES

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Cash collateral received	2,498	3,518	2,546
Other accrued charges	27	25	45
Deferred income	-	-	-
Contribution to the support fund <sup>(1)</sup>	-	-	150
Other accounts payable and other liabilities	8	3	1
<b>TOTAL</b>	<b>2,533</b>	<b>3,546</b>	<b>2,742</b>

(1) This item corresponds to the commitment of Caisse Française de Financement Local to contribute to the multi-year support fund in the amount of EUR 10 million for 15 years once it is operational.

## 4. OTHER NOTES ON THE BALANCE SHEET

### 4.1 - DERIVATIVES

#### a. Analysis by nature

(EUR millions)	12/31/2011		12/31/2012		12/31/2013	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>Derivatives at fair value through profit or loss</b> <sup>(1)</sup>	-	-	-	-	-	8
Derivatives designated as fair value hedges	5,492	10,252	5,770	9,840	3,770	7,638
Derivatives designated as cash flow hedges	35	255	8	184	6	128
Derivatives designated as portfolio hedges	3,347	3,196	3,970	4,086	2,734	2,966
<b>Hedging derivatives</b>	<b>8,874</b>	<b>13,703</b>	<b>9,748</b>	<b>14,110</b>	<b>6,510</b>	<b>10,732</b>
CVA / DVA impact	-	-	-	-	(9)	(127)
<b>TOTAL DERIVATIVES</b>	<b>8,874</b>	<b>13,703</b>	<b>9,748</b>	<b>14,110</b>	<b>6,501</b>	<b>10,613</b>

(1) Caisse Française de Financement Local is not authorized to conduct derivative transactions that would not be documented as hedging relations. Nevertheless, as of December 31, 2013, certain derivatives were not classified as hedging relations. They resulted from operations in which the hedging instruments were not settled, whereas the items hedged were declassified as non-performing loans. Gains and losses (realized and unrealized) were recognized as Net income from derivatives at fair value through profit and loss. This only concerns interest rate derivatives.

**b. Detail of derivatives designated as fair value hedges**

(EUR millions)	12/31/2011			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	15,601	15,139	2,068	1,430
Interest rate derivatives	53,122	53,122	3,424	8,822
<b>TOTAL</b>	<b>68,723</b>	<b>68,261</b>	<b>5,492</b>	<b>10,252</b>

(EUR millions)	12/31/2012			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	12,072	11,769	1,414	1,317
Interest rate derivatives	51,529	51,517	4,356	8,523
<b>TOTAL</b>	<b>63,601</b>	<b>63,286</b>	<b>5,770</b>	<b>9,840</b>

(EUR millions)	12/31/2013			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	9,807	10,190	480	797
Interest rate derivatives	51,792	51,777	3,290	6,841
<b>TOTAL</b>	<b>61,599</b>	<b>61,967</b>	<b>3,770</b>	<b>7,638</b>

**c. Detail of derivatives designated as cash flow hedges**

(EUR millions)	12/31/2011			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	2,199	2,219	35	255
Interest rate derivatives	-	-	-	-
<b>TOTAL</b>	<b>2,199</b>	<b>2,219</b>	<b>35</b>	<b>255</b>

(EUR millions)	12/31/2012			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,857	1,926	8	184
Interest rate derivatives	-	-	-	-
<b>TOTAL</b>	<b>1,857</b>	<b>1,926</b>	<b>8</b>	<b>184</b>

(EUR millions)	12/31/2013			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,468	1,547	6	128
Interest rate derivatives	-	-	-	-
<b>TOTAL</b>	<b>1,468</b>	<b>1,547</b>	<b>6</b>	<b>128</b>

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Amount removed from equity and included in the carrying amount of a non-financial instrument (hedging of cash flows of a highly favorable transaction)	-	-	-

**d. Detail of derivatives designated as portfolio hedges**

(EUR millions)	12/31/2011			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	150,730	150,725	3,347	3,196
TOTAL	150,730	150,725	3,347	3,196
(EUR millions)	12/31/2012			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	131,169	131,164	3,970	4,086
TOTAL	131,169	131,164	3,970	4,086
(EUR millions)	12/31/2013			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	96,626	96,621	2,734	2,966
TOTAL	96,626	96,621	2,734	2,966

**4.2 - DEFERRED TAXES**

The financial statements as of December 31, 2012, have been restated (see Accounting policies and valuation methods, note 1.2.g)

**a. Analysis by nature**

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Deferred tax assets before impairment	199	89	90
Impairment on deferred tax assets	-	-	-
<b>Deferred tax assets <sup>(1)</sup></b>	<b>199</b>	<b>89</b>	<b>90</b>
<b>Deferred tax liabilities <sup>(1)</sup></b>	<b>(34)</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>165</b>	<b>89</b>	<b>90</b>

(1) Deferred tax assets and liabilities are netted out when they concern the same tax entity

**b. Movements**

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
<b>As of January 1</b>	<b>127</b>	<b>165</b>	<b>89</b>
Charge/credit recognized in the income statement	(39)	(24)	23
Effect of change in tax rates - impact on the income statement	-	-	-
Movements directly recognized in equity	77	(63)	(22)
Effect of change in tax rates - impact on equity	-	-	-
Translation adjustment	-	-	-
Other movements	-	11	-
<b>As of December 31</b>	<b>165</b>	<b>89</b>	<b>90</b>

**c. Deferred taxes from assets on the balance sheet**

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Loans and loan loss provisions	14	(2)	475
Securities	123	89	91
Derivatives	22	(8)	(37)
Accruals and other assets	14	14	14
<b>TOTAL</b>	<b>173</b>	<b>93</b>	<b>543</b>

**d. Deferred taxes from liabilities on the balance sheet**

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Borrowings, deposits and issues of debt securities	16	20	(453)
Derivatives	-	-	-
Provisions	-	-	-
Regulatory provisions	(24)	(24)	-
Accruals and other liabilities	-	-	-
<b>TOTAL</b>	<b>(8)</b>	<b>(4)</b>	<b>(453)</b>

### 4.3 - TRANSACTIONS WITH RELATED PARTIES

#### Analysis by nature

(EUR millions)	Parent company and consolidated entities <sup>(1)</sup>			Other related parties <sup>(2)</sup>		
	12/31/2011	12/31/2012	12/31/2013	12/31/2011	12/31/2012	12/31/2013
<b>ASSETS</b>						
Loans and advances	8,677	5,983	4,368	1,351	-	-
Bonds	-	-	-	-	-	-
<b>LIABILITIES</b>						
Due to banks - sight accounts	6,004	4,521	-	-	-	-
Due to banks - term loans	3,513	3,110	6,773	-	-	-
<b>INCOME STATEMENT</b>						
Interest income on loans and advances	147	111	16	23	-	-
Interest income on bonds	7	0	-	-	-	-
Interest expense on borrowings	(142)	(89)	(65)	-	-	-
Fees and commissions	(4)	(3)	(19)	-	-	(0)
<b>OFF-BALANCE SHEET</b>						
Foreign exchange derivatives	7,130	6,532	5,832	-	-	-
Interest rate derivatives	119,937	99,549	13,898	-	-	-
Commitments and guarantees issued by the Group	12,016	12,296	4,420	-	-	134

(1) This item includes transactions up to 2012 with Dexia Group entities. Since 2013, it includes transactions with Société de Financement Local, the parent company of Caisse Française de Financement Local.

(2) This item includes transactions up to 2012 with companies in the Luxembourg subgroup consolidated by Dexia S.A., the parent company of Dexia Credit Local. As of January 2013, it includes transactions with Caisse des Dépôts et Consignations and La Banque Postale, shareholders of Sfil, the parent company of Caisse Française de Financement Local.

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

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
<b>Unrealized gains and losses on available for sale securities</b>	<b>(253)</b>	<b>(169)</b>	<b>(116)</b>
Canada	2	1	-
Germany	(7)	0	1
France	0	(1)	2
Italy	(260)	(178)	(110)
United States	12	9	(9)
<b>Unrealized gains and losses on loans and receivable securities</b>	<b>(145)</b>	<b>(122)</b>	<b>(105)</b>
Austria	(5)	-	-
Belgium	1	(2)	-
Germany	(1)	(1)	-
Spain	(3)	(2)	(2)
France	6	5	5
Greece	(1)	-	-
Iceland	(8)	-	-
Italy	(125)	(118)	(108)
Portugal	(4)	-	-
United States	(5)	(4)	-
<b>Unrealized gains and losses on derivatives designated as cash-flow hedges</b>	<b>(127)</b>	<b>(66)</b>	<b>(45)</b>
<b>TOTAL</b>	<b>(525)</b>	<b>(357)</b>	<b>(266)</b>
Deferred taxes on gains and losses, available for sale securities	86	58	40
Deferred taxes on gains and losses, loans and receivable securities	46	40	36
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	45	15	16
<b>TOTAL</b>	<b>(348)</b>	<b>(244)</b>	<b>(174)</b>

#### 4.5 - BREAKDOWN OF GOVERNMENT BONDS IN A SELECTION OF EUROPEAN COUNTRIES AND DEPRECIATION OF SOVEREIGN BONDS OF COUNTRIES BENEFITING FROM THE EUROPEAN ASSISTANCE PROGRAM

##### a. Breakdown of government bonds on 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.

(EUR millions)	12/31/2012					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	492	-	-	492
Securities guaranteed by the State	-	-	112	-	-	112
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>604</b>	<b>-</b>	<b>-</b>	<b>604</b>

(EUR millions)	12/31/2013					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	592	-	-	592
Securities guaranteed by the State	-	-	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>592</b>	<b>-</b>	<b>-</b>	<b>592</b>

(EUR millions)	12/31/2012					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	-	-	492	-	-	492
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	112	-	-	112
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>604</b>	<b>-</b>	<b>-</b>	<b>604</b>

<b>Unrealized gains and losses on available for sale securities</b>		(178)	-	-	(178)
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<b>Unrealized gains and losses on loans and receivable securities</b>		(3)	-	-	(3)
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(EUR millions)	12/31/2013					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	-	-	480	-	-	480
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	112	-	-	112
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>592</b>	<b>-</b>	<b>-</b>	<b>592</b>

<b>Unrealized gains and losses on available for sale securities</b>		(110)	-	-	(110)
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<b>Unrealized gains and losses on loans and receivable securities</b>		(0)	-	-	(0)
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## 5. NOTES TO THE INCOME STATEMENT

### 5.1 - INTEREST INCOME - INTEREST EXPENSE

(EUR millions)	2012	2013
<b>INTEREST INCOME</b>	<b>5,742</b>	<b>5,086</b>
Central banks	0	-
Loans and advances due from banks	115	77
Loans and advances to customers	2,009	1,745
Financial assets available for sale	45	41
Financial assets held to maturity	-	-
Derivatives used for hedging	3,573	3,223
Impaired assets	-	-
Other	-	-
<b>INTEREST EXPENSE</b>	<b>(5,503)</b>	<b>(4,945)</b>
Accounts with central banks	(8)	(0)
Due to banks	(75)	(72)
Customer borrowings and deposits	-	-
Debt securities	(2,367)	(2,068)
Subordinated debt	-	-
Derivatives used for hedging	(3,053)	(2,805)
Other	-	(0)
<b>INTEREST MARGIN</b>	<b>239</b>	<b>141</b>

### 5.2 - FEES AND COMMISSIONS

(EUR millions)	2012			2013		
	Income	Expense	Net	Income	Expense	Net
Lending activity	0	(0)	(0)	0	(0)	-
Purchase and sale of securities	-	(1)	(1)	-	(0)	(0)
Financial engineering	-	-	-	-	-	-
Services on securities other than custodian services	-	(3)	(3)	0	(4)	(4)
Custodian services	-	-	-	-	-	-
Issuance and underwriters of securities	-	(0)	(0)	-	(1)	(1)
Rebilling of cost of cash collateral by Sfil	-	-	-	-	(19)	(19)
<b>TOTAL</b>	<b>0</b>	<b>(4)</b>	<b>(4)</b>	<b>0</b>	<b>(24)</b>	<b>(24)</b>

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

(EUR millions)	2012	2013
Net trading income	-	3
Net result of hedge accounting	1	116
Net result of foreign exchange transactions	0	0
<b>TOTAL</b>	<b>1</b>	<b>119</b>

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, the revaluation of assets and liabilities qualified as hedges and the revaluation of the portfolio held for trading.

#### Analysis of net result of hedge accounting: EUR 137 million

(EUR millions)	2012	2013
<b>Fair value hedges <sup>(1)</sup></b>	<b>1</b>	<b>(6)</b>
Fair value changes in the hedged item attributable to the hedged risk	428	(404)
Fair value changes in the hedging derivatives	(427)	398
<b>Cash flow hedges</b>	<b>-</b>	<b>-</b>
Fair value changes in the hedging derivatives - ineffective portion	-	-
Discontinuation of cash flow hedge accounting (cash flows no longer expected to occur)	-	-
<b>Portfolio hedge <sup>(1)</sup></b>	<b>-</b>	<b>4</b>
Fair value changes in the hedged item	325	7
Fair value changes in the hedging derivatives	(325)	(3)
<b>CVA / DVA impact <sup>(2)</sup></b>	<b>-</b>	<b>118</b>
<b>TOTAL</b>	<b>1</b>	<b>116</b>

(1) Caisse Française de Financement Local has adopted a valuation against Eonia for its derivatives subject to payment of collateral for its benefit. Derivatives for which no payment is made for the benefit of counterparties are assessed against Euribor. The impact of this change was a gain of EUR +19 million.

(2) As of December 31, 2013, the application of IFRS 13 shows an impact of EUR -9 million for CVA and EUR +127 million for DVA. These amounts include the impact of the first-time application and changes during the year.

**5.4 - NET RESULT OF FINANCIAL ASSETS AVAILABLE FOR SALE**

(EUR millions)	2012	2013
Net result of disposals of loans and securities available for sale	-	(1)
Net result of disposals of debt securities	46	6
Net result of the sale or cancellation of loans and advances	(25)	(1)
<b>TOTAL</b>	<b>21</b>	<b>6</b>

**5.5 - OPERATING EXPENSE**

(EUR millions)	2012	2013
Payroll costs	-	-
Other general and administrative expense <sup>(1)</sup>	(87)	(74)
Taxes	(4)	(5)
<b>TOTAL</b>	<b>(91)</b>	<b>(79)</b>

(1) Of which EUR 65 million paid to Sfil in 2013

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, a credit institution. This management was carried out by Dexia Credit Local until the end of January 2013. It has been ensured by Société de Financement Local since January 31, 2013. Specific agreements were also drawn up with entities that transferred assets to the *société de crédit foncier* and continue to provide management services for their national customers. At the end of 2013, operative agreements were signed with the following entities: Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium) and Dexia Crediop (Italy). These management agreements already existed in the past.

**5.6 - COST OF RISK**

(EUR millions)	2012			2013			
	Collective impairment	Specific impairment and losses	Total	Collective impairment	Specific impairment and losses	Contribution to support fund	Total
Credit (loans, commitments and securities held to maturity)	(27)	(1)	(28)	(26)	(2)	(150)	(178)
Fixed income securities available for sale	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>(27)</b>	<b>(1)</b>	<b>(28)</b>	<b>(26)</b>	<b>(2)</b>	<b>(150)</b>	<b>(178)</b>

**Detail of collective and specific impairment**

Collective impairment (EUR millions)	2012			2013		
	Charges	Recoveries and uses	Total	Charges	Recoveries and uses	Total
Loans and borrowings	(43)	16	(27)	(68)	42	(26)
Off-balance sheet commitments	-	-	-	-	-	-
<b>TOTAL</b>	<b>(43)</b>	<b>16</b>	<b>(27)</b>	<b>(68)</b>	<b>42</b>	<b>(26)</b>

Specific impairment (EUR millions)	2012				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(2)	1	-	-	(1)
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
<b>Total credit</b>	<b>(2)</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>(1)</b>
Fixed income securities <sup>(1)</sup>	-	7	(7)	-	-
<b>TOTAL</b>	<b>(2)</b>	<b>8</b>	<b>(7)</b>	<b>-</b>	<b>(1)</b>

(1) Greek sovereign bonds

Specific impairment (EUR millions)	2013				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(6)	4	-	-	(2)
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
<b>Total credit</b>	<b>(6)</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>(2)</b>
Fixed income securities	-	-	-	-	-
<b>TOTAL</b>	<b>(6)</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>(2)</b>

## 5.7 - CORPORATE INCOME TAX

### a. Detail of tax expense

(EUR millions)	2012	2013
Current taxes	(24)	(8)
Deferred taxes	(23)	24
Tax on prior years' income	-	2
Deferred taxes on prior years	-	-
Provisions for tax litigation	-	-
<b>TOTAL</b>	<b>(47)</b>	<b>18</b>

### b. Effective tax expense as of December 31, 2013

The standard corporate tax rate applicable in France is 36.10%. The tax rate applied on the contributions of foreign subsidiaries is the rate applied locally in accordance with each individual national tax system. Further the transfer of the Irish balance sheet at market value to Paris and therefore the subsidiary's closing, the gains reported in Ireland at the Irish standard corporate tax rate and the losses generated in France at the French standard tax rate. This treatment explains the spread of EUR 14.4 million on this operation.

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

(EUR millions)	2012	2013
<b>INCOME BEFORE INCOME TAXES</b>	<b>138</b>	<b>(15)</b>
Net income from associates	-	-
<b>TAX BASE</b>	<b>138</b>	<b>(15)</b>
Applicable tax rate at end of the period	36,10%	36,10%
<b>THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE</b>	<b>50</b>	<b>(5)</b>
Impact of differences between foreign tax rates and the French standard tax rate	(6)	(15)
Tax effect of non-deductible expenses	-	-
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Other additional taxes or tax savings	3	2
Liability method	-	-
Provisions for tax litigation	-	-
<b>CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT</b>	<b>47</b>	<b>(18)</b>
<b>EFFECTIVE TAX RATE</b>	<b>34,2%</b>	<b>N/A</b>

### c. Tax consolidation

Caisse Française de Financement Local is no longer a member of the Dexia S.A. tax group since January 31, 2013. This change has no impact on recorded tax liabilities. As of January 1, 2014, Caisse Française de Financement Local has been a member of the Société de Financement Local tax group.



## 6. NOTE ON OFF-BALANCE SHEET ITEMS

### 6.1 - REGULAR WAY TRADE

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Assets to be delivered	-	-	-
Liabilities to be received <sup>(1)</sup>	-	-	120

(1) Registered covered bonds.

### 6.2 - GUARANTEES

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Guarantees received from credit institutions <sup>(1)</sup>	6,360	4,742	4,568
Guarantees received from customers <sup>(2)</sup>	7,358	7,358	6,801

(1) At the end of December 2013, this amount was mainly composed of pledges of assets with benefits to Caisse Française de Financement Local, received as guarantee for loans granted to Sfil.

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

### 6.3 - FINANCING COMMITMENTS

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Loan commitments granted to credit institutions	0	0	-
Loan commitments granted to customers <sup>(1)</sup>	660	317	228
Loan commitments received from credit institutions <sup>(2)</sup>	5,755	6,006	50
Loan commitments received from customers	-	-	-

(1) The financing commitments on loans and lines of credit corresponded to contracts issued but not paid out as of December 31, 2013.

(2) This item concerned a firm and irrevocable commitment by Dexia Credit Local to make available to Caisse Française de Financement Local the funds required to reimburse the obligations foncières that will mature in the next 12 months.

This commitment came to an end on January 31, 2013, as the consequence of the sale of Caisse Française de Financement Local to Société de Financement Local. As of December 31, 2013, the amount of the overdraft authorized on the current account with Sfil totaled EUR 50 million.

### 6.4 - OTHER COMMITMENTS

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
Commitments granted <sup>(1)</sup>	3,037	-	-
Commitments received	1,017	286	278

(1) Loans pledged to the Banque de France

## 7. NOTES ON RISK EXPOSURE

### 7.1 - FAIR VALUE

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

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

In previous years (2011 and 2012), the company reported no new business, either in terms of the production of new

assets or with regard to bond issues. Because of this run-off management, the valuation of the fair value of the liabilities had been determined in a way that was consistent with that of the assets, to which they are closely linked, to account for the fact that as a *société de crédit foncier*, the liabilities of Caisse Française de Financement Local are guaranteed by the assets recognized on the balance sheet and that their valuation should thus be appreciated on the basis of the same criteria. The spread applied to debt was that used for the re-valuation of the assets eligible for the central bank, in light of their preponderant and sufficient proportion to hedge any liquidity needs the Company might encounter.

In 2013, with the change in the shareholding structure and the return of Caisse Française de Financement Local to the markets (more than EUR 3 billion were raised in the bond markets), observable parameters were able to be used. The liabilities were valued according to a new valuation method, the reference of which is the curve formed by the Company's liquid issues. The decrease in the Company's credit spread in the past year and the application of a method based on market data resulted in a rise

in the fair value of the liabilities that reflects Caisse Française de Financement Local's solid financial base. For the valuation of the assets at the date of closing, account was taken of the re-launch of business (acquisition of loans recently originated by La Banque Postale) to adjust the parameters of the valuation based on listed assets with characteristics relatively close to the loans to be valued.

For assets and liabilities with good congruence in interest rates and maturities that are meant to be held on the balance sheet to maturity (because of the specialized

business the Company does), 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.

For the reasons explained above, which are linked to the recent trend in the Company's activities, the data presented for 2013 is not directly comparable with that reported for 2012, and it would not be relevant to draw any conclusions about the overall annual trend.

### a. Composition of the fair value of the assets

(EUR millions)	12/31/2012			12/31/2013		
	Book value	Fair value	Unrecognized fair value adjustment	Book value	Fair value	Unrecognized fair value adjustment
Central banks	2,400	2,400	-	1,471	1,471	-
Loans and advances due from banks	3,741	3,741	-	7,314	7,314	-
Loans and advances to customers <sup>(1)</sup>	71,996	71,726	(270)	61,929	59,505	(2,424)
Financial assets available for sale	1,125	1,125	-	1,084	1,084	-
Derivatives	9,748	9,748	-	6,501	6,501	-
<b>TOTAL</b>	<b>89,010</b>	<b>88,740</b>	<b>(270)</b>	<b>78,299</b>	<b>75,875</b>	<b>(2,424)</b>

(1) The financial statements as of December 31, 2012, have been restated (see Accounting policies and valuation methods, note 1.2.g)

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

(EUR millions)	12/31/2012			12/31/2013		
	Book value	Fair value	Unrecognized fair value adjustment	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	7,620	7,620	-	6,774	6,864	90
Derivatives	14,110	14,110	-	10,613	10,613	-
Debt securities <sup>(1)</sup>	62,739	60,299	(2,440)	57,129	55,529	(1,600)
<b>TOTAL</b>	<b>84,459</b>	<b>82,029</b>	<b>(2,440)</b>	<b>74,516</b>	<b>73,005</b>	<b>(1,510)</b>

(1) The financial statements as of December 31, 2012, have been restated (see Accounting policies and valuation methods, note 1.2.g)

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

Fair value of financial assets (EUR millions)	12/31/2012				12/31/2013			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
Central banks	2,400	0	-	2,400	1,471	0	-	1,471
Loans and advances due from banks	61	1,815	1,865	3,741	18	6,160	1,136	7,314
Loans and advances to customers	-	209	71,517	71,726	942	743	57,820	59,505
<b>Subtotal of assets at amortized cost</b>	<b>2,461</b>	<b>2,024</b>	<b>73,382</b>	<b>77,867</b>	<b>2,431</b>	<b>6,903</b>	<b>58,956</b>	<b>68,290</b>
Financial assets available for sale	590	42	493	1,125	589	153	342	1,084
Derivatives	-	8,367	1,381	9,748	-	5,233	1,268	6,501
<b>Subtotal of assets at fair value</b>	<b>590</b>	<b>8,409</b>	<b>1,874</b>	<b>10,873</b>	<b>589</b>	<b>5,386</b>	<b>1,610</b>	<b>7,585</b>
<b>TOTAL</b>	<b>3,051</b>	<b>10,433</b>	<b>75,256</b>	<b>88,740</b>	<b>3,020</b>	<b>12,289</b>	<b>60,566</b>	<b>75,875</b>

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

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

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

Fair value of financial liabilities (EUR millions)	12/31/2012				12/31/2013			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
Due to banks	-	7,620	-	7,620	1	6,863	-	6,864
Debt securities	-	60,299	-	60,299	-	55,529	-	55,529
<b>Subtotal of liabilities at amortized cost</b>	<b>-</b>	<b>67,919</b>	<b>-</b>	<b>67,919</b>	<b>1</b>	<b>62,392</b>	<b>-</b>	<b>62,393</b>
Derivatives	-	9,247	4,863	14,110	-	4,951	5,662	10,613
<b>Subtotal of liabilities at fair value</b>	<b>-</b>	<b>9,247</b>	<b>4,863</b>	<b>14,110</b>	<b>-</b>	<b>4,951</b>	<b>5,662</b>	<b>10,613</b>
<b>TOTAL</b>	<b>-</b>	<b>77,166</b>	<b>4,863</b>	<b>82,029</b>	<b>1</b>	<b>67,343</b>	<b>5,662</b>	<b>73,001</b>

**d. Transfer between level 1 and level 2**

(EUR millions)	12/31/2012	12/31/2013
Level 1 to level 2	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>

**e. Level 3: analyses of flow**

(EUR millions)	12/31/2012	Total gains and losses through profit and loss	Total unrealized or deferred gains and losses	Total unrealized or deferred OCI gains and losses	Purchase	Sale	Direct Origination	Settlement	Transfer into activities held for sale	Transfer in level 3	Transfer out of level 3	Other changes	12/31/2013
Financial assets available for sale	493	-	-	(9)	-	-	-	-	-	44	(173)	(13)	342
Derivatives	1,381	9	(104)	-	21	-	-	-	-	6	(45)	-	1,268
<b>TOTAL FINANCIAL ASSETS</b>	<b>1,874</b>	<b>9</b>	<b>(104)</b>	<b>(9)</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>50</b>	<b>(218)</b>	<b>(13)</b>	<b>1,610</b>
Derivatives	4,863	(551)	423	-	713	-	-	-	-	271	(57)	-	5,662
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>4,863</b>	<b>(551)</b>	<b>423</b>	<b>-</b>	<b>713</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>271</b>	<b>(57)</b>	<b>-</b>	<b>5,662</b>

**Sensitivity to alternative hypotheses for valuation in level 3**

To be classified in level 1, securities must be liquid, i.e. the valuation must be based on prices taken from a liquid market for which assurance has been obtained of the existence of a significant number of contributors. Level 1 securities in particular include certain government bonds.

To be eligible for the fair value of level 2, only observable market data can be used. The data that Caisse Française de Financement Local incorporates into its valuation models is market data that is observable directly (e.g. a price) or indirectly (price derivatives), and used in valuation models or valuation techniques that make it possible to determine a price. The instruments classified in level 2 are generally securities for which no market price is observed, but similar assets of the same listed issuer or guarantor that make it possible to observe prices. In this case, the market data is used and an adjustment is made to account for the securities' lack of liquidity.

When there is no active market or observable market data, the securities are classified in level 3 and valued by using the mark-to-model approach.

The spreads required for the internal valuation model take credit and liquidity risk into account. Credit risk is estimated on the basis of the specific characteristics of the securities under consideration (rating, probability of default (PD), loss in the event of default (LGD), investors' profitability requirement, etc.) and on the basis of a sector-related cash bond index. Liquidity risk is estimated on the basis of a market refinancing cost.

Mark-to-model prices are generated by valuation techniques based on model spreads that range from standard models (models using discounted cash flows) to models developed inside the Company.

Level 3 hedging derivatives are valued by using different valuation models developed in the Company.

## 7.2 - OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

(EUR millions)	12/31/2012					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
				Effect of master netting contracts	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	9,748	-	9,748	(6,021)	(3,424)	303
Loans and advances due from banks	3,741	-	3,741	-	(1,856)	1,885
Loans and advances to customers <sup>(1)</sup>	71,996	-	71,996	-	-	71,996
<b>TOTAL</b>	<b>85,485</b>	<b>-</b>	<b>85,485</b>	<b>(6,021)</b>	<b>(5,280)</b>	<b>74,184</b>

(1) The financial statements as of December 31, 2012, have been restated (see Accounting policies and valuation methods, note 1.2.g)

(EUR millions)	12/31/2013					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
				Effect of master netting contracts	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	6,501	-	6,501	(3,891)	(2488)	122
Loans and advances due from banks	7,314	-	7,314	-	(1856)	5,458
Loans and advances to customers	61,929	-	61,929	-	-	61,929
<b>TOTAL</b>	<b>75,744</b>	<b>-</b>	<b>75,744</b>	<b>(3,891)</b>	<b>(4344)</b>	<b>67,509</b>

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

(EUR millions)	12/31/2012					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
				Effect of master netting contracts	Financial Instruments pledged as collateral	
Derivatives (including hedging instruments)	14,110	-	14,110	(6,021)	-	8,089
Due to banks	7,620	-	7,620	-	-	7,620
Customer borrowings and deposits	-	-	-	-	-	-
<b>TOTAL</b>	<b>21,730</b>	<b>-</b>	<b>21,730</b>	<b>(6,021)</b>	<b>-</b>	<b>15,709</b>

(EUR millions)	12/31/2013					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
				Effect of master netting contracts	Financial Instruments pledged as collateral	
Derivatives (including hedging instruments)	10,613	-	10,613	(3,891)	-	6,722
Due to banks	6,774	-	6,774	-	-	6,774
Customer borrowings and deposits	-	-	-	-	-	-
<b>TOTAL</b>	<b>17,387</b>	<b>-</b>	<b>17,387</b>	<b>(3,891)</b>	<b>-</b>	<b>13,496</b>

### 7.3 - EXPOSURE TO CREDIT RISK

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

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

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

#### a. Breakdown of exposure to credit risks

##### Analysis of exposure by geographic region

(EUR millions)	12/31/2013
France	52,689
Belgium	261
Italy	7,087
Spain	482
Luxembourg	-
Germany	975
United Kingdom	2,379
Switzerland	3,155
Other European Union countries	420
United States and Canada	596
Japan	25
Other	9
<b>TOTAL EXPOSURE</b>	<b>68,078</b>

##### Analysis of exposure by category of counterparty

(EUR millions)	12/31/2013
States	3,565
Local public sector	58,371
ABS	-
Financial institutions	6,142
<b>TOTAL EXPOSURE</b>	<b>68,078</b>

Exposure on financial institutions is primarily comprised of counterparties in hedging derivatives and the covered bonds classified as replacement assets.

As of December 2013, Caisse Française de Financement Local has no asset backed securities.

##### Analysis of exposure by category of instrument

(EUR millions)	12/31/2013
Debt securities	1,084
Loans and advances	66,477
Financing commitments on loans	227
Derivatives	290
<b>TOTAL EXPOSURE</b>	<b>68,078</b>

## b. Evaluation of asset credit quality

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

This enables Caisse Française de Financement Local to present as of December 31, 2013, 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 70% of the portfolio has a weighting of less than 5% and 98% of the portfolio has a weighting that is less than or equal to 20%.

(EUR millions)	Risk weighting (Basel II)				Total
	from 0 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	
Debt securities	495	588	-	-	1,083
Loans and advances	46,999	18,634	734	88	66,455
Financing commitments on loans	219	9	0	0	228
Derivatives	13	44	207	48	312
<b>TOTAL EXPOSURE</b>	<b>47,726</b>	<b>19,275</b>	<b>941</b>	<b>136</b>	<b>68,078</b>
<b>SHARE</b>	<b>70.1%</b>	<b>28.3%</b>	<b>1.4%</b>	<b>0.2%</b>	<b>100.0%</b>

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

## 7.4 - LIQUIDITY RISK : ANALYSIS BY TERM TO MATURITY

### a. Analysis of assets

(EUR millions)	12/31/2013						
	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	1,471	-	-	-	-	-	1,471
Derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	-	-	400	561	-	961
Loans and advances due from banks	18	188	396	4,020	2,674	-	7,296
Loans and advances to customers	-	1,151	2,817	16,387	36,458	-	56,813
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	103	103
Accruals and other assets	-	4	-	-	-	-	4
<b>TOTAL</b>	<b>1,489</b>	<b>1,343</b>	<b>3,213</b>	<b>20,807</b>	<b>39,693</b>	<b>103</b>	<b>66,648</b>

(EUR millions)	12/31/2013				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	1,471	-	-	-	1,471
Derivatives	-	507	5,994	-	6,501
Financial assets available for sale	961	8	115	-	1,084
Loans and advances due from banks	7,296	22	(4)	-	7,314
Loans and advances to customers	56,813	807	4,393	(84)	61,929
Fair value revaluation of portfolio hedge	-	-	1,611	-	1,611
Financial assets held to maturity	-	-	-	-	-
Tax assets	103	-	-	-	103
Accruals and other assets	4	-	-	-	4
<b>TOTAL</b>	<b>66,648</b>	<b>1,344</b>	<b>12,109</b>	<b>(84)</b>	<b>80,017</b>

**b. Analysis of liabilities, excluding equity**

(EUR millions)	12/31/2013						
	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	1	284	310	4,926	1,238	-	6,759
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	2,523	1,183	23,810	25,328	-	52,844
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	-	-	-	2	2
Accruals and other liabilities	-	2,742	-	-	-	-	2,742
Provisions	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>1</b>	<b>5,549</b>	<b>1,493</b>	<b>28,736</b>	<b>26,566</b>	<b>2</b>	<b>62,347</b>

(EUR millions)	12/31/2013			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Derivatives	-	855	9,758	10,613
Due to banks	6,759	15	-	6,774
Customer borrowings and deposits	-	-	-	-
Debt securities	52,844	1,047	3,238	57,129
Fair value revaluation of portfolio hedge	-	-	1,398	1,398
Tax liabilities	2	-	-	2
Accruals and other liabilities	2,742	-	-	2,742
Provisions	-	-	-	-
Subordinated debt	-	-	-	-
<b>TOTAL</b>	<b>62,347</b>	<b>1,917</b>	<b>14,394</b>	<b>78,658</b>

**c. Net liquidity gap**

(EUR millions)	12/31/2013							
	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	Total
<b>AMOUNT</b>	<b>1,488</b>	<b>(4,206)</b>	<b>1,720</b>	<b>(7,929)</b>	<b>13,127</b>	<b>101</b>	<b>(2,942)</b>	<b>1,359</b>

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

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

## a. Analysis of assets

(EUR millions)	12/31/2013						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	1,471	-	-	-	-	-	1,471
Derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	341	-	59	561	-	961
Loans and advances due from banks	18	6,317	180	674	107	-	7,296
Loans and advances to customers	-	7,019	8,933	12,276	28,585	-	56,813
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	103	103
Accruals and other assets	-	4	-	-	-	-	4
<b>TOTAL</b>	<b>1,489</b>	<b>13,681</b>	<b>9,113</b>	<b>13,009</b>	<b>29,253</b>	<b>103</b>	<b>66,648</b>

(EUR millions)	12/31/2013					Total
	Total broken down	Accrued interest	Fair value adjustment	Impairment		
Central banks	1,471	-	-	-	-	1,471
Derivatives	-	507	5,994	-	-	6,501
Financial assets available for sale	961	8	115	-	-	1,084
Loans and advances due from banks	7,296	22	(4)	-	-	7,314
Loans and advances to customers	56,813	807	4,393	(84)	-	61,929
Fair value revaluation of portfolio hedge	-	-	1,611	-	-	1,511
Financial assets held to maturity	-	-	-	-	-	-
Tax assets	103	-	-	-	-	103
Accruals and other assets	4	-	-	-	-	4
<b>TOTAL</b>	<b>66,648</b>	<b>1,344</b>	<b>12,109</b>	<b>(84)</b>		<b>80,017</b>

## b. Analysis of liabilities, excluding equity

(EUR millions)	12/31/2013						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	1	284	6,474	-	-	-	6,759
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	4,926	2,736	21,818	23,364	-	52,844
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	-	-	-	2	2
Accruals and other liabilities	-	2,742	-	-	-	-	2,742
Provisions	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>1</b>	<b>7,952</b>	<b>9,210</b>	<b>21,818</b>	<b>23,364</b>	<b>2</b>	<b>62,347</b>

(EUR millions)	12/31/2013			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Derivatives	-	855	9,758	10,613
Due to banks	6,759	15	-	6,774
Customer borrowings and deposits	-	-	-	-
Debt securities	52,844	1,047	3,238	57,129
Fair value revaluation of portfolio hedge	-	-	1,398	1,398
Tax liabilities	2	-	-	2
Accruals and other liabilities	2,742	-	-	2,742
Provisions	-	-	-	-
Subordinated debt	-	-	-	-
<b>TOTAL</b>	<b>62,347</b>	<b>1,917</b>	<b>14,394</b>	<b>78,658</b>



## c. Balance-sheet sensitivity gap

(EUR millions)	12/31/2013							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	
<b>AMOUNT</b>	<b>1,488</b>	<b>5,729</b>	<b>(97)</b>	<b>(8,809)</b>	<b>5,889</b>	<b>101</b>	<b>2,942</b>	<b>1,359</b>

## 7.6 - CURRENCY RISK

Classification by original currency (EUR millions)	12/31/2011				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	85,809	4,208	5,854	4,538	100,409
Total liabilities	85,809	4,208	5,854	4,538	100,409
<b>NET BALANCE SHEET POSITION</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Classification by original currency (EUR millions)	12/31/2012				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	81,728	4,177	2,969	3,295	92,169
Total liabilities	81,728	4,177	2,969	3,295	92,169
<b>NET BALANCE SHEET POSITION</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Classification by original currency (EUR millions)	12/31/2013				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	71,676	3,730	2,303	2,308	80,017
Total liabilities	71,676	3,730	2,303	2,308	80,017
<b>NET BALANCE SHEET POSITION</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

## 7.7 - SENSITIVITY TO INTEREST RATE RISK

Caisse Française de Financement Local is subject to particular management with the goal of neutralizing exposure to interest rate risk to the extent possible. The method used follows simple principles and consists in converting the assets and liabilities on the balance sheet to floating rates so that they will move in a parallel manner under the impact of changes in the yield curve, while maintaining the margin unchanged.

All the derivative financial instruments used by Caisse Française de Financement Local are part of a hedging system, whether micro or macro. The Company may not conduct trading operations, nor hold derivatives in an isolated open position.

Caisse Française de Financement Local uses interest rate micro-hedges on a part of the assets and on the liabilities benefiting from the legal privilege, and interest rate macro-hedges on other assets and on off-balance sheet items to manage the overall interest rate risk. The micro-hedges cover the interest rate risk on the securities portfolio, on certain loans, on *obligations foncières* (and registered covered bonds). The macro-hedges are mainly used to manage the interest rate risk on fixed rate loans not hedged by micro-hedges (principally because the unit amount is too low) and to manage differences in Euribor fixing dates by Eonia hedges.

The residual interest rate risk from macro-hedges has been contained within a limit set since 2005, with the approval of the rating agencies, at 3% of equity. This limit is reviewed yearly and is currently set at EUR 40 million, of which EUR 9 million for the monetary gap and EUR 31 million for the fixed rate gap. Real sensitivity is maintained well under this limit.

The sensitivity thus measured corresponds to the change in the gap's net present value under the impact of a change in the yield curve of 100 basis points.

The results of this management in the last four quarters are presented in the following table.

Sensitivity of the gap (EUR millions)		Average	Maximum	Minimum	Limit
Fixed rate	1Q 2013	16.4	18.1	15.7	31.0
	2Q 2013	15.6	16.5	14.4	31.0
	3Q 2013	16.0	19.7	14.1	31.0
	4Q 2013	12.2	16.5	3.2	31.0
Monetary	1Q 2013	(0.3)	0.5	(0.7)	9.0
	2Q 2013	(0.1)	1.4	(1.1)	9.0
	3Q 2013	1.5	1.7	1.3	9.0
	4Q 2013	(0.3)	2.9	(4.7)	9.0
Total	1Q 2013	16.1	18.6	15.1	40.0
	2Q 2013	15.5	16.8	14.2	40.0
	3Q 2013	17.5	21.1	15.9	40.0
	4Q 2013	11.9	19.5	(1.5)	40.0

# Statutory auditors' report on the financial statements established under IFRS

## For the year ended December 31, 2013

*This is a free translation into English of the Statutory Auditors' report on the annual financial statements established under IFRS issued in French and is provided solely for the convenience of English-speaking users. This report should be read in conjunction with, and is construed in accordance with, French law and professional standards applicable in France.*

To the Managing Director,

As Statutory Auditors of Caisse Française de Financement Local and at your request pursuant to the wish of your Company to provide more extensive financial information to investors, we have audited the accompanying financial statements of the Company for the year ended December 31, 2013, 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 at year end, and the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

Without qualifying our opinion, in respect with this matter, we draw your attention to the matters set out in the following notes to the annual financial statements established under IFRS:

- "1.1 - Context of the publication", which mentions the hypothesis made for the preparation of the financial statements, according to which the legislative measures aiming at securing, from a legal point of view, the loan agreements in effect with local governments, will be voted in 2014 and will eliminate the related risks,
- "1.2.g - Error correction", which mentions the impact of the error correction made on the fair value of some assets and liabilities hedged by derivatives under hedge accounting, and
- "1.2.f - Application of IFRS 13" and the paragraph of Note "1.3.b - Changes in accounting standards since the previous annual report that may impact Caisse Française de Financement Local" and that outline the first-time application of IFRS 13 standard related to fair value determination.

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 French Commercial Code (*Code de commerce*).

This report was prepared for your attention in the context described above and must not be used, distributed or referred to for any other purpose.

We accept no responsibility towards any third parties to whom this report is distributed or who obtain a copy by any other means.

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

Courbevoie and Neuilly-sur-Seine, March 31, 2014

The Statutory Auditors

French original signed by:

**MAZARS**

Virginie Chauvin

Anne Veaute

**DELOITTE & ASSOCIÉS**

Charlotte Vandeputte

José-Luis Garcia

# French GAAP Financial Statements

## Assets as of December 31, 2013

(EUR millions)	Notes	12/31/2011	12/31/2012	12/31/2013
Central banks	2.1	2,198	2,400	1,471
Government and public securities, eligible for central bank financing	2.2	3,525	3,278	4,983
Loans and advances due from banks	2.3	3,326	3,223	7,348
Loans and advances to customers	2.4	53,559	50,241	47,373
Bonds and other fixed income securities	2.5	18,511	11,879	4,368
Equities and other variable income securities		-	-	-
Investments in non-consolidated companies and other long-term investments		-	-	-
Investments in consolidated companies		-	-	-
Intangible assets		-	-	-
Property and equipment		-	-	-
Unpaid capital		-	-	-
Treasury stock		-	-	-
Other assets	2.6	47	1	13
Accruals and other assets	2.7	5,498	4,575	3,525
<b>TOTAL ASSETS</b>	<b>2.8</b>	<b>86,664</b>	<b>75,597</b>	<b>69,081</b>

## Liabilities as of December 31, 2013

(EUR millions)	Notes	12/31/2011	12/31/2012	12/31/2013
Central banks	3.1	2,700	-	-
Due to banks	3.2	9,525	7,623	6,774
Customer borrowings and deposits		-	-	-
Debt securities	3.3	65,718	58,156	53,913
Other liabilities	3.4	2,500	3,524	2,699
Accruals and other liabilities	3.5	4,706	4,702	4,182
Provisions	3.6	153	193	134
General banking risks reserve		-	-	-
Subordinated debt		-	-	-
<b>Equity</b>		<b>1,362</b>	<b>1,399</b>	<b>1,379</b>
Share capital	3.7	1,300	1,315	1,315
Additional paid-in capital	3.7	-	-	-
Reserves and retained earnings	3.7	57	47	84
Net income	3.7	5	37	(20)
<b>TOTAL LIABILITIES</b>	<b>3.8</b>	<b>86,664</b>	<b>75,597</b>	<b>69,081</b>

## Off-balance sheet items as of December 31, 2013

(EUR millions)	Notes	12/31/2011	12/31/2012	12/31/2013
<b>COMMITMENTS GRANTED</b>	<b>4.1</b>	<b>3,697</b>	<b>317</b>	<b>228</b>
Financing commitments		660	317	228
Guarantees granted		3,037	-	-
Other commitments granted		-	0	-
<b>COMMITMENTS RECEIVED</b>	<b>4.2</b>	<b>20,728</b>	<b>18,394</b>	<b>11,816</b>
Financing commitments		5,755	6,006	170
Guarantees received		14,248	12,388	11,646
Forward commitments		-	-	-
Other commitments received		725	-	-
Foreign currency transactions	4.3	34,716	26,600	23,012
Interest rate derivatives	4.4	204,257	180,105	148,666

## Income statement

(EUR millions)	Notes	2011	2012	2013
Interest income	5.0	5,265	3,439	4,976
Interest expense	5.0	(5,077)	(3,202)	(4,816)
Income from variable income securities		-	-	-
Commission income		-	-	-
Commission expense	5.1	(5)	(4)	(24)
Net gains (losses) on held for trading portfolio		-	-	-
Net gains (losses) on <i>placement</i> portfolio	5.2	(57)	13	41
Other banking income		-	-	-
Other banking expense		-	-	-
<b>NET BANKING INCOME</b>		<b>126</b>	<b>246</b>	<b>177</b>
General operating expense	5.3	(93)	(91)	(79)
Depreciation and amortization		-	-	-
<b>OPERATING INCOME BEFORE COST OF RISK</b>		<b>33</b>	<b>155</b>	<b>98</b>
Cost of risk	5.4	(8)	(41)	(183)
<b>INCOME FROM OPERATIONS</b>		<b>25</b>	<b>114</b>	<b>(85)</b>
Income (loss) on fixed assets	5.5	0	(26)	-
<b>INCOME BEFORE NON-RECURRING ITEMS AND TAXES</b>		<b>25</b>	<b>88</b>	<b>(85)</b>
Non-recurring items		-	-	-
Income tax	5.6	(19)	(50)	(5)
Net allocation to general banking risks reserve and regulated provisions	5.7	(1)	(1)	70
<b>NET INCOME</b>		<b>5</b>	<b>37</b>	<b>(20)</b>
Basic earnings per share		0.42	2.83	(1.56)
Diluted earnings per share		0.42	2.83	(1.56)

## Equity

(EUR millions)	Amount
<b>AS OF 12/31/2012</b>	
Share capital	1,315
Additional paid-in capital (APIC)	-
Commitments to increase share capital and APIC	-
Reserves and retained earnings	47
Net income for the year	37
Interim dividends	-
<b>EQUITY AS OF 12/31/2012</b>	<b>1,399</b>
<b>MOVEMENTS FOR THE PERIOD</b>	
Changes in share capital	-
Changes in APIC	-
Changes in commitments to increase share capital and APIC	-
Changes in reserves and retained earnings	-
Dividends paid (-)	-
Net income for the period	(20)
Other movements	-
<b>AS OF 12/31/2013</b>	
Share capital	1,315
Additional paid-in capital (APIC)	-
Commitments to increase share capital and APIC	-
Reserves and retained earnings	84
Net income for the period	(20)
<b>EQUITY AS OF 12/31/2013</b>	<b>1,379</b>

## Cash flow statement

(EUR millions)	12/31/2011	12/31/2012	12/31/2013
<b>NET INCOME BEFORE TAXES</b>	<b>26</b>	<b>88</b>	<b>(85)</b>
+/- Depreciation and write-downs	2	44	186
+/- Expense/income from operating activities	18	233	81
+/- Expense/income from financing activities	50	(124)	(110)
+/- Other non cash items	(954)	(521)	26
<b>= Non monetary elements included in net income before tax and other adjustments</b>	<b>(884)</b>	<b>(368)</b>	<b>183</b>
+/- Cash from interbank operations	1,604	(3,007)	(474)
+/- Cash from customer operations (loans)	1,202	3,207	2,610
+/- Cash from customer financing assets	1,541	6,813	5,787
+/- Cash from hedging financial instruments	2,306	1,893	(1,022)
- Income tax paid	(50)	5	(14)
<b>= Decrease/(increase) in cash from operating activities</b>	<b>6,603</b>	<b>8,911</b>	<b>6,897</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES (A)</b>	<b>5,745</b>	<b>8,631</b>	<b>6,995</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>
+/- Cash from or for shareholders	-	0	-
+/- Other cash from financing activities	(502)	(6,934)	(3,417)
<b>CASH FLOW FROM FINANCING ACTIVITIES (C)</b>	<b>(502)</b>	<b>(6,934)</b>	<b>(3,417)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH (D)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Increase/(decrease) in cash equivalents (A + B+ C + D)</b>	<b>5,243</b>	<b>1,697</b>	<b>3,578</b>
Cash flow from operating activities (A)	5,745	8,631	6,995
Cash flow from investing activities (B)	-	-	-
Cash flow from financing activities (C)	(502)	(6,934)	(3,417)
Effect of exchange rates on cash (D)	-	-	-
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>(9,030)</b>	<b>(3,787)</b>	<b>(2,090)</b>
Central banks (assets & liabilities)	2	2,198	2,400
Interbank accounts (assets & liabilities) and loans/deposits at sight	(9,032)	(5,985)	(4,490)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>(3,787)</b>	<b>(2,090)</b>	<b>1,488</b>
Central banks (assets & liabilities)	2,198	2,400	1,471
Interbank accounts (assets & liabilities) and loans/deposits at sight	(5,985)	(4,490)	17
<b>NET CASH</b>	<b>5,243</b>	<b>1,697</b>	<b>3,578</b>

## Notes to the French GAAP financial statements

### 1. Significant accounting policies

#### 1.1 - CONTEXT OF PUBLICATION

In preparing its financial statements, the management of Caisse Française de Financement Local 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. Thus the accounts as of December 31, 2013, of Caisse Française de Financement Local were prepared by taking into account, in particular, the hypothesis according to which the legislative measures aiming to provide a solid legal base for the loan agreements in effect with public sector entities (validation law), which were part of the 2014 Law of Finance and were rejected by the Conseil Constitutionnel on December 29, 2013, will be voted in 2014 and their application will make it possible to eliminate the corresponding legal and financial risks. This hypothesis is based on the government's commitment to find a lasting and comprehensive solution to the problem of structured loans contracted by public sector entities, and in particular on its press release, published on December 29, 2013, which specified that "a legal framework taking into account the arguments raised by the Conseil Constitutionnel will be prepared rapidly".

#### 1.2 - HIGHLIGHTS OF THE PERIOD

##### a. Change in the shareholding structure of caisse française de financement local

On January 31, 2013, Société de Financement Local (Sfil) acquired 100% of the capital of Dexia Municipal Agency, which took the name Caisse Française de Financement Local. Sfil is a credit institution approved by the Autorité de contrôle prudentiel et de résolution. It plays a key role in the French State's new organization of local government financing and funding for public hospitals in France.

Sfil's shareholders are the French State (75%), Caisse des Dépôts et Consignations (20%) and La Banque Postale (5%). The French State is also the direct shareholder of Caisse des Dépôts et Consignations and an indirect shareholder of La Banque Postale.

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

##### b. Ratings of Caisse Française de Financement Local

The issuance program of Caisse Française de Financement Local is rated by the three main rating agencies – Standard

& Poor's, Moody's and Fitch. This requires that the quality of the cover pool and the strict management rules conform to the criteria and approaches of the three agencies.

Caisse Française de Financement Local *obligations foncières* have an excellent credit rating. Its performance in 2013 is presented below:

Readers are reminded that, as of December 31, 2012, the ratings of Caisse Française de Financement Local were under review or surveillance by two agencies, reflecting the situation of the Dexia Group and/or the agencies' introduction of new rating criteria. It was rated AA+ / creditwatch negative by S&P, Aa2 by Moody's, and AAA / watch negative by Fitch.

At the beginning of February 2013, with the change in the nature and shareholding structure of the parent company, the rating agencies reviewed the ratings of Caisse Française de Financement Local, and raised their ratings to the highest possible level:

- AAA / *outlook negative* by S&P,
- Aaa by Moody's,
- AAA / *watch negative* by Fitch.

The S&P and Fitch ratings were characterized by a negative outlook/watch, which reflected the negative outlook attached to the sovereign rating as well as the rating of Société de Financement Local.

Following the downgrade of the rating of France, the rating of the *obligations foncières* of Caisse Française de Financement Local was lowered from AAA (outlook negative) to AA+ (outlook stable) by Fitch on July 17 and by S&P on November 15, 2013.

In fact, the agencies consider that there is a ceiling for the rating of Caisse Française de Financement Local in relation to the sovereign rating, given the strong link between the Caisse Française de Financement Local and the French State and the concentration of the cover pool on the French local public sector.

Therefore at the end of March 2014, the rating of the *obligations foncières* of Caisse Française de Financement Local was as follows:

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

These ratings were qualified with a stable outlook.

##### c. Sale of securitization units

Caisse Française de Financement Local sold all the securitization units it held, partly in the market in April and May 2013 and the rest to its parent company, Société de Financement Local, on July 1, 2013. These sales represented a total amount of EUR 8,264 million. They followed the application of the new conditions of eligibility for refinancing by the European Central Bank and the new CRR / CRD IV requirements.

Since July 2013, there are no longer any securitization units in the cover pool and the current and future *obligations foncières* issued by Caisse Française de Financement Local respect these new regulations.



## d. Covered bond market

Issuance in the euro-denominated covered bond market remained generally stable in 2013 with a primary offering of EUR 100 billion (compared with EUR 106 billion in 2012). This stability has maintained the euro-denominated covered bond market at a reduced offering level compared with the previous ten years. The context can be attributed to the decline in the needs of financial institutions, linked to ongoing deleverage operations in combination with the reduction in asset production. It is also due to increased dynamics in the senior unsecured funding market, enabling financial institutions to adjust their funding mix, while regulators are focused on the balance between free and pledged assets in bank balance sheets (asset encumbrance).

Nevertheless, the covered bond class of assets benefits from a particularly positive treatment in a context of changing regulations (Basel III or Solvency 2), encouraging investors to favor such in their allocation of assets. In addition, the demand for covered bond assets is naturally buoyed as significant volumes reach maturity, creating for the first time a major negative net offering (EUR 48 billion). This negative net offering has made it possible to accompany the trend for tighter spreads in all segments of the secondary market.

In this context, Caisse Française de Financement Local benefited from good conditions to launch its *obligations foncières* financing program in order to provide the long-term liquidity required to develop the commercial offer of La Banque Postale to the local public sector in France and to accompany its policy to reduce loan sensitivity.

## e. Litigation and governmental measures

Certain customers have sued Dexia Credit Local, Caisse Française de Financement Local and/or Société de Financement Local for sensitive structured loans that were granted by Dexia Credit Local and which are on the balance sheet of Caisse Française de Financement Local. At the end of December 2013, the number of customers who had undertaken legal proceedings totaled 205 versus 57 at the end of 2012.

Three legal decisions concerning the suit brought against Dexia Credit Local by the Département de la Seine-Saint-Denis were handed down on February 8, 2013, by the Tribunal de Grande Instance de Nanterre. It was a question of three structured loans representing a total capital of EUR 178 million.

The Tribunal de Grande Instance de Nanterre rejected the claims of the Département de la Seine-Saint-Denis, which sought to have the three disputed loan agreements canceled and asked for compensation. In particular, the Tribunal considered that these loans were not of a speculative character, that the Département was competent to sign these loan agreements, and that Dexia Credit Local acted in the respect of its duty to inform and advise the Département. The Tribunal de Grande Instance de Nanterre however estimated that the faxes which had preceded the signing of the agreements could be qualified as "loan agreements", and that the lack of mention of the annual percentage rate of charge (Taux Effectif Global - TEG) implied the application of the official interest rate (*taux légal*).

Dexia Credit Local appealed this decision on April 4, 2013. Since the loans subject to the litigation were recorded on its balance sheet, Caisse Française de Financement Local decided to intervene voluntarily in the proceedings that oppose the Département de la Seine-Saint-Denis and Dexia Credit Local. Such voluntary intervention should enable Caisse Française de Financement Local to defend its interests by taking part in the proceedings.

Since the decisions concerning the Département de la Seine-Saint-Denis were made public in February 2013, only one new decision has been handed down. On March 7, 2014, the Tribunal de Grande Instance (TGI) of Nanterre in the suit the municipality of Saint-Maur-des-Fossés brought against Dexia Credit Local (and Caisse Française de Financement Local, which had decided to intervene voluntarily in the proceedings in order to defend its interests). This decision concerned a structured loan marketed by Dexia Credit Local and recognized on the balance sheet of Caisse Française de Financement Local, with initial capital of EUR 10 million. As in the February 2013 decisions, the Tribunal's decision did not address the core issue (structured interest rates), but it was motivated by the formal absence in the loan agreement of intermediary data with which to calculate the annual rate of charge (TEG). This item led the Tribunal to decide to apply the official interest rate (*taux légal*) instead of the contractual rate. This decision may be appealed.

In line with the commitments made by the French government in its press releases dated June 18 and July 16, 2013, the 2014 Finance Bill included measures designed to provide a comprehensive, long-lasting solution to the problem of the most sensitive structured loans contracted by local governments. The French government's plan comprises two main items:

- the creation of a "multi-year support fund" "endowed with significant resources" enabling local governments to finance the unwinding of structured loans;
- legislative measures targeting "a legal basis to secure loan agreements in effect with local governments omitting the formal mention of the annual percentage rate of charge" and "better proportion the consequences of an error in calculating this rate".

The multi-year support fund will be endowed with EUR 1.5 billion and will have a maximum life of 15 years (EUR 100 million per year). Basic features involve the following:

- eligible customers: local governments and groups of such holding the most sensitive loans;
- use of the assistance received by local governments: refinancing of a part of the indemnity of early reimbursement (preferred option) or in an initial phase and for a limited period of time, to finance a part of the interest on the loan in question;
- renunciation by the fund's beneficiaries of present or future litigation concerning the fundamental issue of the loans;
- management of the fund ensured by the State: a strategy and monitoring committee associating representatives of the State, local governments and qualified individuals will be formed;
- this fund will be supplied, for half, by the banks and for the other half, by the State. Caisse Française de Financement Local has committed to contribute to the fund EUR 10 million per year for 15 years once it is operational.

On December 29, 2013, the Conseil Constitutionnel published its decision on the 2014 Law of Finances voted in December 2013.

In its decision, the Conseil validated the creation of the support fund and the principle of access to the fund, conditioned by the signing of an agreement by which the borrower renounces any claim on the assisted loans.

This decision enables Société de Financement Local and Caisse Française de Financement Local to pursue their strategy to reduce sensitivity and to organize as planned their participation in the support fund.

Within this framework, Caisse Française de Financement Local recorded in its 2013 accounts a liability of EUR 150 million for its commitment to contribute to the fund.

The Conseil Constitutionnel nonetheless considered that legislative measures designed to secure loan agreements (validation of the absence of any mention of the rate in the loan agreements) were too broad since they applied to all types of legal entities and all types of loans agreements. The Conseil also considered that the error in the calculation of the rate modified the consumers' code and could not be included in a Law of Finances.

In a press release published on December 29, 2013, the Ministry of the Economy and Finances noted this decision and announced that "legislative measures taking into account the arguments raised by the Conseil Constitutionnel would be presented in the near future".

#### f. Closing of the Dublin Branch

In 2013, Caisse Française de Financement Local closed its branch in Dublin.

### 1.3 - POST-CLOSING EVENTS

There have been no significant events after the year end which would require a change to or disclosure in the accounts.

### 1.4 - APPLICABLE ACCOUNTING POLICIES: RULES ADOPTED BY THE FRENCH ACCOUNTING STANDARDS BOARD (AUTORITÉ DES NORMES COMPTABLES - ANC)

Caisse Française de Financement Local prepares its annual and semiannual financial statements in compliance with CRB 91-01 and CRC 2000-03 as modified.

The financial statements as of December 31, 2013, were prepared using the same accounting principles as those used in the financial statements as of December 31, 2012.

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.

### 1.5 - ACCOUNTING PRINCIPLES

#### a. Loans and advances due from banks and customer loans and advances

Loans and advances due from banks include commitments held through banking operations except for those materialized by a security. They are broken down into sight accounts and term accounts.

Customer loans and advances comprise loans granted to local governments.

They are stated in the balance sheet net of depreciation for possible losses. The undrawn portion of signed loan agreements is recorded as an off-balance sheet item.

Interest on loans is recorded as banking income *prorata temporis* for accrued amounts due and not yet due, as is interest on unpaid installments. Interest on non-performing loans recorded in net banking result is neutralized with a depreciation of an equivalent amount.

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

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

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

Caisse Française de Financement Local applies CRC standard 2002-03, modified by CRC standards 2005-03 and 2007-06. This standard stipulates that 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 (unpaid for more than nine months for local government borrowers, and for more than three months for the others);
- a factual counterparty risk (worsening of the financial situation, alert procedures);
- the existence of litigation.

Compromised non-performing loans are loans unpaid for more than one year. It is considered that repayment is unlikely and that any such loan will be written off as a loss. Interest on these loans no longer contributes to the interest margin once they have been transferred to the category of compromised non-performing loans.

Impairment is recognized for the losses expected on the non-performing and compromised non-performing loans. Risk management determines the share depreciated on the capital in function of the expected loss. The amount of interest is impaired at 100%.

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

This standard also requires the identification of outstanding loans that have been restructured under non-market conditions.

When a loan restructured by reason of financial difficulties is again not paid at the due date, it is immediately declassified in the category of non-performing loans and compromised non-performing loans.

## b. Securities transactions

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

- Government and public entity securities eligible for central bank refinancing;
- Bonds and other fixed income securities.

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

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

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

They are recognized for accounting purposes as:

- investment securities (held to maturity);
- *placement* securities (available for sale) according to CRC standard 2005-01.

### Investment securities (held to maturity)

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

Securities considered as investment securities are recorded on the date of purchase at acquisition clean price excluding fees.

Interest accrued 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 market clean price (discount or premium) is amortized according to a quasi-actuarial method over the residual life of the security.

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

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

## Placement securities

Securities that do not fit in any existing category are recognized as *placement* securities. They are recorded on the date of purchase at acquisition clean cost excluding fees. Interest accrued 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 clean cost (discount or premium) is amortized according to a quasi-actuarial method over the residual life of the security.

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

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

When the decrease in the value of the security exceeds the unrealized gain on the micro-hedge, the decrease in net value is recorded as asset impairment.

*Placement* securities transferred to investment securities are recorded at their acquisition cost and previously recognized impairment is reversed over the residual life of the securities concerned (in conformity with article 8 of CRC standard 2005-01).

## c. Debt due to banks

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

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

## d. Debt securities

This chapter includes *obligations foncières* and other resources benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code. It is subdivided into two categories.

### Debt securities (*obligations foncières*)

These debt securities are recorded at nominal value. From the first year, redemption and issue premiums are amortized on a straight-line basis over the life of the securities *pro rata temporis*. They are recorded on the balance sheet in the same categories as the corresponding outstanding debt.

Amortization of these premiums is recorded in the income statement as Interest expense on bonds and other fixed income securities. In the event 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 as a banking expense for accrued amounts due and not yet due calculated *prorata temporis* on the basis of contractual rates.

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

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

#### **Other debt securities (registered covered bonds)**

These private placements are recorded at their nominal value. Issue premiums are treated the same way as *obligations foncières* (see above).

#### **e. Provisions**

Provisions are recognized based on their discounted 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 cancel 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 as defined by CRB standards 90-15 and 92-04. 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 themselves benefit from the privilege. For Caisse Française de Financement Local, the only resources that do not benefit from the privilege comprise the debt with Société de Financement Local, which is not hedged.

The notional amount of these hedging instruments is recorded as an off-balance sheet item over the life 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.

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

#### **Micro-hedge transactions**

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

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

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

- prior to January 1, 2005, the equalization payment is extended over the length of time remaining of the cancelled transaction;
- since January 1, 2005, the equalization payment is recorded in the income statement over the period of cancellation; however, the equalization payment paid by Caisse Française de Financement Local is charged against income only for the portion that exceeds gains not yet recorded in income in the symmetric position.

In both cases, equalization payments remaining to be extended are recorded as accruals in the assets and/or liabilities.

#### **Macro-hedge transactions**

This category includes transactions designed to hedge and manage the Company's overall exposure to interest rate risk on assets, liabilities and off-balance sheet items, excluding micro-hedge transactions. They were authorized by a specific decision of the Executive Board of Caisse Française de Financement Local on December 1, 1999, pursuant to article 14 of CRBF standard 99-10.

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

If an early reimbursement transaction leads to the cancellation of macro-hedge swaps, the swap cancellation equalization payment is treated in the following way if the cancellation has taken place:

- prior to January 1, 2005, the equalization payment is extended over the length of time remaining of the cancelled transaction. Equalization payments remaining to be extended are recorded in accruals in the assets and/or liabilities;

- since January 1, 2005, the equalization payment is recorded in the income statement at cancellation.

### Monitoring market risks

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

Market risks arising from trading portfolios are not compatible with the activity of Caisse Française de Financement Local. The Company cannot have a derivative instrument in an isolated open 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 closing 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

Pursuant to CRB standard 90-01, 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 accounting period, the differences between the amounts resulting from a market price valuation of the foreign exchange position accounts at the date of closing 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 and, in the assets, certain debt securities and customer loans.

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

### i. Non-recurring income and expense

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

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

### j. Tax consolidation

Caisse Française de Financement Local was no longer a part of the Dexia S.A. tax group as of January 31, 2013. This change has no impact on recorded tax liabilities. As of January 1, 2014, Caisse Française de Financement Local has been a member of the Société de Financement Local tax group.

### k. Offices and activities in uncooperative states and territories

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

### Identity of the parent company consolidating the accounts of Caisse Française de Financement Local as of December 31, 2013

**Société de Financement Local**  
1, passerelle des Reflets  
La Défense 2  
92913 La Défense Cedex  
France



## 2. NOTES TO THE ASSETS (EUR millions)

## 2.1 - CENTRAL BANKS

	12/31/2011	12/31/2012	12/31/2013
Mandatory reserves	-	-	-
Other deposits	2,198	2,400	1,471
<b>TOTAL</b>	<b>2,198</b>	<b>2,400</b>	<b>1,471</b>

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

## a. Accrued interest included in this item: 70

## 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
-	-	706	4,207	4,913

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

	Amount as of 12/31/2011	Amount as of 12/31/2012	Amount as of 12/31/2013	Impairment as of 12/31/2013	Unrealized capital gain or loss as of 12/31/2013 <sup>(2)</sup>
Listed securities <sup>(1)</sup>	3,456	3,214	4,481	(8)	78
Other securities	-	-	432	-	(61)
<b>TOTAL</b>	<b>3,456</b>	<b>3,214</b>	<b>4,913</b>	<b>(8)</b>	<b>17</b>

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

(2) The Unrealized capital gain or loss is the difference between accounting value and market value.

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

Portfolio	Gross amount as of 12/31/2011	Gross amount as of 12/31/2012	Increases <sup>(1)</sup>	Decreases	Transfers <sup>(2)</sup>	Conversion differences	Impairment as of 12/31/2013	Net amount as of 12/31/2013	Unrealized capital loss as of 12/31/2013 <sup>(3)</sup>
Trading	-	-	-	-	-	-	-	-	-
Placement	731	729	-	(7)	42	-	(8)	756	82
Investment <sup>(1)</sup>	2,729	2,489	1,636	(44)	79	(3)	-	4,157	(65)
<b>TOTAL</b>	<b>3,460</b>	<b>3,218</b>	<b>1,636</b>	<b>(51)</b>	<b>121</b>	<b>(3)</b>	<b>(8)</b>	<b>4,913</b>	<b>17</b>

(1) See note 2.5.f

(2) In the fourth quarter, Caisse Française de Financement Local reclassified placement securities to investment securities.

(3) The unrealized capital gain or loss is the difference between accounting value and market value.

## e. Impairment breakdown by country

See note 2.9

## 2.3 - LOANS AND ADVANCES DUE FROM BANKS

## a. Sight loans and advances due from banks

	12/31/2011	12/31/2012	12/31/2013
Sight accounts	22	23	18
Unallocated sums	12	2	-
<b>TOTAL</b>	<b>34</b>	<b>25</b>	<b>18</b>

## b. Term loans and advances due from banks

## a. Accrued interest included in this item: 22

## 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
188	396	4,019	2,705	7,308

## c. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2011	Net amount as of 12/31/2012	Gross amount as of 12/31/2013	Decrease in value as of 12/31/2013	Net amount as of 12/31/2013
Loans of less than 1 year	-	-	-	-	-
Loans of more than 1 year	3,264	3,176	7,308	-	7,308
<b>TOTAL</b>	<b>3,264</b>	<b>3,176</b>	<b>7,308</b>	<b>-</b>	<b>7,308</b>

## d. Breakdown by counterparty

	12/31/2011	12/31/2012	12/31/2013
Swiss cantonal banks benefiting from their cantons' legal guarantee	974	867	684
Banks guaranteed by a local government, <i>crédits municipaux</i>	148	175	133
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	2,142	2,134	2,128
Loans to Société de Financement Local	-	-	4,363
<b>TOTAL</b>	<b>3,264</b>	<b>3,176</b>	<b>7,308</b>
- of which replacement assets	-	-	4,363

## 2.4 - CUSTOMER LOANS AND ADVANCES

## a. Accrued interest included in this item: 720

## 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
1,086	2,528	14,352	28,687	45,653

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

Economic sector	12/31/2011	12/31/2012	12/31/2013
Public sector	48,868	45,895	43,373
Other sectors <sup>(1)</sup>	3,879	3,579	3,280
<b>TOTAL</b>	<b>52,747</b>	<b>49,474</b>	<b>46,653</b>

(1) Social Housing: Office public de l'habitat (OPH) and entreprises sociales pour l'habitat (ESH) and other loans guaranteed by local governments.

## d. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2011	Net amount as of 12/31/2012	Gross amount as of 12/31/2013	Impairment as of 12/31/2013	Net amount as of 12/31/2013
Loans of less than 1 year	8	2	2	-	2
Loans of more than 1 year	52,739	49,472	46,665	(14)	46,651
<b>TOTAL</b>	<b>52,747</b>	<b>49,474</b>	<b>46,667</b>	<b>(14)</b>	<b>46,653</b>

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

	Net amount as of 12/31/2011	Net amount as of 12/31/2012	Gross amount as of 12/31/2013	Impairment as of 12/31/2013	Net amount as of 12/31/2013
Performing commitments	52,722	49,361	46,418	-	46,418
Restructured commitments	-	-	-	-	-
Non-performing loans	16	107	201	(8)	193
Compromised non-performing loans	9	6	48	(6)	42
<b>TOTAL</b>	<b>52,747</b>	<b>49,474</b>	<b>46,667</b>	<b>(14)</b>	<b>46,653</b>

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

	12/31/2011	12/31/2012	Allocations	Reversals	Transfers	12/31/2013
<b>For non-performing loans</b>						
On loans	(1)	(3)	(4)	4	-	(3)
On interest	(1)	(4)	(4)	3	-	(5)
<b>For compromised non-performing loans</b>						
On loans	0	0	(3)	-	-	(3)
On interest	(1)	(1)	(2)	-	-	(3)
<b>TOTAL</b>	<b>(3)</b>	<b>(8)</b>	<b>(13)</b>	<b>7</b>	<b>-</b>	<b>(14)</b>

- Provisions on interest are recorded in Net banking income.

- Provisions on outstanding are recorded in Cost of risk.

**g. Impairment breakdown by country**

See note 2.9

**2.5 - BONDS AND OTHER FIXED INCOME SECURITIES****a. Accrued interest included in this item: 26****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
3	5	701	3,633	4,342

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

	12/31/2011	12/31/2012	12/31/2013
Public sector	2,230	2,882	3,452
Other sectors (guaranteed by a State or by a local government)	1,522	1,201	890
Other sectors (ABS)	84	73	-
DCC - Dexia Crediop per la Cartolarizzazione <sup>(1)</sup>	3,532	3,360	-
DSFB - Dexia Secured Funding Belgium <sup>(1)</sup>	6,712	4,831	-
Cedulas territoriales issued by Dexia Sabadell	3,000	500	-
Lettres de gage publiques issued by Dexia LdG Banque	1,350	-	-
<b>TOTAL</b>	<b>18,430</b>	<b>11,847</b>	<b>4,342</b>
- of which eligible for central bank refinancing	5,192	628	556
- assets assigned in guarantee to the central bank and removed from the cover pool	3,000	-	-
- of which replacement assets	1,350	500	-

(1) see 1.2.c Highlights of the period - Sale of securitization units.

**d. Replacement assets**

	12/31/2011	12/31/2012	12/31/2013
Dexia Sabadell	-	500	-
Dexia LdG Banque	1,350	-	-
<b>TOTAL</b>	<b>1,350</b>	<b>500</b>	<b>-</b>

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

	12/31/2011	12/31/2012	12/31/2013	Impairment as of 12/31/2013	Unrealized capital gain or loss as of 12/31/2013 <sup>(1)</sup>
Listed securities	6,415	2,136	1,904	(0)	29
Other securities	12,015	9,711	2,438	-	(280)
<b>TOTAL</b>	<b>18,430</b>	<b>11,847</b>	<b>4,342</b>	<b>(0)</b>	<b>(251)</b>

(1) The unrealized capital gain or loss is the difference between accounting value and market value.



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

Portfolio	Net amount as of 12/31/2011	Net amount as of 12/31/2012	Gross amount as of 12/31/2012	Increases <sup>(2)</sup>	Decreases <sup>(1)</sup>	Transfers <sup>(3)</sup>	Conversion differences	Impairment as of 12/31/2013	Net amount as of 12/31/2013	Unrealized capital gain or loss as of 12/31/2013 <sup>(4)</sup>
Trading	-	-	-	-	-	-	-	-	-	-
Placement	1,696	1,564	1,601	-	(150)	(416)	(23)	(0)	1,012	46
Investment	16,734	10,283	10,283	1,622	(8,843)	295	(27)	-	3,330	(297)
<b>TOTAL</b>	<b>18,430</b>	<b>11,847</b>	<b>11,884</b>	<b>1,622</b>	<b>(8,993)</b>	<b>(121)</b>	<b>(50)</b>	<b>(0)</b>	<b>4,342</b>	<b>(251)</b>

(1) For the year 2013, Caisse Française de Financement Local sold EUR 8,264 million in outstanding securities. The purpose of these transactions is described in Highlights of the period, 1.2.c.

(2) In the fourth quarter of 2013, Caisse Française de Financement Local acquired a part of the underlying commitments attached to the portfolio of securitization units (Italian local governments) held by Société de Financement Local.

(3) In the fourth quarter of 2013, Caisse Française de Financement Local reclassified placement securities to investment securities. Likewise, a security was reclassified from Bonds and other fixed income securities to Government and public securities (see 2.2.d).

(4) The unrealized capital gain or loss is calculated by the difference between the book value and the market price.

**g. Impairment breakdown by country**

See note 2.9

**2.6 - OTHER ASSETS**

	12/31/2011	12/31/2012	12/31/2013
Other receivables	47	1	13
<b>TOTAL</b>	<b>47</b>	<b>1</b>	<b>13</b>

This amount corresponds to the current income tax due as of December 31, 2013.

**2.7 - ACCRUALS AND OTHER ASSETS**

	12/31/2011	12/31/2012	12/31/2013
Deferred losses on hedging transactions	1,958	2,254	2,079
Deferred charges on bond issues	361	49	44
Deferred charges on hedging transactions	212	179	148
Premiums on acquisition of loans	135	111	110
Other prepaid charges	-	-	-
Accrued interest not yet due on hedging transactions	1,684	1,302	1,141
Translation adjustments	1,115	677	-
Other deferred income	-	-	-
Other accruals	33	3	3
<b>TOTAL</b>	<b>5,498</b>	<b>4,575</b>	<b>3,525</b>

**2.8 - TOTAL ASSETS**

Analysis by original currency	Amount in original currency as of 12/31/2011	Amount in euros as of 12/31/2011	Amount in original currency as of 12/31/2012	Amount in euros as of 12/31/2012	Amount in original currency as of 12/31/2013	Amount in euros as of 12/31/2013
EUR	73,205	73,205	66,639	66,639	61,634	61,634
AUD	1,387	1,091	1,079	848	1,079	700
CAD	1,022	773	1,022	776	1,020	696
CHF	2,859	2,350	2,760	2,286	2,660	2,168
GBP	672	804	637	783	637	764
HKD	201	20	201	20	201	19
JPY	238,467	2,381	156,881	1,374	106,641	737
NOK	1,039	134	1,039	141	1,039	124
PLN	59	13	34	8	36	9
SEK	1,352	152	1,342	156	1,335	150
USD	7,450	5,741	3,392	2,566	2,868	2,080
<b>TOTAL</b>		<b>86,664</b>		<b>75,597</b>		<b>69,081</b>

**2.9 - IMPAIRMENT BREAKDOWN BY COUNTRY**

	12/31/2011	12/31/2012	12/31/2013
<b>Government and public entity securities eligible for central bank refinancing - <i>placement</i> securities</b>	<b>(4)</b>	<b>(5)</b>	<b>(8)</b>
Spain	0	-	-
Italy	(4)	(5)	(8)
<b>Bonds and other fixed income securities - <i>placement</i> securities</b>	<b>(61)</b>	<b>(37)</b>	<b>0</b>
Spain	(3)	(3)	-
France	0	-	-
Germany	(7)	0	0
Austria	-	(4)	-
Italy	(33)	(16)	-
United Kingdom	(18)	(14)	-
<b>Bonds and other fixed income securities - investment securities</b>	<b>(7)</b>	<b>-</b>	<b>-</b>
Greece	(7)	-	-
<b>Loans and advances to customers</b>	<b>(3)</b>	<b>(8)</b>	<b>(14)</b>
France	(3)	(8)	(14)

**2.10 - BREAKDOWN OF GOVERNMENT BONDS IN A SELECTION OF EUROPEAN COUNTRIES AND DEPRECIATION OF SOVEREIGN BONDS IN COUNTRIES BENEFITING FROM THE EUROPEAN ASSISTANCE PROGRAM**

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

	12/31/2012					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	492	-	-	492
Securities guaranteed by State <sup>(1)</sup>	-	-	112	-	-	112
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>604</b>	<b>-</b>	<b>-</b>	<b>604</b>

	12/31/2013					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	585	-	-	585
Securities guaranteed by State	-	-	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>585</b>	<b>-</b>	<b>-</b>	<b>585</b>

	12/31/2012					
	Spain	Ireland	Italy	Portugal	Greece	Total
Investment securities	-	-	492	-	-	492
<i>Placement</i> securities	-	-	112	-	-	112
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>604</b>	<b>-</b>	<b>-</b>	<b>604</b>

<b>IMPAIRMENT</b>	<b>-</b>	<b>-</b>	<b>(14)</b>	<b>-</b>	<b>-</b>	<b>(14)</b>
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	12/31/2013					
	Spain	Ireland	Italy	Portugal	Greece	Total
Investment securities	-	-	480	-	-	480
<i>Placement</i> securities	-	-	105	-	-	105
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>585</b>	<b>-</b>	<b>-</b>	<b>585</b>

<b>IMPAIRMENT</b>	<b>-</b>	<b>-</b>	<b>(8)</b>	<b>-</b>	<b>-</b>	<b>(8)</b>
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(1) the Infrastructure SPA bond has been assimilated to Italian Government.

### 3. NOTES TO THE LIABILITIES (EUR millions)

#### 3.1 - CENTRAL BANKS

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

	12/31/2011	12/31/2012	12/31/2013
Overnight borrowing	-	-	-
Time borrowing	2,700	-	-
Accrued interest	0	-	-
<b>TOTAL BANQUE DE FRANCE</b>	<b>2,700</b>	<b>-</b>	<b>-</b>

#### 3.2 - DUE FROM BANKS

When Caisse Française de Financement Local was acquired on January 31, 2013, by its parent company Société de Financement Local, all the commitments received from Dexia Credit Local came to an end as of that date, and a new agreement was signed with Sfil. At the end of December 2013, funding obtained from Sfil, within the framework of the financing agreement, was comprised of different loans with maturities initially between one day and seven years, indexed on Euribor or Eonia.

	12/31/2011	12/31/2012	12/31/2013
Sight accounts	-	-	1
Current account - parent company	5,999	4,510	-
Interest accrued not yet due	5	-	-
Term borrowing - parent company	3,500	3,100	6,758
Interest accrued not yet due	13	10	15
Unallocated sums	8	3	0
<b>TOTAL</b>	<b>9,525</b>	<b>7,623</b>	<b>6,774</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
Sight	1	-	-	-	1
Term	284	310	4,926	1,238	6,758
<b>TOTAL</b>	<b>285</b>	<b>310</b>	<b>4,926</b>	<b>1,238</b>	<b>6,759</b>

#### 3.3 - DEBT SECURITIES

##### a. Debt securities (*obligations foncières*)

##### a. Accrued interest included in this item: 914

##### b. 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>	2,524	1,184	23,623	20,831	48,162
of which issue premiums <sup>(1)</sup>	(1)	(0)	(21)	(75)	(97)

(1) The gross amount of issue premiums, before amortization, totaled EUR 228,1 million.

##### c. Changes during the year excluding accrued interest

12/31/2012	Increases	Decreases	Translation adjustment	12/31/2013
52,738	2,586	(6,476)	(686)	48,162

**b. Other bonds (registered covered bonds)****a. Accrued interest included in this item: 132****b. 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	-	(0)	201	4,504	4,705
of which issue premiums <sup>(1)</sup>	-	-	(0)	(5)	(5)

(1) The gross amount of issue premiums totaled EUR 6.8 million.

**c. Analysis by residual maturity excluding accrued interest**

12/31/2012	Increases	Decrease	Translation adjustment	12/31/2013
4,245	460	-	-	4,705

**3.4 - OTHER LIABILITIES**

	12/31/2011	12/31/2012	12/31/2013
Cash collateral received	2,498	3,518	2,546
Accrued interest not yet due on cash collateral received	0	0	0
Taxes	2	6	3
Balances to pay on unwound hedging contracts	-	-	-
Contribution to the support fund <sup>(1)</sup>	-	-	150
Other creditors	-	-	-
<b>TOTAL</b>	<b>2,500</b>	<b>3,524</b>	<b>2,699</b>

(1) This item corresponds to the commitment of Caisse Française de Financement Local to contribute to the multi-year support fund in the amount of EUR 10 million per year for 15 years, once the fund is operational (see 1.2e).

**3.5 - ACCRUALS AND OTHER LIABILITIES**

	12/31/2011	12/31/2012	12/31/2013
Deferred gains on hedging transactions	-	-	-
Deferred income on hedging transactions	2,361	2,675	2,432
Deferred income on loans	243	204	195
Accrued interest not yet due on hedging transactions	1,394	1,120	1,040
Other accrued charges	27	25	46
Translation adjustments	673	678	462
Other accruals	8	0	8
<b>TOTAL</b>	<b>4,706</b>	<b>4,702</b>	<b>4,182</b>

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

	Amount as of 12/31/2011	Amount as of 12/31/2012	Increases	Decreases	Translation adjustments	Amount as of 12/31/2013
Loans commitments	-	39	70	(39)	-	70
Financial instruments	44	55	-	(20)	0	35
Regulated provision	69	70	-	(70)	-	-
Other provisions	40	29	-	-	-	29
<b>TOTAL</b>	<b>153</b>	<b>193</b>	<b>70</b>	<b>(129)</b>	<b>0</b>	<b>134</b>

The 2014 Law of Finances eliminates the Provision for medium- and long-term loans for EUR 70 million. In addition, Caisse Française de Financement Local increased its provisions on a loan portfolio to EUR 70 million.

## 3.7

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## EQUITY

	12/31/2011	12/31/2012	12/31/2013
Share capital	1,300	1,315	1,315
Legal reserve	44	44	46
Retained earnings (+/-)	13	3	38
Net income (+/-)	5	37	(20)
<b>TOTAL</b>	<b>1,362</b>	<b>1,399</b>	<b>1,379</b>

On May 24, 2013, the Ordinary and Extraordinary Shareholders' Meeting decided to allocate the 2012 net income of EUR 37 million to retained earnings, constituting income for distribution of EUR 38 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 with a face value of EUR 100.

## 3.8 - TOTAL LIABILITIES

Analysis by original currency	Amount in original currency as of 12/31/2011	Amount in euros as of 12/31/2011	Amount in original currency as of 12/31/2012	Amount in euros as of 12/31/2012	Amount in original currency as of 12/31/2013	Amount in euros as of 12/31/2013
EUR	73,205	73,205	66,639	66,639	61,634	61,634
AUD	1,387	1,091	1,079	848	1,079	700
CAD	1,022	773	1,022	776	1,020	696
CHF	2,859	2,350	2,760	2,286	2,660	2,168
GBP	672	804	637	783	637	764
HKD	201	20	201	20	201	19
JPY	238,467	2,381	156,881	1,374	106,641	737
NOK	1,039	134	1,039	141	1,039	124
PLN	59	13	34	8	36	9
SEK	1,352	152	1,342	156	1,335	150
USD	7,450	5,741	3,392	2,566	2,868	2,080
<b>TOTAL</b>		<b>86,664</b>		<b>75,597</b>		<b>69,081</b>

## 3.9 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Parent company and consolidated entities <sup>(1)</sup>			Other related parties <sup>(2)</sup>		
	12/31/2011	12/31/2012	12/31/2013	12/31/2011	12/31/2012	12/31/2013
<b>ASSETS</b>						
Loans and advances due from banks - sight	-	-	-	-	-	-
Loans and advances due from banks - term	2,154	2,142	4,368	-	-	-
Bonds and other fixed income securities	6,557	3,864	-	1,351	-	-
<b>LIABILITIES</b>						
Due to banks - sight	6,004	4,510	-	-	-	-
Due to banks - term	3,513	3,110	6,773	-	-	-
<b>INCOME STATEMENT</b>						
Interest income on loans and advances	35	56	16	-	-	-
Interest income on debt securities	119	65	-	23	-	-
Interest expense on borrowings	(143)	(87)	(65)	-	-	-
Net commissions	(4)	(3)	(19)	-	-	-
<b>OFF-BALANCE SHEET</b>						
Interest rate derivatives	119,212	102,507	13,900	-	-	-
Foreign exchange derivatives	6,610	5,947	5,180	-	-	-
Commitments and guarantees received	11,724	12,010	4,420	-	-	134

(1) This item includes transactions up to 2012 with Dexia Group entities. Since 2013, it includes transactions with Société de Financement Local, the parent company of Caisse Française de Financement Local.

(2) This item includes transactions up to 2012 with companies in the Luxembourg subgroup consolidated by Dexia S.A., the parent company of Dexia Credit Local. As of January 2013, it includes transactions with Caisse des Dépôts et Consignations and La Banque Postale, shareholders of Sfil, the parent company of Caisse Française de Financement Local.

## 4. NOTES TO THE OFF-BALANCE SHEET ITEMS (EUR millions)

### 4.1 - COMMITMENTS GRANTED

	12/31/2011	12/31/2012	12/31/2013
Financing commitments granted to credit institutions	0	0	0
Financing commitments granted to customers <sup>(1)</sup>	660	317	228
Other commitments given, assets assigned in guarantee	3,037	-	-
<b>TOTAL</b>	<b>3,697</b>	<b>317</b>	<b>228</b>

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

### 4.2 - COMMITMENTS RECEIVED

	12/31/2011	12/31/2012	12/31/2013
Financing commitments received from credit institutions <sup>(1)</sup>	5,755	6,006	170
Currencies borrowed	-	-	-
Guarantees received from credit institutions <sup>(2)</sup>	6,478	4,742	4,568
Guarantees received from local governments and asset transfers as guarantees of commitments on local governments	7,770	7,646	7,078
Other commitments received	725	-	0
<b>TOTAL</b>	<b>20,728</b>	<b>18,394</b>	<b>11,816</b>

(1) Until January 31, 2013, this item concerned the firm and irrevocable commitment of Dexia Credit Local to make available to Caisse Française de Financement Local the funds the latter requires to reimburse the obligations foncières arriving at maturity in the next 12 months. This arrangement came to an end on January 31, 2013, following the transfer of Caisse Française de Financement Local to Société de Financement Local.

As of December 31, 2013, this item corresponded primarily to EUR 120 million linked to registered covered bonds waiting for settlement.

(2) As of December 31, 2013, the total was mainly composed of pledges of securities to the benefit of Caisse Française de Financement Local as a guarantee for the reimbursement of loans granted to Sfil.

### 4.3 - FOREIGN CURRENCY TRANSACTIONS

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

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

	12/31/2011	12/31/2012	12/31/2013	Fair value as of 12/31/2013
Currencies to receive	17,800	13,299	11,275	539
Currencies to deliver	17,358	13,300	11,737	(517)
<b>TOTAL</b>	<b>35,158</b>	<b>26,599</b>	<b>23,012</b>	<b>22</b>

### 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	Amount as of 12/31/2012	Less than 1 year	1 year to 5 years	More than 5 years	Total
Unconditional transactions	180,105	37,445	51,413	59,808	148,666
of which deferred start	10,234	-	7,500	1,047	8,547

These holding operations include micro- and macro-hedges.

#### b. Analysis of interest rate transactions by product type

	12/31/2011	12/31/2012	12/31/2013
Interest rate swaps	204,257	180,105	148,666
Term contracts	-	-	-
Interest rate options	-	-	-
<b>TOTAL</b>	<b>204,257</b>	<b>180,105</b>	<b>148,666</b>

**c. Analysis of interest rate swap transactions**

	12/31/2011	12/31/2012	12/31/2013	Fair value as of 12/31/2013
Micro-hedge	78,245	73,913	69,996	(1,078)
Macro-hedge	126,012	106,192	78,670	(2,712)
<b>TOTAL</b>	<b>204,257</b>	<b>180,105</b>	<b>148,666</b>	<b>(3,790)</b>

**d. Analysis of interest rate transactions by counterparty**

	12/31/2011	12/31/2012	12/31/2013
Related parties	119,212	99,550	13,900
Counterparties with equity interests	-	-	-
Other counterparties	85,045	80,555	134,766
<b>TOTAL</b>	<b>204,257</b>	<b>180,105</b>	<b>148,666</b>

**5. NOTES TO THE STATEMENT OF INCOME (EUR millions)****5.0 - INTEREST AND RELATED INCOME / EXPENSE**

(EUR millions)	<b>2012</b>	<b>2013</b>
<b>INTEREST AND RELATED INCOME</b>	<b>3,439</b>	<b>4,976</b>
Due from banks	93	77
Due from customers	2,401	2,725
Bonds and other fixed income securities	257	73
Macro-hedge transactions	688	2,101
Other commitments	-	-
<b>INTEREST AND RELATED EXPENSE</b>	<b>(3,202)</b>	<b>(4,816)</b>
Due to banks	(84)	(73)
Due to customers	(1,206)	(1,716)
Bonds and other fixed income securities	(655)	(338)
Macro-hedge transactions	(1,257)	(2,689)
Other commitments	-	-
<b>INTEREST MARGIN</b>	<b>237</b>	<b>160</b>

**5.1 - ANALYSIS OF COMMISSIONS PAID**

	<b>2012</b>	<b>2013</b>
Commission for business brokerage and securities portfolio management billed by Dexia Crediop	(3)	(4)
Commission paid on securities transactions	(1)	(1)
Commission recharge to Société de Financement Local	-	(19)
<b>TOTAL</b>	<b>(4)</b>	<b>(24)</b>

**5.2 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS**

	<b>2012</b>	<b>2013</b>
Transactions on <i>placement</i> securities <sup>(1)</sup>	13	41
Transactions on investment securities	-	(0)
Transactions on interest rate derivatives	-	-
Foreign exchange transactions	-	0
<b>TOTAL</b>	<b>13</b>	<b>41</b>

(1) This item regroups capital gains and losses on sales and provisions and reversals on this portfolio. Amount after swap.

### 5.3 - GENERAL EXPENSES

Caisse Française de Financement Local has no salaried employees in accordance with article L.513-15 of the Monetary and Financial Code. Through an agreement, the general management of the operations of Caisse Française de Financement Local is entrusted to its parent company, a credit institution. This management was the responsibility of Dexia Credit Local until the end of January 2013. Since that date, it is in the hands of Société de Financement Local. Particular agreements were also drawn up with the following entities: Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium) and Dexia Crediop (Italy). These management contracts already existed in previous years.

General operating expense can be broken down as follows:

	2012	2013
Taxes	(4)	(5)
Other general operating expense <sup>(1)</sup>	(87)	(74)
<b>TOTAL</b>	<b>(91)</b>	<b>(79)</b>

(1) of which EUR 65 million with Sfil

### 5.4 - COST OF RISK

	2012	2013
Contribution to the support fund	-	(150)
Collective and specific impairments	(41)	(33)
<b>TOTAL</b>	<b>(41)</b>	<b>(183)</b>

### 5.5 - GAINS OR LOSSES ON FIXED ASSETS

	2012	2013
Transactions on investment securities	(26)	-
Other transactions	-	-
<b>TOTAL</b>	<b>(26)</b>	<b>-</b>

### 5.6 - CORPORATE INCOME TAX

	2012	2013
Income tax for the year	(24)	(5)
Deferred tax	(26)	-
<b>TOTAL</b>	<b>(50)</b>	<b>(5)</b>

The tax rate applicable in France in 2013 was 36.10%.

### 5.7 - INCREASE AND DECREASE IN THE REGULATED PROVISION

	2012	2013
Increase and decrease in the regulated provision	(1)	70
<b>TOTAL</b>	<b>(1)</b>	<b>70</b>

Following the elimination of the Provision for medium- and long-term loans by the 2014 Law of Finances, this provision was completely reversed into the amount of EUR 70 million.



# Statutory Auditors' report on the financial statements

## for the year ended December 31, 2013

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

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

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

### To the Shareholders

In compliance with the assignment entrusted to us by your Ordinary Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2013, on:

- the audit of the accompanying financial statements of Caisse Française de Financement Local;
  - the justification of our assessments;
  - the specific verification and information required by law.
- These financial statements have been approved by the Executive Board. Our role is to express an opinion on these financial statements based on our audit.

### I - 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 at December 31, 2013 and of the results of its operations for the year then ended in accordance with French accounting principles.

Without qualifying our opinion, we draw your attention to the matter set out in Note "1.1 - Context of the publication" to the financial statements which mentions the hypothesis made for the preparation of the financial statements, according to which the legislative measures aiming at securing, from a legal point of view, the loan agreements in effect with local governments, will be voted in 2014 and will eliminate the related risks.

### II - Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code (*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 "2.2.a Loans and advances due from banks and customer loans and advances" 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 "2.2.b Securities transactions" 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.

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.

### III - 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 French Commercial Code (*Code de commerce*) relating to compensation and benefits received by the directors and any other commitments made in their favour, does not include the compensation and benefits granted by the company controlling your Company as per article L.223-16 of the French Commercial Code (*Code de commerce*), for the reasons exposed in the paragraph "Compensation of members of management bodies" in the above-mentioned report. As a consequence, we cannot attest their fair presentation and accuracy.

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Courbevoie and Neuilly-sur-Seine, March 31, 2014  
The Statutory Auditors  
French original signed by:

**MAZARS**

Virginie Chauvin

Anne Veaute

**DELOITTE & ASSOCIÉS**

Charlotte Vandeputte

José-Luis Garcia

# Supplemental Disclosures

Caisse Française de Financement Local was authorized to operate as a *société de crédit foncier* on July 23, 1999, by the *Comité des établissements de crédit et des entreprises d'investissement* (CECEI). It is therefore subject to the regulations governing credit institutions.

In addition, *sociétés de crédit foncier* are governed by articles L.513-2 to L.513-27 and R.515-2 to R.515-14 of Book V, Title I, Chapter V, Section 4 of the Monetary and Financial Code.

Caisse Française de Financement Local ensures that its liquidity management enables the Company to respect a one month regulatory liquidity ratio calculated according to the terms of the *arrêté* of May 5, 2009, higher than the limit of 100%.

The regulatory documents for the following ratios were prepared on a consolidated basis by Société de Financement Local, which owned 99.99% of the capital of Caisse Française de Financement Local as of December 31, 2013:

- capital adequacy ratio;
- control of large credit exposures.

These documents are also prepared by Caisse Française de Financement Local on an individual basis and communicated for information to regulatory authorities (ACPR).

Pursuant to the article L.513-12 and the article R.515-7-2 of the Monetary and Financial Code, Caisse Française de Financement Local's total assets must always exceed 102% of the total liabilities benefiting from the privilege referred to in article L.513-11 of the Monetary and Financial Code. As of December 31, 2013, the over-collateralization ratio was 114.3%.

## Income for the last five years

	2009	2010	2011	2012	2013
<b>FINANCIAL POSITION</b>					
Share capital (EUR thousands)	1,060,000	1,190,000	1,300,000	1,315,000	1,315,000
Number of shares	10,600,000	11,900,000	13,000,000	13,150,000	13,150,000
<b>RESULTS OF OPERATIONS (EUR thousands)</b>					
Revenues <sup>(1)</sup>	1,562,281	1,996,511	3,269,418	2,182,333	2,286,627
Income before income tax, amortization, depreciation and contingencies net of reversals	195,766	189,425	91,295	119,177	94,157
Income tax	53,797	65,754	19,482	49,509	5,498
Income after income tax, amortization, depreciation and contingencies net of reversals	98,051	120,057	5,417	37,213	(20,519)
Exceptional distribution	-	-	-	-	-
Dividend <sup>(2)</sup>	133,560	110,075	15,080	36,820	-
<b>PER SHARE DATA (EUR)</b>					
Revenues	147.39	167.77	251.49	165.96	173.89
Income after income tax, before amortization, depreciation and contingencies net of reversals	13.39	10.39	5.52	5.30	6.74
Income tax	5.08	5.53	1.50	3.76	0.42
Income after income tax, amortization, depreciation and contingencies net of reversals	9.25	10.09	0.42	2.83	(1.56)
Exceptional distribution	-	-	-	-	-
Dividend per share <sup>(2)</sup>	12.60	9.25	1.16	2.80	-

(1) Revenues are comprised of the macro-hedging items:  
- interest and related income, netted of macro-hedging expense;  
- commission income;  
- net income on foreign exchange transactions;  
- other operating income.

(2) Proposed distribution for 2013.

## Over-collateralization ratio

Pursuant to article L.513-12 of the Monetary and Financial Code and article 6 of CRBF standard 99-10 of July 27, 1999, the total of the assets of *sociétés de crédit foncier* must always exceed liabilities benefiting from the privilege referred to in article L.513-11 of the Monetary and Financial Code.

<b>Assets covering sources of funds benefiting from the privilege</b> (weighted amounts in EUR millions)	<b>12/31/2013</b>
Exposures on public sector entities	58,657
Shares in funds or similar entities that meet the conditions of article L.513-5 of the Monetary and Financial Code	-
Securities and secure and liquid deposits	4,389
Other assets	3,328
Operations deducted from the assets	-
<b>TOTAL ASSETS</b>	<b>66,374</b>
<b>Sources of funds benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code</b> (weighted amounts in EUR millions)	<b>12/31/2013</b>
<i>Obligations foncières</i>	48,258
Other bonds benefiting from the privilege	4,710
Liabilities related to these securities	1,047
Amounts owed under the contract provided for in article L.513-15 of the Monetary and Financial Code	21
Amounts owed for derivatives benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code	4,057
Debt attributable to miscellaneous expense mentioned in the last section of article L. 513-11 of the Monetary and Financial Code	-
<b>TOTAL LIABILITIES</b>	<b>58,093</b>
<b>OVER-COLLATERALIZATION RATIO</b>	<b>114.25%</b>

## Statutory Auditors' fees in 2013

EUR thousands	Mazars				Deloitte & Associés			
	Amount (excl. VAT)		%		Amount (excl. VAT)		%	
	2012	2013	2012	2013	2012	2013	2012	2013
<b>Audit services rendered</b>								
Audit, certification, examination of company financial statements	146	292	100%	100%	149	295	100%	100%
Other audit tasks	-	-	0%	0%	-	-	0%	0%
<b>Sub-total</b>	<b>146</b>	<b>292</b>	<b>100%</b>	<b>100%</b>	<b>149</b>	<b>295</b>	<b>100%</b>	<b>100%</b>
<b>Other services</b>								
Legal, tax, labor issues	-	-	-	-	-	-	-	-
Internal audit	-	-	-	-	-	-	-	-
Other (to specify if > 10% of audit fees)	-	-	-	-	-	-	-	-
<b>Sub-total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>146</b>	<b>292</b>	<b>100%</b>	<b>100%</b>	<b>149</b>	<b>295</b>	<b>100%</b>	<b>100%</b>

## 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
AU0000DXAHD6	AUD	200,000,000	130	121	2 Apr 14		Sydney
AU0000DXAHD6	AUD	150,000,000	97	90	2 Apr 14		Sydney
AU0000DXAHD6	AUD	150,000,000	97	90	2 Apr 14		Sydney
AU0000DXAHH7	AUD	200,000,000	130	124	24 Aug 15		Sydney
AU0000DXAHH7	AUD	200,000,000	130	123	24 Aug 15		Sydney
AU0000DXAHH7	AUD	100,000,000	64	58	24 Aug 15		Sydney
FR0010397828	AUD	11,600,000	8	7	20 Mar 14		Unlisted
FR0010503011	AUD	29,400,000	19	19	19 Jun 14		Luxembourg
TOTAL	AUD	1,061,000,000	688	644			
FR0010172098	CAD	200,000,000	136	122	9 Mar 20		Luxembourg
FR0010443630	CAD	200,000,000	136	131	9 Mar 29		Luxembourg
FR0010443630	CAD	100,000,000	64	69	9 Mar 29		Luxembourg
FR0010477083	CAD	500,000,000	341	335	30 May 17		Luxembourg
TOTAL	CAD	1,000,000,000	678	658			
CH0020643760	CHF	200,000,000	163	128	11 Mar 15		Zurich
CH0020643760	CHF	100,000,000	82	65	11 Mar 15		Zurich
CH0020643760	CHF	150,000,000	123	97	11 Mar 15		Zurich
CH0020643760	CHF	100,000,000	82	64	11 Mar 15		Zurich
CH0020643760	CHF	100,000,000	81	64	11 Mar 15		Zurich
CH0020643760	CHF	50,000,000	41	31	11 Mar 15		Zurich
CH0023984815	CHF	200,000,000	163	129	9 Feb 16		Zurich
CH0023984815	CHF	180,500,000	149	139	9 Feb 16		Zurich
CH0032508563	CHF	165,000,000	135	100	9 Aug 17		Zurich
CH0032508563	CHF	135,000,000	111	81	9 Aug 17		Zurich
CH0032508563	CHF	100,000,000	81	62	9 Aug 17		Zurich
CH0033023216	CHF	200,000,000	164	121	28 Aug 19		Zurich
CH0105994203	CHF	250,000,000	204	165	2 May 18		Zurich
CH0105994203	CHF	160,000,000	133	109	2 May 18		Zurich
CH0106680777	CHF	143,000,000	117	95	12 Aug 19		Zurich
CH0106680777	CHF	125,000,000	102	95	12 Aug 19		Zurich
CH0111862063	CHF	100,000,000	83	70	23 Apr 30		Zurich
FR0010526376	CHF	20,000,000	16	12	15 Oct 27		Unlisted
FR0010555748	CHF	50,000,000	41	30	20 Dec 17		Unlisted
TOTAL	CHF	2,528,500,000	2,069	1,657			
FR0000470221	EUR	20,000,000	20	20	3 Oct 14		Luxembourg
FR0000470361	EUR	30,000,000	30	30	30 Sep 14		Luxembourg
FR0000470494	EUR	18,000,000	18	18	22 Oct 14		Luxembourg
FR0000472474	EUR	53,000,000	53	53	7 Dec 15		Luxembourg
FR0000473357	EUR	74,820,000	75	75	2 Apr 18		Luxembourg
FR0000480329	EUR	300,000,000	300	300	9 Aug 17		Luxembourg
FR0000480329	EUR	100,000,000	100	100	9 Aug 17		Luxembourg
FR0000480329	EUR	50,000,000	50	50	9 Aug 17		Luxembourg
FR0000480329	EUR	14,050,000	14	14	9 Aug 17		Luxembourg
FR0000480329	EUR	168,000,000	168	168	9 Aug 17		Luxembourg
FR0000480329	EUR	6,420,000	6	6	9 Aug 17		Luxembourg
FR0000480329	EUR	77,800,000	77	78	9 Aug 17		Luxembourg
FR0000480329	EUR	20,000,000	20	20	9 Aug 17		Luxembourg
FR0000488132	EUR	750,000,000	746	750	6 Feb 17		Luxembourg - Paris
FR0000488132	EUR	100,000,000	101	100	6 Feb 17		Luxembourg - Paris
FR0000488132	EUR	150,000,000	153	150	6 Feb 17		Luxembourg - Paris
FR0000488132	EUR	150,000,000	153	150	6 Feb 17		Luxembourg - Paris

\* 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)				
FR0000488132	EUR	250,000,000	262	250	6 Feb 17		Luxembourg - Paris
FR0000489395	EUR	30,000,000	30	30	29 May 14		Luxembourg
FR0000489411	EUR	30,000,000	30	30	30 May 14		Luxembourg
FR0000489890	EUR	13,000,000	13	13	30 Jun 14		Luxembourg
FR0000499030	EUR	30,000,000	30	30	23 Feb 15		Luxembourg
FR0010018028	EUR	47,000,000	47	47	9 Oct 15		Luxembourg
FR0010033357	EUR	50,000,000	50	50	20 Nov 18		Luxembourg
FR0010034371	EUR	75,000,000	75	75	15 Dec 19		Luxembourg
FR0010039164	EUR	40,000,000	40	40	19 Feb 18		Luxembourg
FR0010039172	EUR	13,000,000	13	13	2 Feb 14		Luxembourg
FR0010051698	EUR	111,500,000	112	112	20 Feb 19		Luxembourg
FR0010053769	EUR	20,000,000	20	20	26 Feb 16		Luxembourg
FR0010054049	EUR	20,000,000	20	20	3 Mar 14		Luxembourg
FR0010060350	EUR	50,000,000	50	50	17 Mar 14		Luxembourg
FR0010060384	EUR	30,000,000	30	30	5 Mar 20		Luxembourg
FR0010061978	EUR	50,000,000	50	50	15 Mar 16		Luxembourg
FR0010061986	EUR	65,000,000	65	65	15 Mar 19		Luxembourg
FR0010063727	EUR	30,000,000	30	30	15 Mar 21		Luxembourg
FR0010063768	EUR	10,600,000	11	11	10 Mar 14		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
FR0010081869	EUR	23,000,000	23	23	21 May 14		Luxembourg
FR0010081885	EUR	10,000,000	10	10	21 May 16		Luxembourg
FR0010089839	EUR	90,200,000	90	90	24 Jun 24		Luxembourg
FR0010092908	EUR	10,000,000	10	10	7 Jun 19		Luxembourg
FR0010093336	EUR	50,000,000	50	50	22 Jun 24		Luxembourg
FR0010096131	EUR	63,000,000	63	63	2 Jul 14		Luxembourg
FR0010096818	EUR	37,000,000	37	37	15 Jul 19	15 Jul 14	Luxembourg
FR0010108811	EUR	80,000,000	80	80	1 Sep 19		Luxembourg
FR0010114371	EUR	20,082,322	20	15	24 Sep 24		Luxembourg
FR0010115741	EUR	28,500,000	29	29	30 Sep 14		Luxembourg
FR0010120519	EUR	65,000,000	65	65	21 Oct 19	21 Oct 14	Luxembourg
FR0010125732	EUR	100,000,000	100	100	11 Oct 19		Luxembourg
FR0010130435	EUR	200,000,000	200	200	2 Dec 19		Luxembourg
FR0010133645	EUR	100,000,000	100	100	14 Jan 15		Luxembourg
FR0010133645	EUR	75,000,000	75	75	14 Jan 15		Luxembourg
FR0010134577	EUR	120,000,000	120	120	3 Dec 24		Luxembourg
FR0010137489	EUR	50,000,000	50	50	6 Dec 14		Luxembourg
FR0010160911	EUR	20,000,000	20	20	28 Jan 25		Luxembourg
FR0010163394	EUR	230,000,000	223	230	10 Feb 25		Luxembourg
FR0010165696	EUR	60,000,000	60	60	17 Feb 20		Luxembourg
FR0010167304	EUR	50,000,000	50	50	7 Mar 20		Luxembourg
FR0010167312	EUR	50,000,000	50	50	2 Mar 20		Unlisted
FR0010170589	EUR	31,000,000	31	31	10 Mar 20		Unlisted
FR0010170597	EUR	30,000,000	30	30	15 Mar 20		Luxembourg
FR0010170696	EUR	20,000,000	20	20	4 Mar 20		Luxembourg
FR0010172031	EUR	50,000,000	50	50	11 Mar 20		Luxembourg
FR0010172106	EUR	30,000,000	30	30	14 Mar 17		Luxembourg
FR0010173716	EUR	100,000,000	100	100	23 Mar 15		Luxembourg
FR0010173765	EUR	75,000,000	75	75	15 Jul 15		Luxembourg
FR0010175844	EUR	140,000,000	140	140	24 Mar 20		Unlisted
FR0010175869	EUR	76,000,000	76	76	30 Mar 20		Unlisted
FR0010178467	EUR	35,000,000	35	35	22 Apr 15		Luxembourg
FR0010185892	EUR	100,000,000	100	100	29 Apr 22		Luxembourg
FR0010186163	EUR	155,000,000	155	155	6 May 20		Luxembourg
FR0010190066	EUR	100,000,000	100	100	6 May 22		Luxembourg
FR0010190181	EUR	25,000,000	25	25	20 May 20		Luxembourg
FR0010190199	EUR	150,000,000	150	150	27 Apr 20		Luxembourg
FR0010190231	EUR	100,000,000	100	100	13 May 22		Luxembourg

\* 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)				
FR0010190264	EUR	25,000,000	25	25	20 May 20		Luxembourg
FR0010194506	EUR	100,000,000	100	100	20 May 22		Luxembourg
FR0010194522	EUR	60,000,000	60	60	19 May 20		Luxembourg
FR0010199984	EUR	10,000,000	10	10	8 Jun 20		Luxembourg
FR0010208587	EUR	10,000,000	10	10	24 Jun 20		Luxembourg
FR0010209940	EUR	15,000,000	15	15	29 Jun 20		Luxembourg
FR0010210005	EUR	10,000,000	10	10	6 Jul 20		Luxembourg
FR0010212977	EUR	22,000,000	22	22	8 Aug 25		Luxembourg
FR0010224402	EUR	50,000,000	50	50	8 Sep 20		Luxembourg
FR0010224410	EUR	50,000,000	50	50	8 Sep 20		Luxembourg
FR0010231357	EUR	1,000,000,000	999	1,000	15 Sep 15		Luxembourg
FR0010231357	EUR	500,000,000	497	500	15 Sep 15		Luxembourg
FR0010231357	EUR	500,000,000	492	500	15 Sep 15		Luxembourg
FR0010231357	EUR	391,500,000	385	392	15 Sep 15		Luxembourg
FR0010231357	EUR	65,000,000	63	65	15 Sep 15		Luxembourg
FR0010235366	EUR	30,000,000	30	30	17 Oct 15	17 Jan 14	Luxembourg
FR0010237081	EUR	55,000,000	55	55	3 Oct 20		Luxembourg
FR0010245738	EUR	30,000,000	30	30	26 Oct 22		Unlisted
FR0010248609	EUR	100,000,000	100	100	16 Nov 15		Luxembourg
FR0010248658	EUR	100,000,000	100	100	21 Dec 15		Luxembourg
FR0010249565	EUR	13,945,750	14	14	14 Nov 25	16 Nov 15	Luxembourg
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	29	30	15 Dec 20		Luxembourg
FR0010261529	EUR	50,000,000	50	50	4 Jan 26		Luxembourg
FR0010265488	EUR	100,000,000	100	100	5 Jan 26	5 Jan 16	Luxembourg
FR0010279109	EUR	38,876,089	39	39	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
FR0010297242	EUR	100,000,000	100	100	20 Mar 26		Luxembourg
FR0010301796	EUR	15,000,000	15	15	23 Mar 16		Luxembourg
FR0010306373	EUR	4,900,000	5	5	31 Mar 16		Luxembourg
FR0010306456	EUR	10,000,000	10	10	7 Apr 25		Unlisted
FR0010306472	EUR	10,000,000	10	10	6 Apr 20		Unlisted
FR0010306480	EUR	20,000,000	20	20	6 Apr 20		Unlisted
FR0010306498	EUR	10,000,000	10	10	7 Apr 25		Unlisted
FR0010306506	EUR	5,000,000	5	5	7 Apr 26		Unlisted
FR0010306514	EUR	5,000,000	5	5	6 Apr 27		Unlisted
FR0010306522	EUR	5,000,000	5	5	5 Apr 30		Unlisted
FR0010306605	EUR	50,000,000	50	50	19 Apr 18		Luxembourg
FR0010318410	EUR	50,000,000	50	50	24 Apr 26		Unlisted
FR0010322792	EUR	65,000,000	65	65	5 May 36		Luxembourg
FR0010333534	EUR	60,000,000	60	60	9 Jun 16		Luxembourg
FR0010342378	EUR	10,000,000	10	10	21 Jun 21		Luxembourg
FR0010342519	EUR	10,000,000	10	10	12 Jul 18		Luxembourg
FR0010347815	EUR	50,000,000	50	50	7 Oct 15		Unlisted
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
FR0010363473	EUR	50,000,000	50	50	23 Sep 15		Unlisted
FR0010369231	EUR	50,000,000	50	50	11 May 16		Unlisted
FR0010369306	EUR	891,473,000	891	891	12 Mar 14		Luxembourg
FR0010369306	EUR	250,000,000	250	250	12 Mar 14		Luxembourg
FR0010369306	EUR	200,000,000	200	200	12 Mar 14		Luxembourg
FR0010369306	EUR	150,000,000	150	150	12 Mar 14		Luxembourg
FR0010369306	EUR	150,000,000	150	150	12 Mar 14		Luxembourg
FR0010369306	EUR	150,000,000	150	150	12 Mar 14		Luxembourg

\* 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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Supplemental Disclosures

Shareholders' Meeting

General Information



Obligations foncières ISIN code	Currency	Nominal amount in foreign currency	Balance	Redemption value *	Final due date	Next call date	Stock exchange
			(EUR millions)				
FR0010369306	EUR	30,000,000	30	30	12 Mar 14		Luxembourg
FR0010369330	EUR	50,000,000	50	50	27 Sep 18		Luxembourg
FR0010369546	EUR	50,000,000	50	50	3 Oct 21		Luxembourg
FR0010369645	EUR	30,000,000	30	30	20 Sep 18		Unlisted
FR0010379073	EUR	50,000,000	50	50	10 Oct 21		Luxembourg
FR0010379081	EUR	50,000,000	50	50	27 Feb 15		Unlisted
FR0010385930	EUR	50,000,000	50	50	27 Oct 21		Unlisted
FR0010386078	EUR	50,000,000	50	50	7 Nov 16		Luxembourg
FR0010386086	EUR	55,000,000	55	55	7 Nov 16		Luxembourg
FR0010391110	EUR	12,000,000	12	12	21 Nov 18		Luxembourg
FR0010398115	EUR	1,000,000,000	999	1,000	24 Nov 16		Luxembourg
FR0010398115	EUR	30,000,000	29	30	24 Nov 16		Luxembourg
FR0010398115	EUR	25,000,000	24	25	24 Nov 16		Luxembourg
FR0010412577	EUR	10,000,000	10	10	29 Dec 21		Luxembourg
FR0010428003	EUR	20,500,000	21	21	15 Feb 22		Luxembourg
FR0010428185	EUR	1,000,000,000	998	1,000	7 Feb 19		Luxembourg
FR0010428185	EUR	150,000,000	147	150	7 Feb 19		Luxembourg
FR0010428185	EUR	150,000,000	147	150	7 Feb 19		Luxembourg
FR0010428185	EUR	20,000,000	19	20	7 Feb 19		Luxembourg
FR0010428185	EUR	125,000,000	121	125	7 Feb 19		Luxembourg
FR0010428185	EUR	150,000,000	148	150	7 Feb 19		Luxembourg
FR0010428185	EUR	25,000,000	25	25	7 Feb 19		Luxembourg
FR0010428185	EUR	200,000,000	202	200	7 Feb 19		Luxembourg
FR0010455147	EUR	20,000,000	20	20	20 Mar 14		Unlisted
FR0010459230	EUR	44,400,000	44	44	20 Jun 14		Luxembourg
FR0010469809	EUR	19,300,000	19	19	20 Jun 14		Luxembourg
FR0010470914	EUR	20,000,000	20	20	20 Mar 14		Unlisted
FR0010492025	EUR	1,180,800,000	1,179	1,181	3 Jul 17		Luxembourg
FR0010492025	EUR	150,000,000	149	150	3 Jul 17		Luxembourg
FR0010492025	EUR	20,000,000	20	20	3 Jul 17		Luxembourg
FR0010492025	EUR	30,000,000	30	30	3 Jul 17		Luxembourg
FR0010500413	EUR	50,000,000	50	50	17 Jan 17		Unlisted
FR0010501825	EUR	200,000,000	200	200	20 Jul 22		Luxembourg
FR0010504761	EUR	45,000,000	45	45	2 Aug 32		Luxembourg
FR0010505008	EUR	50,000,000	50	50	27 Apr 16		Unlisted
FR0010524488	EUR	50,000,000	50	50	27 Feb 17		Unlisted
FR0010526962	EUR	50,000,000	50	50	13 Feb 15		Unlisted
FR0010539734	EUR	1,459,162,000	1,455	1,459	13 Nov 17		Luxembourg
FR0010584581	EUR	10,000,000	10	10	21 Feb 18		Luxembourg
FR0010594374	EUR	47,500,000	48	48	8 Aug 25		Luxembourg
FR0010611491	EUR	1,000,000,000	1,000	1,000	27 Apr 15		Luxembourg
FR0010614644	EUR	50,000,000	50	50	16 May 23		Luxembourg
FR0010631762	EUR	153,000,000	153	153	26 Jun 23		Luxembourg
FR0010634527	EUR	300,000,000	300	300	13 Jan 14		Luxembourg
FR0010753814	EUR	32,000,000	32	32	10 Sep 14		Luxembourg
FR0010760769	EUR	10,500,000	11	11	22 May 29	22 May 19	Luxembourg
FR0010762039	EUR	1,500,000,000	1,499	1,500	2 Jun 21		Luxembourg
FR0010762039	EUR	150,000,000	157	150	2 Jun 21		Luxembourg
FR0010766923	EUR	10,000,000	10	10	7 Mar 26		Luxembourg
FR0010775486	EUR	2,000,000,000	1,999	2,000	8 Jul 24		Luxembourg
FR0010781591	EUR	15,000,000	15	15	16 Feb 26		Unlisted
FR0010801068	EUR	1,000,000,000	1,000	1,000	16 Sep 16		Luxembourg
FR0010801068	EUR	750,000,000	750	750	16 Sep 16		Luxembourg
FR0010801068	EUR	250,000,000	252	250	16 Sep 16		Luxembourg
FR0010806752	EUR	25,000,000	25	25	29 Mar 19		Luxembourg
FR0010810408	EUR	100,000,000	100	100	7 Oct 14		Luxembourg
FR0010810424	EUR	50,000,000	50	50	7 Oct 19		Luxembourg
FR0010821074	EUR	10,000,000	10	10	12 Nov 18		Luxembourg
FR0010840108	EUR	150,000,000	150	150	23 Dec 24		Luxembourg
FR0010850982	EUR	1,000,000,000	999	1,000	26 Jan 22		Luxembourg
FR0010850982	EUR	500,000,000	516	500	26 Jan 22		Luxembourg

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



<b>Obligations foncières ISIN code</b>	<b>Currency</b>	<b>Nominal amount in foreign currency</b>	<b>Balance</b>	<b>Redemption value *</b>	<b>Final due date</b>	<b>Next call date</b>	<b>Stock exchange</b>
			(EUR millions)				
FR0010850982	EUR	200,000,000	197	200	26 Jan 22		Luxembourg
FR0010850982	EUR	200,000,000	193	200	26 Jan 22		Luxembourg
FR0010857797	EUR	100,000,000	100	100	16 Feb 18		Luxembourg
FR0010859777	EUR	1,000,000,000	997	1,000	26 Feb 18		Luxembourg
FR0010859777	EUR	300,000,000	297	300	26 Feb 18		Luxembourg
FR0010878264	EUR	15,000,000	15	15	26 Mar 19		Luxembourg
FR0010888420	EUR	1,000,000,000	998	1,000	20 Jul 15		Luxembourg
FR0010888420	EUR	200,000,000	200	200	20 Jul 15		Luxembourg
FR0010898338	EUR	300,000,000	300	300	21 May 20		Luxembourg
FR0010912824	EUR	200,000,000	200	200	21 Jun 20		Luxembourg
FR0010921601	EUR	50,000,000	50	50	20 Jul 15		Luxembourg
FR0010923920	EUR	10,000,000	10	10	23 Jul 25		Luxembourg
FR0010925073	EUR	24,000,000	24	24	27 Jul 29		Luxembourg
FR0010945956	EUR	1,250,000,000	1,250	1,250	25 Jan 16		Luxembourg - Paris
FR0010945964	EUR	705,848,000	701	706	24 Sep 20		Luxembourg - Paris
FR0010945964	EUR	300,000,000	283	300	24 Sep 20		Luxembourg - Paris
FR0010945964	EUR	200,000,000	190	200	24 Sep 20		Luxembourg - Paris
FR0010963859	EUR	11,000,000	11	11	2 Dec 25		Luxembourg
FR0010998039	EUR	1,000,000,000	993	1,000	26 Jan 21		Luxembourg - Paris
FR0010998039	EUR	300,000,000	297	300	26 Jan 21		Luxembourg - Paris
FR0010998039	EUR	150,000,000	148	150	26 Jan 21		Luxembourg - Paris
FR0010998039	EUR	300,000,000	300	300	26 Jan 21		Luxembourg - Paris
FR0010998039	EUR	250,000,000	251	250	26 Jan 21		Luxembourg - Paris
FR0011006907	EUR	67,000,000	67	67	15 Feb 23		Luxembourg
FR0011019462	EUR	12,000,000	12	12	29 Mar 21		Luxembourg
FR0011037977	EUR	10,000,000	10	10	19 Apr 16		Luxembourg
FR0011049782	EUR	1,000,000,000	998	1,000	18 May 16		Luxembourg - Paris
FR0011053222	EUR	450,000,000	450	450	1 Feb 16		Luxembourg
FR0011072826	EUR	250,000,000	249	250	3 Jul 23		Luxembourg
FR0011536093	EUR	1,000,000,000	996	1,000	16 Jul 20		Luxembourg - Paris
FR0011546886	EUR	50,000,000	46	50	2 Aug 33		Luxembourg
FR0011547744	EUR	50,000,000	50	50	5 Aug 24		Luxembourg
FR0011548791	EUR	455,000,000	452	455	7 Aug 25		Luxembourg
FR0011548866	EUR	165,000,000	163	165	7 Aug 33		Luxembourg
FR0011549997	EUR	380,000,000	378	380	9 Aug 28		Luxembourg
FR0011580588	EUR	500,000,000	498	500	2 Oct 28		Luxembourg - Paris
<b>TOTAL</b>	<b>EUR</b>	<b>41,025,177,160</b>	<b>40,927</b>	<b>41,020</b>			
FR0000470775	GBP	189,000,000	227	300	22 Nov 17		Unlisted
FR0000486581	GBP	125,000,000	149	205	16 Jul 26		Luxembourg
FR0000487738	GBP	215,000,000	258	345	14 Dec 16		Unlisted
FR0010306803	GBP	100,000,000	120	143	19 Apr 16		Luxembourg
<b>TOTAL</b>	<b>GBP</b>	<b>629,000,000</b>	<b>754</b>	<b>993</b>			
FR0000471195	HKD	200,000,000	19	26	5 Dec 17		Luxembourg
<b>TOTAL</b>	<b>HKD</b>	<b>200,000,000</b>	<b>19</b>	<b>26</b>			
FR0000486821	JPY	3,000,000,000	21	28	8 Aug 16		Luxembourg
FR0010199802	JPY	10,000,000,000	69	74	14 Jun 17		Unlisted
FR0010225433	JPY	10,000,000,000	69	74	1 Sep 20		Unlisted
FR0010279240	JPY	1,000,000,000	7	7	30 Jan 26		Unlisted
FR0010333526	JPY	600,000,000	4	4	1 Jun 21	1 Jun 14	Unlisted
FR0010347930	JPY	5,000,000,000	35	34	20 Jul 21		Unlisted
FR0010412742	JPY	5,000,000,000	35	32	18 Jan 17		Unlisted
FR0010437343	JPY	2,000,000,000	14	13	26 Mar 14		Unlisted
FR0010466086	JPY	1,100,000,000	8	7	26 Mar 14		Unlisted
FR0010468652	JPY	50,000,000,000	346	308	9 May 17		Luxembourg
FR0010469817	JPY	7,600,000,000	53	47	20 Jun 14		Luxembourg
FR0010526475	JPY	5,000,000,000	35	31	18 Oct 17		Unlisted
FR0010629592	JPY	5,000,000,000	35	31	25 Jun 18		Unlisted
<b>TOTAL</b>	<b>JPY</b>	<b>105,300,000,000</b>	<b>728</b>	<b>689</b>			
FR0011006642	NOK	500,000,000	60	64	18 Feb 21		Luxembourg
FR0011056654	NOK	500,000,000	60	64	7 Jun 21		Luxembourg
<b>TOTAL</b>	<b>NOK</b>	<b>1,000,000,000</b>	<b>119</b>	<b>128</b>			

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

<i>Obligations foncières</i> ISIN code	Currency	Nominal amount in foreign currency	Balance	Redemption value *	Final due date	Next call date	Stock exchange
(EUR millions)							
FR0010306548	PLN	34,356,205	8	9	12 Apr 25		Unlisted
<b>TOTAL</b>	<b>PLN</b>	<b>34,356,205</b>	<b>8</b>	<b>9</b>			
FR0010636423	SEK	1,000,000,000	113	106	29 Jun 15		Luxembourg
FR0010640557	SEK	333,000,000	37	35	8 Jul 15		Luxembourg
<b>TOTAL</b>	<b>SEK</b>	<b>1,333,000,000</b>	<b>150</b>	<b>142</b>			
FR0000470239	USD	20,000,000	15	20	12 Sep 17		Luxembourg
FR0010096982	USD	139,200,000	101	115	1 Jul 19		Luxembourg
FR0010130476	USD	127,920,000	93	100	17 Nov 14		Unlisted
FR0010289488	USD	300,000,000	218	249	30 Jan 14		Unlisted
FR0010306563	USD	200,000,000	145	167	25 Apr 14		Unlisted
FR0010363507	USD	100,000,000	73	79	25 Mar 15		Unlisted
FR0010422980	USD	24,020,000	17	19	24 Mar 14		Unlisted
FR0010422980	USD	10,000,000	7	7	24 Mar 14		Unlisted
FR0010437368	USD	888,670,000	644	682	16 Feb 17		Luxembourg
FR0010487108	USD	30,000,000	22	22	24 Jun 14		Unlisted
FR0010491597	USD	40,000,000	29	30	20 Jun 14		Luxembourg
FR0010568758	USD	300,000,000	217	204	31 Dec 15		Unlisted
FR0010571109	USD	200,000,000	145	135	18 Dec 17		Unlisted
FR0010572552	USD	250,000,000	181	168	22 Jan 18		Luxembourg
FR0010953836	USD	34,748,599	25	25	26 Oct 40	26 Oct 15	Luxembourg
XS0211544746	USD	75,000,000	54	58	4 Mar 15		Luxembourg
XS0211544746	USD	50,000,000	36	42	4 Mar 15		Luxembourg
<b>TOTAL</b>	<b>USD</b>	<b>2,789,558,599</b>	<b>2,022</b>	<b>2,121</b>			
<b>TOTAL OBLIGATIONS FONCIÈRES</b>			<b>48,162</b>	<b>48,086</b>			

Registered covered bonds	Currency	Nominal amount in foreign currency	Balance	Redemption value *	Final due date	Next call date	Stock exchange
			(EUR millions)				
RCB 1	EUR	37,735,849	38	38	15 Aug 24		Unlisted
RCB 2	EUR	26,829,268	27	27	15 Aug 33		Unlisted
RCB 3	EUR	26,190,476	26	26	15 Nov 33		Unlisted
RCB 4	EUR	21,951,220	22	22	15 Aug 33		Unlisted
RCB 5	EUR	21,428,571	21	21	15 Nov 33		Unlisted
RCB 6 EXO	EUR	37,735,849	38	38	15 Feb 24		Unlisted
RCB 7	EUR	15,000,000	15	15	15 May 25		Unlisted
RCB 8	EUR	28,947,368	29	29	15 Feb 33		Unlisted
RCB 9	EUR	27,500,000	28	28	16 May 33		Unlisted
RCB 10 EXO	EUR	23,684,211	24	24	15 Feb 33		Unlisted
RCB 11 EXO	EUR	22,500,000	23	23	16 May 33		Unlisted
RCB 12 EXO	EUR	37,735,849	38	38	15 May 24		Unlisted
RCB 13	EUR	37,735,849	38	38	15 Nov 24		Unlisted
RCB 14 EXO	EUR	15,000,000	15	15	17 Feb 25		Unlisted
RCB 15	EUR	15,000,000	15	15	15 Aug 25		Unlisted
RCB 16	EUR	15,000,000	15	15	17 Nov 25		Unlisted
RCB 17	EUR	21,000,000	21	21	21 Oct 41	21 Oct 16	Unlisted
RCB 18	EUR	10,000,000	10	10	24 Oct 16		Unlisted
RCB 19	EUR	100,000,000	100	100	6 Nov 23		Unlisted
RCB 20	EUR	30,000,000	30	30	6 Nov 24		Unlisted
RCB 21	EUR	15,000,000	15	15	26 Nov 29		Unlisted
RCB 22	EUR	15,000,000	15	15	26 Nov 29		Unlisted
RCB 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

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

Registered covered bonds	Currency	Nominal amount in foreign currency	Balance	Redemption value *	Final due date	Next call date	Stock exchange
			(EUR millions)				
RCB 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		Unlisted
RCB 68	EUR	10,000,000	10	10	7 Feb 48	7 Feb 18	Unlisted
RCB 69 ZC	EUR	6,360,165	6	6	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 77	EUR	20,000,000	20	20	16 Dec 23	16 Dec 14	Unlisted
RCB 78	EUR	10,000,000	10	10	11 Dec 23		Unlisted
RCB 79	EUR	20,000,000	20	20	11 Dec 23		Unlisted
RCB 80	EUR	15,000,000	15	15	20 Dec 24		Unlisted
RCB 81	EUR	5,000,000	5	5	25 Feb 29	25 Feb 19	Unlisted
RCB 82	EUR	1,000,000	1	1	25 Feb 29	25 Feb 19	Unlisted
RCB 83	EUR	14,000,000	14	14	25 Feb 29	25 Feb 19	Unlisted
RCB 84	EUR	2,000,000	2	2	5 Mar 27	5 Mar 18	Unlisted
RCB 85	EUR	10,000,000	10	10	5 Mar 27	5 Mar 18	Unlisted
RCB 86	EUR	8,000,000	8	8	5 Mar 27	5 Mar 18	Unlisted
RCB 87	EUR	20,000,000	20	20	5 Mar 19		Unlisted
RCB 88	EUR	10,000,000	10	10	5 Mar 19		Unlisted
RCB 89	EUR	20,000,000	20	20	17 Mar 26	17 Mar 19	Unlisted
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

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

Management Report

IFRS Financial Statements

French GAAP  
Financial Statements

Supplemental Disclosures

Shareholders' Meeting

General Information

Registered covered bonds	Currency	Nominal amount in foreign currency	Balance	Redemption value *	Final due date	Next call date	Stock exchange
			(EUR millions)				
RCB 93	EUR	5,000,000	5	5	8 Apr 22		Unlisted
RCB 94	EUR	5,000,000	5	5	8 Apr 22		Unlisted
RCB 95	EUR	5,000,000	5	5	8 Apr 22		Unlisted
RCB 96	EUR	5,000,000	5	5	8 Apr 22		Unlisted
RCB 97	EUR	50,000,000	50	50	22 Apr 26		Unlisted
RCB 98	EUR	10,000,000	10	10	22 Apr 26		Unlisted
RCB 99	EUR	50,000,000	50	50	6 May 22		Unlisted
RCB 100	EUR	50,000,000	50	50	5 May 23		Unlisted
RCB 101	EUR	25,000,000	25	25	5 May 23		Unlisted
RCB 102	EUR	10,000,000	10	10	5 May 23		Unlisted
RCB 103	EUR	50,000,000	50	50	19 May 26		Unlisted
RCB 104	EUR	50,000,000	50	50	19 May 25		Unlisted
RCB 105	EUR	20,000,000	20	20	19 May 26		Unlisted
RCB 106	EUR	20,000,000	20	20	19 May 25		Unlisted
RCB 107	EUR	10,000,000	10	10	19 May 26		Unlisted
RCB 108	EUR	50,000,000	50	50	28 May 27		Unlisted
RCB 109	EUR	25,000,000	25	25	28 May 27		Unlisted
RCB 110	EUR	50,000,000	50	50	26 May 28		Unlisted
RCB 111	EUR	50,000,000	50	50	9 Jun 23		Unlisted
RCB 112	EUR	25,000,000	25	25	9 Jun 23		Unlisted
RCB 113	EUR	15,000,000	15	15	9 Jun 23		Unlisted
RCB 114	EUR	50,000,000	50	50	24 Jun 19		Unlisted
RCB 115	EUR	10,000,000	10	10	24 Jun 19		Unlisted
RCB 116	EUR	50,000,000	50	50	8 Jul 26		Unlisted
RCB 117	EUR	25,000,000	25	25	8 Jul 26		Unlisted
RCB 118	EUR	10,000,000	10	10	8 Jul 26		Unlisted
RCB 119	EUR	50,000,000	50	50	10 Jul 28		Unlisted
RCB 120	EUR	25,000,000	25	25	10 Jul 28		Unlisted
RCB 121	EUR	10,000,000	10	10	10 Jul 28		Unlisted
RCB 122	EUR	20,000,000	20	20	10 Jul 28		Unlisted
RCB 123	EUR	10,000,000	10	10	21 Jul 25		Unlisted
RCB 124	EUR	15,000,000	15	15	21 Jul 25		Unlisted
RCB 125	EUR	50,000,000	50	50	22 Jul 27		Unlisted
RCB 126	EUR	10,000,000	10	10	22 Jul 27		Unlisted
RCB 127	EUR	20,000,000	20	20	20 Jul 29		Unlisted
RCB 128	EUR	15,000,000	15	15	29 Jul 27		Unlisted
RCB 129	EUR	10,000,000	10	10	29 Jul 27		Unlisted
RCB 130	EUR	10,000,000	10	10	31 Jul 23		Unlisted
RCB 131	EUR	15,000,000	15	15	30 Jul 26		Unlisted
RCB 132	EUR	10,000,000	10	10	30 Jul 27		Unlisted
RCB 133	EUR	10,000,000	10	10	12 Aug 24		Unlisted
RCB 134	EUR	50,000,000	50	50	12 Aug 27		Unlisted
RCB 135	EUR	50,000,000	50	50	14 Aug 28		Unlisted
RCB 136	EUR	25,000,000	25	25	14 Aug 28		Unlisted
RCB 137	EUR	15,000,000	15	15	14 Aug 28		Unlisted
RCB 138	EUR	10,000,000	10	10	14 Aug 28		Unlisted
RCB 139	EUR	15,000,000	15	15	14 Aug 24		Unlisted
RCB 140	EUR	10,000,000	10	10	23 Sep 26		Unlisted
RCB 141	EUR	50,000,000	50	50	27 Aug 29		Unlisted
RCB 142	EUR	25,000,000	25	25	27 Aug 29		Unlisted
RCB 143	EUR	50,000,000	50	50	31 Aug 29		Unlisted
RCB 144	EUR	50,000,000	50	50	31 Aug 29		Unlisted
RCB 145	EUR	50,000,000	50	50	31 Aug 29		Unlisted
RCB 146	EUR	5,500,000	6	6	30 Aug 24		Unlisted
RCB 147	EUR	14,500,000	15	15	7 Sep 29		Unlisted
RCB 148	EUR	15,000,000	15	15	14 Sep 21		Unlisted
RCB 149	EUR	50,000,000	50	50	14 Sep 27		Unlisted
RCB 150	EUR	15,000,000	15	15	14 Sep 27		Unlisted
RCB 151	EUR	10,000,000	10	10	14 Sep 27		Unlisted
RCB 152	EUR	5,000,000	5	5	14 Sep 27		Unlisted
RCB 153	EUR	20,000,000	20	20	16 Sep 24		Unlisted

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

Registered covered bonds	Currency	Nominal amount in foreign currency	Balance	Redemption value *	Final due date	Next call date	Stock exchange
			(EUR millions)				
RCB 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	107	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	30,000,000	30	30	23 Aug 33		Unlisted
RCB 2013-5	EUR	30,000,000	30	30	23 Aug 33		Unlisted
RCB 2013-6	EUR	10,000,000	10	10	6 Sep 33		Unlisted

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

Registered covered bonds	Currency	Nominal amount in foreign currency	Balance	Redemption value *	Final due date	Next call date	Stock exchange
			(EUR millions)				
RCB 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
TOTAL	EUR	4,709,534,675	4,705	4,710			
TOTAL REGISTERED COVERED BONDS			4,705	4,710			
BALANCE SHEET TOTAL			52.867	52.795			

List of bonds issued by Caisse Française de Financement Local  
in the fourth quarter of 2013 and settled  
in January 2014  
(obligations foncières, registered covered bonds)

Registered covered bonds	Currency	Nominal amount in foreign currency	Balance	Redemption value *	Final due date	Next call date	Stock exchange
			(EUR millions)				
RCB 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
TOTAL	EUR		120	120			
TOTAL REGISTERED COVERED BONDS			120	120			
BALANCE SHEET TOTAL			120	120			

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



# Report of the Chairman of the Supervisory Board

## prepared in accordance with article L.225-68 of the Code of Commerce

This report presents the composition of the Supervisory Board, the application of the principle of balanced representation of men and women as members, the conditions of preparation and organization of the Board's deliberations, as well as the principles of internal control and risk management applied by the Company, specifying in particular the procedures related to the production and processing of accounting and financial data for the annual financial statements.

As a credit institution, Caisse Française de Financement Local refers, in order to draw up this report, to the provisions of the Banking and Financial Standards Committee (CRBF standard 97-02, modified by the *arrêté* of March 31, 2005, June 17, 2005, February 20, 2007, July 2, 2007, September 11, 2008, January 14, 2009, May 5, 2009, October 29, 2009 (two *arrêtés*), November 3, 2009, January 19, 2010, August 25, 2010, and December 13, 2010, and May 2, 2013, which defines the roles, principles and organization of internal control, as well as to the reference framework published by the French Financial Markets Authority (AMF).

This report, drawn up by the Chairman of the Supervisory Board of Caisse Française de Financement Local, was prepared by the Executive Board, which gathered the necessary information from all the operating departments and support functions concerned, in particular the risk management and permanent control division and the finance division of Société de Financement Local, which manages the operations of Caisse Française de Financement Local.

This descriptive report presents all the principles and procedures applied during the year 2013 at Caisse Française de Financement Local and Société de Financement Local, its parent company. The changes that occurred at the beginning of 2014 may also be broached.

## 1. Conditions of preparation and organization of the Supervisory Board's governance

Caisse Française de Financement Local operates within the framework of the new organization of financing for local governments and public healthcare facilities in France set up by the French State. Its mission is to finance public sector commitments by issuing *obligations foncières* and raising other funds benefiting from the same privilege.

### 1.1 - SUPERVISORY BOARD

The composition of the Supervisory Board was modified when the change in the shareholding structure occurred at the beginning of 2013. Philippe Mills, Chairman of the Board of Directors and Chief Executive Officer of Société de Financement Local, the sole shareholder of Caisse Française de Financement Local, was named Chairman of the Supervisory Board of Caisse Française de Financement Local. This board exercises permanent control of

the Company's management by the Executive Board. The members of the Board are appointed by the Annual Shareholders' Meeting on the basis of their expertise and the contribution they can make to the Company, and their term of office is six years. 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 eight times in 2013. The rate of assiduity was 89%.

The agenda respects a regular format: minutes, business review of the previous quarter and of current trends including issuance conditions, the presentation of the financial statements, and the development of projects for asset acquisition from La Banque Postale. Specific topics are added at different times of the year: the report on internal control and the report on risk assessment and surveillance in application of articles 42 and 43 of CRBF standard 97-02 modified; 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 forwarded to the members enable the Board to have a full, clear and accurate view of the Company's position, profitability and development. During Supervisory Board meetings, the Executive Board develops the points on the agenda by comments and synthetic presentations. The Board advises on strategic choices, makes recommendations and, if necessary, requests specific analyses, which are examined in subsequent meetings. The Board pays special attention to issue programs as well as to acquisitions of public sector assets from La Banque Postale by Caisse Française de Financement Local.

It closely monitors the performance of Caisse Française de Financement Local's *obligations foncières* in the primary and secondary markets. The Supervisory Board considers that, independently of market conditions, the optimization of Caisse Française de Financement Local's issuance conditions is linked to investors' perception of the excellent quality of the Company's assets (beyond the ratings by Standard and Poor's, Moody's and Fitch) and its very low risk profile with regard to customer and market counterparties, interest rates and liquidity. The Supervisory Board pays particular attention to the reports submitted by the Executive Board on these subjects, and to the transparency of communication to investors.

In 2013, in addition to the questions related to the management of the Company which are under its responsibility, the Supervisory Board paid particular attention in its governance to the sale of Dexia Municipal Agency (the former name of Caisse Française de Financement Local) to Société de Financement Local (Sfil) and the organization of new governance, its bond issuance strat-

egy, issue ratings, the management of liquidity, fluctuations in portfolio risks and legal risks, the strategy to reduce the sensitivity of structured loans, operations to acquire public sector commitments from La Banque Postale, and the assistance rendered by its servicer and parent company.

An Audit and Risks Committee was created by the Board of Directors of Société de Financement Local to assist it in carrying out its control mission on Group management. This committee frequently deals with issues that concern Caisse Française de Financement Local. The documents presenting these topics are generally included in the files of the Supervisory Board.

Information concerning compensation and other advantages granted to members of the management bodies is presented in the section of the management report entitled "Compensation of members of management bodies". None of the managers of Caisse Française de Financement Local receive compensation for the work they do for Caisse Française de Financement Local.

The Monetary and Financial Code authorizes an entity to refer to the parent company's Compensation and Appointment Committee for the definition of its compensation policy. The Supervisory Board of Caisse Française de Financement Local decided not to create a specific committee at the level of Caisse Française de Financement Local since there is a compensation and appointment committee at the level of Société de Financement Local.

The Board has taken note of the legal requirements (Law 2011-103 of January 27, 2011) concerning the balanced representation of men and women on the Board and has committed to implement the law's provisions. They were again analyzed by the Supervisory Board at its meeting of March 25, 2014.

## 1.2 - CAISSE FRANÇAISE DE FINANCEMENT LOCAL'S PARTICULAR OPERATING STRUCTURE

Caisse Française de Financement Local is a legally independent company with its own Supervisory Board and Executive Board. However, in order to preserve the privilege enjoyed by holders of *obligations foncières* and other privileged debt securities, the law stipulates that a *société de crédit foncier* is not allowed to employ staff directly and must entrust the management of all its operations to a credit institution with which it signs an agreement (article L.513-15 of the Monetary and Financial Code). This is because employees would have a priority that would supersede any other claim in the event of bankruptcy or liquidation, whereas the management agreement, which benefits from the privilege granted by the law on *sociétés de crédit foncier*, is *pari passu* with the holders of *obligations foncières* and other privileged debt securities. Caisse Française de Financement Local entrusted the management of its operations to Société de Financement Local, its new shareholder on January 31, 2013. There are divisions, departments and units at Société de Financement Local 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 Société de Financement Local, 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. Société de Financement Local plans to comply with the provisions of the AFEF / MEDEF Code and, given its shareholding structure, to apply the main recommendations

## 2. Internal control

### 2.1 - ORGANIZATION OF INTERNAL CONTROL

#### a. Responsibilities of internal control and the general architecture of internal control

As credit institutions, Caisse Française de Financement Local and Société de Financement Local, which manages Caisse Française de Financement Local's operations, are subject to the oversight of the Autorité de contrôle prudentiel et de résolution (ACPR).

Since it manages Caisse Française de Financement Local, Société de Financement Local 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 Société de Financement Local also meets the regulatory obligations of Caisse Française de Financement Local in this regard. Likewise, the organization also takes into consideration the servicing activities exercised by Société de Financement Local for La Banque Postale (LBP) within the framework of the servicing agreement signed by Société de Financement Local and LBP.

The objectives and organization of their internal control are defined within the framework set by the Monetary and Financial Code, and CRBF standard 97-02 modified. The internal control system, according to CRBF standard 97-02 modified, ensures that different control procedures are applied to provide:

- a control system for internal operations and procedures;
- the organization of financial and accounting data;
- systems to measure risks and results;
- systems to monitor and control risks;
- a system for documentation and information;
- surveillance of flows of cash and securities.

This internal control system is a process put into practice by the Executive Board and all the employees of Société de Financement Local, at the initiative of the Board, to provide reasonable but not absolute assurance with regard to the achievement of the objectives that Société de Financement Local set, in particular in terms of the execution of missions that its shareholders entrusted to the Company (to refinance loans granted by La Banque Postale, supply support services for La Banque Postale and conduct a responsible and proactive policy to reduce the sensitivity of loans) targeting performance profitability and the protection of its holdings.

Specifically, the responsibilities assigned to internal control in effect at Société de Financement Local aim:

- to verify the efficiency of the risk control system.



The internal control system aims to guarantee the Executive Board that the risks taken by the Company are in line with the policy defined by the Supervisory Board and the Executive Board and at an agreed-upon level of risk;

- to 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;
- to monitor compliance with ethical rules and practices inside and outside the Company.  
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;
- to monitor the effectiveness and operational efficiency of all processes, in order to ensure that operations are carried out correctly while guaranteeing efficient management of available resources.

In order to allow the accomplishment of the objectives set, and in compliance with CRBF standard 97-02 modified, the general architecture of the internal control system of Société de Financement Local is based on three levels of control.

- The first level of control takes place in the operating teams. It is exercised by each employee and the corresponding chain of command in function of the operations they handle with regard to internal procedures in effect.
- The second level of control involves permanent control activities by specific control teams with a network of correspondents designated in the operating divisions that report the results of their investigations to the operating risks and permanent control division, which reports to the risk division. These controls are complemented by those conducted especially for risks of non-compliance (non-respect of legislation, regulations, regulatory instructions, professional and ethical standards and management directives) by the compliance division, which reports to the General Secretary.
- The third level of control concerns periodic control conducted by an independent team, the internal audit and inspection division, which reports to the CEO of Société de Financement Local and which exercises permanent oversight of the efficient and effective application of the first two levels of control described above.

The different functions in charge of internal control (operating risks and permanent control division, compliance division and internal audit and inspection division) meet every two months in an internal control committee in order to share information about the risks each division has identified in its field of competence, to coordinate internal control initiatives to remedy risk situations and analyze the conclusions of the respective control strategies.

Within this framework, a common IT tool provides continuous automated management so that the teams can monitor risks, controls, recommendations and action plans for the full range of internal control functions at Société de Financement Local.

These different levels of control are deployed under the aegis of the supervisory and management teams of Société de Financement Local and Caisse Française de Financement Local.

### Executive Board

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 organization of internal control in effect at Société de Financement Local.

In keeping with the powers with which they have been invested, and as responsible managers in the sense of the Autorité de contrôle prudentiel et de résolution (ACPR), the Chief Executive Officer and the Deputy Chief Executive Officer of Société de Financement Local guarantee the efficient operation of the bank's internal control system. They define and coordinate the policy of Société de Financement Local in this area. They allocate resources and define the timeframe for measures taken within the framework of this policy. They verify that the objectives are attained and that the internal control system is adapted to needs. Lastly, they adjust these needs in function of internal and external developments.

To carry out this assignment, the Chief Executive Officer and the Deputy CEO are backed by the other members of the management team who are constantly involved in the internal control system, by reason of their operating responsibilities, their participation in different monitoring committees, and the reports, especially audits, which are systematically put at their disposal.

### Operating divisions

As the first level of the architecture of the internal control system, employees and managers of Société de Financement Local's operating divisions are in charge of analyzing the risks involved in all the transactions they have initiated, organizing and conducting basic controls for such operations, verifying that internal control procedures in their division are adapted to such risks and contributing to their development. To this end, they apply basic principles, which are spelled out in all the activities of Société de Financement Local, i.e. policies, procedures, indicators, reporting tools, and a clear separation of functions between the launch of operations and their validation, control or settlement. These basic principles are applied by several specialized committees, composed of operating, support and control staff and chaired by a member of the Management Committee, such as the Risks Committee, the New Products Committee, the Operational Risks Committee and the Permanent Control Committee.

### Risk management

At their creation in February 2013, Société de Financement Local and Caisse Française de Financement Local set up a full-blown risk management system to identify, monitor and manage risks. It assesses risks of a specific nature or several risks together, proactively alerts the competent committees of potential risks and decides the appropriate amount of provisions.

The level of risk that is acceptable for Société de Financement Local and Caisse Française de Financement Local is

defined by the Executive Committee and the Risks Committee at Société de Financement Local. It is approved by the Audit Committee as well as by the Executive Board. It is then presented to the Supervisory Board of Caisse Française de Financement Local which is asked to give its opinion. Within this framework, policies are defined for the entire consolidated entity as well as limits and rules that govern the delegation of decisions. Risk managers are in charge of monitoring these limits and if required proposing measures to the Executive Committee of Société de Financement Local and the Executive Board of Caisse Française de Financement Local to ensure they are respected.

A quarterly risks review is presented to the Executive Committee, then to the Audit Committee every quarter by the risks manager of Société de Financement Local, who is also in charge of risks at Caisse Française de Financement Local. It provides a synthetic view of the main risks at Société de Financement Local and Caisse Française de Financement Local and their development during the quarter (credit risks, market and ALM risks, operating 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.

### Committees

Risk management relies on several committees, the missions and composition of which have been approved by the Executive Committee, the Risks Committee and the Audit Committee of Société de Financement Local. These committees have a vocation that 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 operating risks as described below.

The Risks Committee defines the risk profile of Société de Financement Local 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 throughout the loan chain (delegations to the sales network of La Banque Postale, the Outstanding Management division, the Risks division and the Credit Committee) and approving the risk policies of Société de Financement Local concerning all types of risks and the limits defined by the Risks division.

The Committee on the Validation of Methods and Models (Market Validation Committee, Credit Validation-Cross-divisional Models Committee) are respectively in charge of validating market risk and pricing models as well as their deployment and the internal rating systems that make it possible to calculate capital.

The New Products Committee examines all new products and management processes or any transformation of a pre-existing product or process. This committee also studies new products intended for financing, refinancing or hedging customer risks, whether at the request of La Banque Postale or Société de Financement Local teams for Caisse Française de Financement Local, as well as the development of any existing product or service to the

extent that it substantially modifies the risk profile for the internal processes of the bank.

In addition, the ALM committee decides on the strategy to apply for the management of the assets and liabilities and controls the correct deployment by reviewing management indicators.

All operations conducted by Caisse Française de Financement Local are subject to control by different committees set up by Société de Financement Local. This control takes into account the particular rules and limits applicable to Caisse Française de Financement Local.

### Permanent control excluding compliance

Permanent control excluding compliance at Caisse Française de Financement Local is the responsibility of the head of operating risks and permanent control at Société de Financement Local.

### Organization and governance of permanent control

Permanent control excluding compliance is part of the Risks division. At the second level, permanent control is conducted in the operational risks division, making it possible to maintain synergies with management decisions concerning operational risks and the security of information systems.

Permanent control should make it possible to ensure the efficiency and reliability of the system of risk control, the quality of accounting and financial information and the quality of information systems as well as the existence and the quality of key control in all activities so as to cover major risks whatever their nature. Permanent control measures applied to all divisions and all activities of the bank. To ensure consolidated oversight, permanent control is monitored by the head of operational risks and permanent control and is supported by a network of correspondents in the operating divisions in charge of deploying, coordinating and monitoring controls at the first and second levels.

### Activities of permanent control excluding compliance

The management principles governing permanent control are described in the management policy for operating risks and permanent control. Permanent control is based on a control plan covering the main business processes in the bank. Choices are made in cooperation with the operating divisions. The relevance of this choice is analyzed every year when the control plan is reviewed.

Permanent controls are evaluated every quarter. The goal of the review of the control plan is to adapt it to the risks to be covered. This is accomplished by taking into consideration the following points:

- the results of the controls conducted in the previous year: each control is examined to determine its interest, its appropriateness for the risks to be covered, its efficiency and the pertinence of the related measurement indicators;
- the review of incidents recorded;
- the recommendations of internal audit available at the time of the review;
- new products and processes in the consolidated entity under study.

This process makes it possible to develop existing controls and eventually to add new controls.

Every quarter, the correspondents evaluate the controls in their consolidated entity. The evaluation is documented by a commentary and a file justifying the results of the control. All the results are reviewed by a central permanent control oversight team which may accept or refuse the evaluation if the documentation is considered to be unsatisfactory.

The process of evaluation of the permanent controls is integrated into the permanent control and operational risks management tool which traces the items of justification for the results and the different levels of validation.

When the evaluations of the key controls are not in conformity with the expected results, action plans are set up in order to reestablish a result that is satisfactory for subsequent periods.

Action plans are validated by the permanent control oversight team. They are monitored regularly and are reported quarterly to the committee for operational risk and permanent control.

In 2013, the permanent control plan was introduced progressively, from 19 control points at the creation of Société de Financement Local in the first quarter to 135 control points evaluated in the fourth quarter.

### Reporting activities of permanent control excluding compliance

The Executive and Supervisory Boards of Caisse Française de Financement Local and the Board of Directors of Sfil are regularly informed of permanent control activities.

The Operational Risks and Permanent Control division publishes a quarterly report for the Operational Risks and Permanent Control Committee, which is chaired by the head of Risks and made up of all the members of Société de Financement Local's Executive Committee, which is chaired by the Chairman of the Executive Board of Caisse Française de Financement Local. The committee meets quarterly. It examines the results of permanent controls and follows the recommendations to prevent incidents or improve the system (permanent control, evaluation of operational risks, IT security, etc.). It also looks at the main operational risks identified, decides whether or not they are acceptable and defines any corrective measures to be deployed.

The published report includes different types of information:

- qualitative data showing the principal issues linked to permanent control and the areas of general improvement of internal control processes;
- quantitative information to provide a general view of the efficiency of the process: results of the valuations of controls, of the monitoring of action plans, follow-up of permanent control plans (new controls, modifications of controls, etc.).

In view of the meetings of the Operational Risks and Permanent Control Committee, the General Auditor and the Chairman of the Executive Board of Caisse Française de Financement Local receive information quarterly on the progress of permanent control activities, control plans, evaluations of controls, areas for improvement, enabling them to validate the system's relevance.

## Compliance

Compliance control is an integral part of the internal control system of banks and investment firms.

Compliance is autonomous, independent of all operating units and particularly of any commercial activity. Compliance reports to the General Secretary, who is a member of the Executive Committee of Société de Financement Local and has been designated as the compliance contact for the Autorité de contrôle prudentiel et de résolution (ACPR) at Société de Financement Local and Caisse Française de Financement Local. The General Secretary is assisted by two Compliance managers. She also acts as the TRACFIN correspondent within the framework of the obligations of banks in the fight against money laundering and the financing of terrorist activities.

Compliance contributes to the respect for all legal and regulatory requirements. It oversees the consistency and efficiency of control procedures at Société de Financement Local and Caisse Française de Financement Local to manage the risk of non-compliance. It acts in conformity with the compliance practices of the Société de Financement Local - Caisse Française de Financement Local Group.

The year 2013 was marked by the creation of a compliance function and the deployment of the Société de Financement Local - Caisse Française de Financement Local Group's compliance system. The system is comprised, on the one hand, of codes, guidelines and procedures, and on the other, of risk detection and risk control tools (mapping the risks of non-compliance and an annual control plan).

Mapping the risks of non-compliance attempts to present an aggregate view of the risk of non-compliance and to ensure oversight. It serves as a basis for the development of the control plan and the validation of risk-taking by Société de Financement Local and Caisse Française de Financement Local. The mapping of the risk of non-compliance at Société de Financement Local and Caisse Française de Financement Local and the compliance control plan were presented to the Executive Board on January 23, 2014. On the basis of the results of the first mapping of the risk of non-compliance, conducted at the end of 2013, all the controls described in the control plan were scheduled for 2014.

Compliance covers all the activities of Société de Financement Local and Caisse Française de Financement Local. It addresses the main issues - business ethics and the fight against money laundering and the financing of terrorist activities, the prevention of market abuses, the prevention of conflict of interest, conduct vis-à-vis customers and the protection of personal data.

*A priori*, Caisse Française de Financement Local is not generally exposed to the risk of money laundering with regard to its assets, for which its counterparties are public sector entities. Concerning investors in the liabilities, precautions are taken with bank counterparties who act as dealers in the placement of Caisse Française de Financement Local issues. As intermediaries between Caisse Française de Financement Local and investors, they commit, in the documentation of the EMTN program

or other programs, if such are launched, and issue-by-issue in private placements or in stand-alone issues, to obtain and record reliable information on the identity of subscribers, in compliance with the requirements of the anti-money laundering directive, or in compliance with equally strict requirements for those not governed by the European directive. These counterparties commit to alert their respective oversight authorities if they learn or suspect that subscribers are engaged in money laundering or the financing of terrorist activities.

In addition to the deployment of the compliance system, Compliance also monitors regulatory developments that may impact the Société de Financement Local - Caisse Française de Financement Local Group in terms of compliance. Within this framework, the Group participates actively in the operational application of European Market Infrastructure Regulations, the Dodd Frank Act and the Foreign Account Tax Compliance Act in dedicated project structures.

Lastly, training sessions were organized on compliance issues for all employees, according to a bi-annual plan drawn up by the Human Resources division beginning in 2014.

### Periodic control

Société de Financement Local ensures the periodic control of Caisse Française de Financement Local, including internal audit and inspection.

### Organization and governance of periodic control

Periodic control, in the sense of CRBF standard 97-02 modified, is exercised by internal audit<sup>(1)</sup> and inspection<sup>(2)</sup>. The scope of this function covers all the activities exercised in France, Société de Financement Local's operating processes and systems with no reserve or exception, including externalized essential activities and anti-fraud techniques.

The independence and effectiveness of internal audit and inspection function are guaranteed by the fact that its head, the General Auditor, reports to Société de Financement Local's Chief Executive Officer, the absence of involvement in the operating management of Société de Financement Local'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 and 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 management staff. These principles are reflected in the internal audit charter and the inspection charter, which were approved by Société de Financement Local's Audit and Risks Committee on April

16, 2013, and August 27, 2013, respectively, and announced to all the employees of Société de Financement Local.

More specifically, the General Auditor of Société de Financement Local 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 Société de Financement Local. Société de Financement Local's internal audit division audits all of the transactions and procedures of Caisse Française de Financement Local. It provides permanent control in Caisse Française de Financement Local's internal control and 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 control authorities' audits, the follow-up on recommendations, investigations (preventive measures, sensitivity to and detection of fraud). There is direct access to the Chairman of the Supervisory Board of Caisse Française de Financement Local.

As of December 31, 2013, the functions of internal audit and inspection counted nine people, with six auditors and audit managers. This team was put together during the year with the progressive transfer of Dexia staff by July 1, 2013, at the latest. The General Auditor oversees all the activities and all the reports published by management. The General Auditor is assisted by a supervisor, who is also in charge of the team of auditors and oversees the audit missions carried out by the auditors under the responsibility of the auditor managers. Every auditor and auditor manager is responsible for a specific field through permanent documentation, risk surveillance and the monitoring of recommendations of a particular division of Société de Financement Local.

### Activities of internal audit and inspection

Activities in this area are described in an internal audit brochure that is regularly updated and based on the reference framework of the professional internal audit practices of IFACI<sup>(3)</sup>. In order to monitor the efficiency and performance of these activities and to identify opportunities for improvement, quantitative and qualitative indicators were introduced in 2013 and are regularly measured.

Internal audit and inspection have adopted a Top Down approach for the annual evaluation of risks, in line with the recommendations of the Institute of Internal Auditors - the identification of Société de Financement Local's objectives, then a study of risks that are critical for the success of such goals. This approach makes it possible to develop the mapping of major risks in order to identify the specific problems of Société de Financement Local and Caisse Française de Financement Local to draw up a multi-year audit plan.

In 2013, an annual assessment of risks was carried out in the second half and it gave rise to a map of the major risks of Société de Financement Local and Caisse Française de Financement Local, on the basis of which internal audit and inspection proposed its 2014 and mul-

(1) Internal audit is an independent and objective activity which assures Société de Financement Local 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 Société de Financement Local Group, inspection activities work in an independent and objective manner to contribute to control of the risk of fraud.

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



ti-year audit and inspection plan, which was approved by the Audit and Risks Committee on January 14, 2014. The Executive Board was informed of the mapping of the major risks of Société de Financement Local and Caisse Française de Financement Local on December 12, 2013, and the 2014 and multi-year audit and inspection plan on January 15, 2014.

Société de Financement Local's multi-year audit plan, which is reviewed every year, is broken down into audit missions that are conducted throughout the year in function of a schedule and pre-established budget. These different missions include four main stages (phases of preparation, accomplishment, conclusion and finalization). Audit missions are carried out using the methods described in a Company brochure on internal audits that is regularly updated and based on the reference framework of the professional internal audit practices of IFACI. The audit missions are summed up in a report that is presented to the Executive Committee, which retains a general appreciation of the mission's theme, an evaluation of residual risks, so that the Executive Committee may validate the match with the risk profile of Société de Financement Local and Caisse Française de Financement Local, and makes recommendations to improve the efficiency of the processes and internal controls. The plan is reviewed every year.

In 2013, the internal audit missions addressed new issues (reduction in the sensitivity of structured loans, services to La Banque Postale) and subjects related to the creation of Société de Financement Local (market operations, follow-up of recommendations of regulatory authorities and internal audit on Caisse Française de Financement Local, operational deployment of the divisions of Société de Financement Local, piloting of information systems prior to separation from Dexia). The 2013 audit plan was completed for 80%, as a result of the fact that resources were less than originally planned. The conclusions of each of these missions, as well as the recommendations made were presented to the Executive Committee of Société de Financement Local for discussion and decision.

The follow-up on recommendations made after the missions organized by internal audit and inspection, regulatory authorities 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 the auditors and auditor 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.

The follow-up on recommendations (internal audit, inspection and regulatory authorities), a part of which was inherited from Dexia, gave rise to a continuous follow-up in 2013 and to an official report based on the situation as of September 30, 2013, to the Executive Committee of Société de Financement Local in November 2013 and to the Audit and Risks Committee on January 14, 2014. The conclusions of the audit mission on the follow-up of recommendations of Caisse Française de Financement Local, which took place within the framework of the

2013 Société de Financement Local / Caisse Française de Financement Local audit plan, was presented to the Executive Board on October 3, 2013.

Internal audit and inspection are also in charge of the preparation, organization and follow up of the missions regulatory authorities carry out at Société de Financement Local. It also coordinates the preparation of responses to requests for reports and the formulation of action plans subsequent to the recommendations made.

In 2013, internal audit and inspection thus coordinated two missions carried out by ACPR – an investigation into the risk of litigation linked to the annual percentage rate of charge (TEG) and a mission on credit risk in the French local public sector.

In addition, under the aegis of the Chairman of the Audit and Risks Committee, internal audit and inspection ensure the organization of all the meetings of the Audit and Risks Committee. 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 the committee. It also provides the minutes that are drawn up at each of the meetings in close cooperation with the Chairman of the committee. Lastly, there is the responsibility of safely storing the minutes. In 2013, internal audit and inspection took responsibility for four Audit and Risks Committees.

Finally, internal audit and inspection are also in charge of inspection at Société de Financement Local. 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 serve to back up Société de Financement Local's legal division by responding to particular requests from the Company's legal division to provide information that may serve corporate interests. Société de Financement Local's management may also solicit the function of inspection to carry out missions and address certain specific issues.

In 2013, inspection controls focused on the resources Société de Financement Local makes available to its employees and authorized access to core IT applications.

### Reporting on internal audit and inspection activities

Société de Financement Local's Executive Committee is kept regularly informed of internal audit and inspection. In particular, the audit plan is presented every year for information after discussion with Société de Financement Local's management team.

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 and regulatory authorities as well as the introduction of action plans as a result is likewise presented every six months.

The internal audit charter, the charter of inspection activities and the audit plan are submitted for validation on a yearly basis to the Audit and Risks Committee. This team is informed every six months of results of the follow-up recommendations of internal audit, inspection and reg-

ulatory authorities 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 Société de Financement Local and Caisse Française de Financement Local (articles 42 and 43 of CRBF standard 97-02) is presented every year for review.

### Specific Controller

The Specific Controller of Caisse Française de Financement Local is a French professionally certified auditor named by the Company's executive management upon approval of the Autorité de contrôle prudentiel et de résolution (ACPR). The Specific Controller carries out controls pursuant to articles L.513-23 and L.513-24 and articles R515-12 and R515-13 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 other 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 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, and the asset/liability duration gap on a regular basis. For every Caisse Française de Financement Local issue contract or on the basis of a quarterly issue 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 the documents that the Company sends to the ACPR to meet legal and regulatory requirements for *sociétés de crédit foncier*. He submits an annual report on his activity to the Supervisory Board of Caisse Française de Financement Local, and a copy is forwarded to the Autorité de contrôle prudentiel et de résolution (ACPR).

## b. Preparation of accounting and financial information

### Financial statements

A company's annual financial statements should give a true and fair view of its assets, financial position and results. For credit institutions, CRBF standard 97-02 modified, on internal control, highlights in its accounting title that the organization adopted should guarantee the existence of procedures called audit tracks. They make it possible to establish a link between any accounting data and the original justification, and vice-versa. This principle grounds the organization of accounting practices in the Société de Financement Local Group and also applies to both Société de Financement Local and Caisse Française de Financement Local.

### Role and organization of Accounting

Accounting data is produced at Caisse Française de Financement Local by the accounting unit of Société de Financement Local, within the framework of the management agreement between the two companies. Accounting

at Société de Financement Local reports to the Company's Chief Financial Officer (CFO), who oversees financial steering functions, including the oversight of balance sheets, management control and financial communication, the organization of systems and quality, and accounting. Accounting plays a central role in the piloting of Société de Financement Local and in financial management, thereby making it possible to benefit from this central viewpoint.

Accounting produces basic accounting data, synthetic presentations and the annual financial statements of Caisse Française de Financement Local. It also ensures that regulatory and prudential standards are respected.

To carry out its mission, Accounting participates in committees that may impact its activity and has access to a broad spectrum of information either directly or through the CFO. It participates in the development of IT systems, and relies on a cross-division team set up by the CFO to improve, secure and ensure long life to its IT system.

### 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. The financial statements are recorded 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 guarantees the completeness and accuracy of accounting entries. The team in charge of the accounting management system ensures compliance with standards, validates automated accounting procedures and examines complex or unusual operations. Nevertheless, certain operations can not be completely incorporated into the management tools available. They are processed using specific internal control procedures.

A first level of control is conducted by accounting teams that are specialized by business line, in particular by analyzing bank reconciliation and technical suspense accounts. These teams produce a synthesis of audits on points requiring special attention or improved procedures when the next financial statements are produced.

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 data from the income statement 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. 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 carry out 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 also 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 team in charge of monitoring the Group's balance sheet. Cross-referenced controls are also conducted between the synthetic information and the notes to the financial statements. Throughout this process, reviews and controls are carried out according to the hierarchical delegations that exist.

### 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. Caisse Française de Financement Local's Executive Board meets to approve the financial statements. The Company's two Statutory Auditors attend the meeting and the Specific Controller is also invited. The period's management report is also examined at this meeting.

The annual report is prepared by Caisse Française de Financement Local's Executive Board in liaison with units of Société de Financement Local, in particular, Accounting, Back Office, Risk Control and the General Secretary. The Company's Statutory Auditors verify the information it contains. All these documents are presented to Caisse Française de Financement Local's Supervisory Board, and then to the annual general meeting of shareholders. 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 28 and 29 of the Company's by-laws.

### Publication of the financial statements of Caisse Française de Financement Local

This accounting and financial information is made public in several ways.

In addition to the regulatory publication in the BALO, in 2013, the quarterly, half-year and annual financial statements, together with the corresponding management reports, are posted on the Internet site [www.caisse-francaisedefinancementlocal.fr](http://www.caisse-francaisedefinancementlocal.fr). Half-year and annual financial statements are posted on the site of a financial information wire (HUGIN) registered with the French Financial Markets Authority (AMF) as concerns regulatory information.

Some of this information is also available, with differences in presentation, in the report on the quality of the assets and the management of interest rate risk 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.

### Role of Statutory Auditors

Caisse Française de Financement Local is audited by two auditing firms.

The Statutory Auditors are consulted throughout the process on the control of financial and accounting data 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.

Their assessment of the Company's internal control is based on substantive procedures, such as obtaining confirmation of a panel of external counterparties. They have access to all memoranda and notes produced by staff that is in charge of principles and standards, and they also review the accounting manuals, as well as instructions issued 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. They employ due diligence to obtain reasonable assurance that the financial statements are free of any material misstatement.

### Management reporting

The financial statements (balance sheet, off-balance sheet, income statement, cash flow statement and notes) are not the only quantified items of analysis that Caisse Française de Financement Local communicates to its shareholder and to the general public are completed by quarterly activity reports and used, in particular, when Caisse Française de Financement Local issues *obligations foncières*. 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. This data is accompanied by forecasts and evaluations of risks, which are incorporated into the annual report. These items are directly supplied by the operating divisions or by Risk Management. Their accuracy is therefore guaranteed by the internal control system of the divisions concerned.

Caisse Française de Financement Local's sole business is the financing or refinancing of public sector debt. These assets are primarily financed by the issue of *obligations foncières*.

Caisse Française de Financement Local works only in France. A geographic breakdown of assets according to the counterparty's country of residence (France and other countries) is presented quarterly in the manage-

ment report. This information is prepared by the accounting team on the basis of management data reconciled with accounting.

Société de Financement Local also acts as servicer for Caisse Française de Financement Local. To this end, a specific analytical cost accounting method is used to ensure proper billing of the services rendered as a servicer or within the framework of grouped resources.

### c. Identification of main risks and specific internal control procedures

Banking activity generates four principal types of risk: credit risk, market risk, structural risk (interest rate, foreign exchange and liquidity) and operational risk.

Monitoring all these types of risk is the joint responsibility of dedicated committees and the Risk Management division, with the help of tools it has developed, in compliance with regulatory and prudential constraints and within the framework of the limits set by the Société de Financement Local Group.

Because the Company is an issuer of *obligations foncières*, 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 rating agencies imposed restrictions or validated limits for risks compatible with the Company's activity. Subsequently, a policy paper was drafted to make a synthesis of these compatible risks, entitled Principles and Rules for Risk Management at Dexia Municipal Agency. This document received the approval of the rating agencies. These principles have not been modified since that time.

The general approach decided by the Executive Board of Caisse Française de Financement Local and applied in every unit of Société de Financement Local 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;
- that risks compatible with the activity are maintained exactly within authorized limits;
- that controls are realized at the level of the front and middle offices of Société de Financement Local, that they are reported to the Executive Board of Caisse Française de Financement Local, that any anomalies discovered during such controls are reported to the Supervisory Board and, finally, that 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 management of limits. Such oversight and the resources made available by Société de Financement Local to manage these risks in practice, on a daily basis as well as in exceptional circumstances, are developed below.

### Credit risk

Credit risk represents the potential loss (loss in the value of the asset or default of payment) that may affect Caisse Française de Financement Local by reason of a counterparty's downgraded financial position.

Risk Management defines the policies, guidelines and procedures relating to credit risk. It is responsible for developing the decision-making process (principally the granting of loans) and the framework of delegations and for supervising the analysis and rating process.

Within the framework of its surveillance of credit risk, and more particularly of the different teams in charge of credit risk, the Risk Management division is in charge of:

- the definition of credit risk policies in conformity with the appetite for risk of Société de Financement Local and Caisse Française de Financement Local;
- the definition of limits by type of counterparty setting the maximum exposure considered to be acceptable for a given counterparty;
- the proactive monitoring of limits which Risk Management may change at any moment in function of trends in related risks;
- the definition of delegations by type of counterparty;
- the management of the lending process for both new commitments and rescheduled loans through credit analyses and ratings (by using either the internal rating systems or expert advice);
- the monitoring of credit risk in all the portfolios of Société de Financement Local and Caisse Française de Financement Local (local public sector France, international, bank counterparty, 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.

Risk Management 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 for the development and support of Pillar II (economic capital). It finally deals with statistical models linked to the different stress models and exercises.

Risk Management relies on several specialized committees, described below.

The Credit Committee approves new investments<sup>(4)</sup> by Société de Financement Local and Caisse Française de Financement Local (loans and swaps) and the rescheduled loan agreements of Caisse Française de Financement Local. It validates occasions when the limits of certain predefined thresholds are exceeded. Every file presented to the Credit Committee contains an independent analysis established by the risk management team for every new commitment. 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.

<sup>(4)</sup> Not delegated to Risk Management, Debt Management and the commercial network of La Banque Postale.



The Default Committee decides whether a file should be given default status or be upgraded, and it qualifies debt due as real default, operating debt due or technical debt due. This committee meets quarterly.

Every quarter, the Impairment Committee sets the amount of collective impairment and finalizes the calculation of specific impairment on the basis of the provision rate decided by the Watchlist Committee.

The Rating Committee ensures the proper application of the internal rating systems and the appropriateness of the rating processes. This committee meets quarterly. Although it is an integral part of the credit risk management process, the committee is organized by the head of the Validation and Quality Control team, which reports directly to the head of the Risk division in order to guarantee the independence of the control process.

Moreover, within the framework of the acquisition of assets by Caisse Française de Financement Local, the control of eligibility is effected at two successive levels:

- the team in charge of coordination with Caisse Française de Financement Local at Société de Financement Local pilots the process of asset acquisition and associated controls of eligibility prepared by the different divisions of Société de Financement Local; the definitive portfolio is validated by the Executive Board;
- the Banking Production 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.

### Market risk

By reason of its nature, Caisse Française de Financement Local does not carry market risks in the regulatory sense of the term. Unregulated market risks are always subject to continuous attention on the part of the Financial Market Risks division of Société de Financement Local, 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 valuation of derivatives and monitoring calls for cash collateral;
- reporting net income;
- the valuation of balance sheet items (assets, liabilities, AFS reserve);
- monitoring market risks.

The governance of market risks is built around specialized committees.

The Market Risks Committee conducts a monthly review of risk indicators for the different market and ALM activities (sensitivity, changes in mark to market for structured swaps of customers in default, AFS reserves, VaR rate 99% 10 days, limits, cash collateral, etc.). This committee is responsible for proposing an action plan in the event risk limits are exceeded. Lastly, it is in charge of the approval of policies, guidelines and procedures before they are submitted to the Risk Committee.

The Valuation of Derivatives Quality of Models and Cash Collateral Committee monitors the quality of valuation models. It analyzes the main valuation differences noted by the Back Office.

### Structural risk: interest rate, foreign exchange and liquidity

In Finance, ALM policies are defined for Société de Financement Local and Caisse Française de Financement Local.

#### Definition of ALM policy

This policy is designed to protect the value of the Group's equity and minimize the volatility of income while maintaining the basic equilibrium of the balance sheet.

At the level of Caisse Française de Financement Local, ALM consists in neutralizing the exposure of income to the interest rate risk. To this end, Caisse Française de Financement Local uses swaps to micro-hedge pertinent balance sheet items – securities, structured loans, bond issues, etc. Commercial or non-structured loans and securities are macro-hedged in interest rates within a limit of the sensitivity of the Net Present Value to a shift of 100 bp in the yield curve. This risk limit was defined at 3% of equity or EUR 40 million in 2013. In practice, ALM pilots the risk of interest rates well below this limit. ALM policy also limits liquidity risk as much as possible, while respecting regulatory restrictions (liquidity ratio one month, need for cash at 180 days) and over-collateralization requirements expressed by the regulator and rating agencies. Moreover, Caisse Française de Financement Local put 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. Finally, this policy avoids any foreign exchange risk.

#### Committees

ALM policy is organized in three committees. The ALM Committee decides ALM strategy and oversees deployment through the use of management indicators. It works with the ALM Interest Rate and ALM Liquidity Committees to define procedures and operations.

#### Operating 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 (especially Eonia, Euribor three months, Euribor six months, for Caisse Française de Financement Local), as well as the residual fixing risk after hedging of the basis risk linked to the difference in dates between fixings of the same tenor index.

These different types of risks are monitored, analyzed and managed through the production of gaps – respectively fixed rate, basis rate and fixing rate, which make it possible to determine the nature and the amount of hedges to be negotiated. In the case of Caisse Française de Financement Local, these hedges may be done either directly in the market or through Société de Financement Local 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 2013 remained well under fixed limits.

ALM manages the liquidity of Caisse Française de Financement Local respecting ratios of regulatory and internal liquidity as well as specific restrictions in legislation on *sociétés de crédit foncier*. To this end, it uses a static analysis of balance sheet and off-balance-sheet items likely to influence the liquidity trend – eligibility of assets, available reserves, sensitivity of collateral, off-balance-sheet commitment, etc. It is also based on a dynamic analysis of liquidity needs by completing the static scenario of hypotheses related to a commercial policy (asset acquisition, reduction in sensitivity) and to the strategy of refinancing or on behavioral hypotheses. Lastly, it implies both the production of a regulatory one month liquidity ratio calculated according to the methods defined in the *arrêté* of May 5, 2009, and on the calculation of the gap in duration between the assets and the privileged liabilities of Caisse Française de Financement Local.

Financing for the assets of Caisse Française de Financement Local is mainly provided by issues of *obligations foncières*, whereas the share of the assets held for over-collateralization is financed by its shareholder.

With regard to the management of foreign exchange risk, the issues and assets denominated in foreign currencies give rise once they enter the balance sheet to the signing of a cross currency swap against the euro. Outstanding and interest margins denominated in foreign currencies connected with these operations are thus fully transformed into euros, thereby ensuring perfect foreign exchange coverage for the nominal and the rate attached to these balance sheet items. ALM guarantees the absence of foreign exchange risks via the net foreign exchange position in each currency, calculated on the basis of total commitments, loans and accrued interest not yet due denominated in foreign currency on the balance sheet.

### Operational risks

Operational risk represent the risk of financial or non-financial impact 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 information systems, as well as legal and compliance risks. Caisse Française de Financement Local has chosen to incorporate the risk of reputation in this category. Management procedures for operational risks apply to all of the operating divisions of Société de Financement Local.

### Organization and monitoring

Within the framework of Basel II guidelines on operational risk, Société de Financement Local opted for the standard approach and introduced procedures and a management tool in line with the good practices for the management and monitoring of operational risk described by the Basel Committee.

Société de Financement Local has a risk management team dedicated to monitoring operational risk and piloting permanent control based on a network of correspondents designated in each division. The involvement of business line managers strengthens the system's effectiveness.

Société de Financement Local has defined a process of collection and surveillance of operating incidents and losses. Operational risk correspondents analyze the incidents with the help of the risk management team. In function of the results of this analysis, corrective or pre-

ventive measures are taken in order to reduce exposure to operational risk.

Société de Financement Local also has an operating risk management tool and, in particular, a module for incident collection.

In addition to the register of losses, the main zones of risk are evaluated by taking existing controls into account in order to define the risk profile of Caisse Française de Financement Local. Exposure is mapped by the operating divisions with the help of risk management. In function of the results, action plans can be launched in order to control the level of risk. Reports provide an analysis of the bank's risk profile by activity, division and type of event. They are presented in the Permanent Control and Operational Risks Committee at least once a year.

An initial mapping exercise was carried out in 2013 covering all the divisions of Société de Financement Local. Detailed results were presented at the November 28, 2013, meeting of the Permanent Control and Operational Risks Committee. For the main risks or risk factors identified, Société de Financement Local progressively introduces a set of key indicators which will be monitored quarterly.

### IT security

The IT security policy and its related recommendations, standards and practices are designed to ensure the security of Société de Financement Local's IT assets. This means protecting information from any attack on confidentiality, integrity or availability.

All these measures are spelled out in Société de Financement Local's IT policy. It defines the principles applicable by category of security as well as the roles and responsibilities of the different security players. It is based on guidelines, specific policies, rules and operating procedures as well as on the indications provided by the standard ISO 27000/17799.

The operating teams have specified a policy on the continuation of activities. Procedures formalize recovery. This contingency plan is updated every year and these procedures are tested according to a calendar drawn up by the steering committee for the continuation of business and validated by the Permanent Control and Operational Risks Committee.

The security system was presented at the January 14, 2014, meeting of the Audit Committee and at the January 9, 2014, meeting of the Executive Board.

### Insurance of operational risks

Société de Financement Local insures against traditional risks for its offices and IT systems, vehicles and liability. Société de Financement Local has also subscribed insurance policies to cover the liability of the members of its management bodies, professional liability and fraud.

These policies also cover Caisse Française de Financement Local.

### Legal risk

Caisse Française de Financement Local's monitoring of legal risks focuses on the prevention of litigation, the anticipation of legal developments and the respect of governance principles. Risk control is under the responsibility of the General Secretary through six main activities, i.e. internal legal advice, drafting and control of

legal documents, the management of litigation, watch in its field of competence, including regulatory watch with regard to compliance, the legal department of Caisse Française de Financement Local and the administrative monitoring of brands and delegations of signatures.

### Risks of non-compliance

Article 4 p) of the CRBF standard 97-02 modified defines the risk of non-compliance as the risk of a legal, administrative or disciplinary sanction, of a significant financial loss or of a denigration of reputation caused by the non-respect of procedures specific to banking and financial activities, whether they be of legislative or regula-

tory nature, or that it is a question of professional and ethical standards or executive instructions, in particular those taken in application of the orientations of the strategy-defining body.

Pursuant to the articles of this standard, Caisse Française de Financement Local monitors and controls the risk of non-compliance by mapping risks of non-compliance and a control plan (see 2.1.a Compliance).

Philippe Mills  
Chairman of the Supervisory Board

# Statutory Auditors' report

## prepared in accordance with article L.225-235 of French Commercial Code (Code de commerce) on the report prepared by the Chairman of the Supervisory Board of the Company

### For the year ended December 31, 2013

*This is a free translation into English of the Statutory Auditors' report issued in French prepared in accordance with article L.225-235 of French company law 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 French Commercial Code (Code de commerce), we hereby report on the report prepared by the Chairman of your company in accordance with article L.225-68 of French Commercial Code (Code de commerce) for the year ended December 31, 2013.

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 French Commercial Code (Code de 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 French Commercial Code (*Code de 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

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 Supervisory Board in accordance with article L.225-68 of French Commercial Code (*Code de commerce*).

#### Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by article L.225-68 of French Commercial Code (*Code de commerce*).

Courbevoie and Neuilly-sur-Seine, March 31, 2014

The Statutory Auditors

French original signed by:

**MAZARS**

Virginie Chauvin

Anne Veaute

**DELOITTE & ASSOCIÉS**

Charlotte Vandeputte

José-Luis Garcia

# Ordinary Shareholders' Meeting of May 22, 2014

## Statutory Auditors' special report on regulated agreements and commitments

Ordinary Shareholders' Meeting  
Fiscal year ended December 31, 2013

To the Shareholders,

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

The terms of our engagement require us to communicate to you, based on the information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or that we may have discovered through our engagement, without expressing an opinion on their usefulness and appropriateness, nor seeking the existence of other agreements and commitments. It is your responsibility, pursuant to article R.225-58 of the Commercial Code (*Code de commerce*), to assess the interest involved in respect of the conclusion of those agreements for the purpose of approving them.

In addition, it is our responsibility to communicate to you the information pursuant to article R.225-58 of the Commercial Code concerning the execution, during the year just ended, of any authorized agreements or commitments already approved by the Shareholders' Meeting. We conducted our procedures in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) relating to this engagement. Those procedures consisted in verifying the information provided to us with the relevant source documents.

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

#### Agreements and commitments authorized during the year just ended

In accordance with article L.225-88 of the French Commercial Code, we have been notified of the following agreements and commitments that were previously authorized by your Supervisory Board.

#### Agreement for transfer of ABS securities held by Caisse Française de Financement Local ("CAFFIL") to Société de Financement Local ("SFIL")

##### Interested person:

Philippe Mills, common director of SFIL and CAFFIL since January 31, 2013.

##### Nature and purpose:

The agreement was signed on July 2, 2013, and provides for the acquisition by SFIL of ABS securities held by CAFFIL.

At the end of 2012, a regulation issued by the European Central Bank (ECB) modified the criteria for eligibility of covered bonds to central bank refinancing, as a result of which covered bonds whose cover pool contains third party or public sector ABS (Asset-Backed-Securities) securities are no longer eligible for ECB refinancing. For historical reasons, CAFFIL has ABS securities of this type in its balance sheet.

The agreement was authorized by your Supervisory Board on June 5, 2013. SFIL acquired at par the DCC and DSFB ABS from CAFFIL and financed them through a loan granted by CAFFIL. A sale of EUR 7,808 million in ABS was conducted under this agreement in 2013. There was no profit and loss impact for either entity.

#### Addendums to the master agreement signed by La Banque Postale, SFIL and CAFFIL for the sale of loans by La Banque Postale to CAFFIL

##### Addendum dated August 8, 2013:

##### Interested person:

Philippe Mills, common director of SFIL and CAFFIL since January 31, 2013.

##### Nature and purpose:

The agreement signed on January 31, 2013, provided for La Banque Postale (LBP) to offer for acquisition by CAFFIL its complete portfolio of eligible loans as defined in the agreement. The addendum signed on August 8, 2013, clarifies certain points as follows:

- The subscription to the agreement of the LBP/CDC joint venture (La Banque Postale Collectivités Locales);
- The addition of a new exception to the principle of exclusivity of transfer of eligible loans (affecting loans offered in the framework of EIB programs);
- Designation of the calculation agent (SFIL);
- The addition of appendices to the agreement (loan transfer form, criteria for CAFFIL's selection of new loans, CAFFIL's loan decision-making process and details of the calculation of transfer amounts).

The addendum was authorized by your Supervisory Board on June 5, 2013.

Addendum dated December 20, 2013:Nature and purpose:

The addendum was a technical one without fundamental impact for the agreement. It takes account of the new types of loan now offered by LBP to its customers and adjusts the basis of calculation of transfer amounts.

The addendum was authorized by your Supervisory Board on June 5, 2013.

Under the master agreement, CAFFIL acquired two loan portfolios during 2013 for a total amount of EUR 954 million.

### **Agreement for the transfer of underlying assets between SFIL and CAFFIL in the framework of the unwinding of DCC's ABS securities**

Interested person:

Philippe Mills, common director of SFIL and CAFFIL since January 31, 2013.

Nature and purpose:

The purpose of the transaction was to restore to CAFFIL's balance sheet the assets underlying the securitization vehicles DCC transferred to SFIL in order to reduce CAFFIL's exposure on SFIL.

These agreements were signed on October 10, 2013, by DCC 3, on October 20, 2013, by DCC 2 and on November 20, 2013, by DCC 1. It provides for:

- Purchase by SFIL of certain Italian local government securities held by DCC;
- Early redemption, at par, of the ABS securities held by SFIL;
- Purchase by CAFFIL of the Italian local government securities (EUR 2,928 million) held by SFIL.

The agreement was authorized by your Supervisory Board on August 28, 2013, but had no profit and loss impact during 2013.

### **Agreement between SFIL and CAFFIL providing for the payment by CAFFIL of EUR 10 million per annum for 15 years to a government fund**

Interested person:

Philippe Mills, common director of SFIL and CAFFIL since January 31, 2013.

Nature and purpose:

Agreement signed on November 14, 2013, under which CAFFIL, whose balance sheet includes sensitive local government loans, pays €10 million per annum for 15 years to the local government support fund, on behalf of SFIL group.

The agreement was authorized by your Supervisory Board on October 9, 2013, and had an impact of EUR 150 million of expense in 2013.

### **Addendum to the management agreement between SFIL and CAFFIL**

Interested person:

Philippe Mills, common director of SFIL and CAFFIL since January 31, 2013.

Nature and purpose:

The addendum was signed on December 10, 2013, and deals with:

- The pricing of SFIL's intermediation services with regard to derivative arranged between CAFFIL and the market;

- The pricing of SFIL's front and back office services provided to CAFFIL, part of which will be subject to a no margin cost sharing basis and part (financial services) to market pricing therefore including an operating margin for SFIL.

The addendum was authorized by your Supervisory Board on December 5, 2013, and had expense impacts during 2013 of EUR 25.8 million under the cost sharing arrangement and EUR 57.9 million for financial services and intermediation services related to derivative transactions

## **AGREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE SHAREHOLDERS' MEETING**

### **Agreements and commitments approved in prior years with an impact on the year just ended**

Pursuant to article R.225-57 of the French Commercial Code, we have been advised that the following agreements, authorized by the Ordinary Shareholders' Meeting of May 24, 2013, and described in the Statutory Auditors' special report on regulated agreements and commitments, remained in effect during the year just ended.

#### **Agreement for sale of shares in SFIL**

Nature and purpose:

The contract for sale of the shares in SFIL by Dexia Crédit Local (DCL) to the French State, Caisse des Dépôts et Consignations (CDC) and LBP was signed on January 23, 2013, in the presence of Dexia Municipal Agency (DMA) and SFIL in order to allow the parties to make use of the contract.

The agreement was authorized by your Supervisory Board on January 14, 2013, but had no impact during 2013.

#### **Agreement for the management of loan disputes**

Nature and purpose:

On January 31, 2013, DMA, DCL and SFIL signed an agreement governing the management of judicial (other than penal) and administrative loan disputes for the loans included in DMA's balance sheet at the date of sale of the shares in SFIL. Disputes arising until all those loans have been extinguished will be settled on the basis of the agreement.

The agreement was authorized by your Supervisory Board on January 22, 2013, but had no impact during 2013.

#### **Agreement to exit the tax consolidation arrangement with Dexia SA**

Nature and purpose:

On January 31, 2013, DMA signed an agreement to exit, with effect from January 1, 2013, the tax consolidation arrangement with Dexia SA (DSA) signed on December 13, 2002. The agreement provides as follows:

- Financial consequences  
In the absence of any direct or indirect fiscal costs associated with termination of the arrangement, it was agreed that no compensation would be payable by DSA to DMA.
- Tax inspections and assessments  
In the event of any tax investigation of DMA, or tax proceedings engaged by the tax administration in respect of any tax or tax credit within the scope of the tax



consolidation arrangement, section 8.9 of the agreement for sale of shares in SFIL (cf. point 2.1.1 of the present report) would apply.

In the event of any adjustment of DMA's taxable results for its period of tax consolidation, DMA would be required to pay DSA any additional tax it would have been required to pay even in the absence of the tax consolidation arrangement.

- Payment of taxes for 2012 and payments on account of taxes for the year of exit

The taxes payable by DMA for 2012 will be those DMA would have paid even in the absence of the tax consolidation arrangement.

Payments on account of taxes for the year of exit will be paid by DSA on behalf of DMA; the Company has undertaken to advance DSA the requisite funds two working days prior to each due payment date

The agreement was authorized by your Supervisory Board on January 22, 2013, and EUR 12 million advance payments of taxes were paid during 2013.

### Agreement to exit the Irish tax consolidation arrangement with DCL

#### Nature and purpose:

On January 31, 2013, DMA signed an agreement to exit the Irish tax consolidation arrangement with DCL.

The agreement was authorized by your Supervisory Board on January 22, 2013, but had no impact during 2013.

### Instrument of delegation

#### Nature and purpose:

On January 31, 2013, DMA signed, with DCL, SFIL and CDC, an instrument of delegation covering arrangements for:

- The sale of shares in SFIL;
- The loans granted to SFIL by CDC for the purposes of meeting DMA's requirements;
- The credit agreement dated January 31, 2013, between DMA and SFIL;
- The redemption of a certificate of deposit issued by DCL to CDC for the purposes of prefinancing the acquisition of SFIL.

The agreement was authorized by your Supervisory Board on January 22, 2013, but had no impact during 2013.

### Financing agreement between SFIL and DMA

#### Nature and purpose:

On January 31, 2013, SFIL granted DMA, for general financing purposes:

- A EUR 50 million current account overdraft facility;
- A renewable euro facility in the form of medium- or long-term advances the applicable rates for which will be defined by SFIL for each new utilization and depending on SFIL's own refinancing cost.

The agreement was authorized by your Supervisory Board on January 22, 2013. As of December 31, 2013, the EUR 50 million facility was reported as a contingent liability and an actual amount of EUR 6.8 billion was owing to SFIL. EUR 65 million of interest cost were booked in 2013.

### Termination of agreements between DCL and DMA

#### Nature and purpose:

On January 31, 2013, DMA and DCL signed an agreement for termination of the following arrangements:

- The management agreement dated September 30, 1999, between DMA and DCL, disputes under which will be settled by separate agreement;
- The current account agreement, the eleven firm and irrevocable financing agreements between DCL (lender) and DMA (borrower) signed on January 12, February 13, March 19, April 4, May 25, June 1, July 24, August 30, November 2 and December 6, 2012, and the loan agreement between DCL and DMA;
- The "declaration of financial support" by Dexia Credit Local dated September 16, 1999.

The agreement was authorized by your Supervisory Board on January 22, 2013, but had no impact during 2013.

### Master agreement between SFIL and DMA governing transactions on forward financial instruments

#### Nature and purpose:

On January 31, 2013, DMA and SFIL signed a master agreement governing transactions on forward financial instruments. The agreement has the following characteristics:

- It applies to transactions on forward financial instruments as defined by article L.221-1-I-4 of the French Monetary and Financial Code (*Code monétaire et financier*);
- All transactions undertaken are treated as an indivisible whole in the event of termination or extinction of the agreement.

The agreement was authorized by your Supervisory Board on January 22, 2013, but had no impact during 2013.

### Declaration of support by SFIL for the benefit of CAFFIL

#### Nature and purpose:

On January 31, 2013, SFIL signed a declaration of support for DMA under which both Société de Financement Local and the French State, the company's main shareholder, declared their intention of ensuring that CAFFIL (ex-DMA) be able at all times to continue operating as a going concern, honor its financial commitments and comply with the requirements of the applicable banking regulations.

The agreement was authorized by your Supervisory Board on January 22, 2013, but had no impact during 2013.

### Management agreement between Société de Financement Local and Caisse Française de Financement Local

#### Nature and purpose:

The agreement governs the performance by SFIL of the following services on behalf of CAFFIL, in accordance with the requirements of article L.513-15 of the French Monetary and Financial Code (*Code monétaire et financier*):

- Management and collection of loans;
- Management and collection of investments;
- Treasury management and hedging;
- Financial and accounting services;
- Risk management;
- Tax and legal services;
- Compliance;
- Internal audit;
- Third party reporting;
- Back office;
- Archiving.

The agreement was authorized by your Supervisory Board on January 31, 2013. The financial impact of this agreement and the addendum signed on December 10, 2013, are mentioned on 1.5.

**Master agreement signed by LBP, SFIL and CAFFIL for the sale of loans by LBP to CAFFIL**

Nature and purpose:

The agreement signed on January 31, 2013, provides for LBP to offer for acquisition by CAFFIL its complete portfolio of eligible loans as defined in the agreement and granted by LBP, or the joint venture signed between LBP and CAFFIL, on the bases described in the agreement.

The agreement was authorized by your Supervisory Board on January 31, 2013. CAFFIL acquired two loan portfolios during 2013 for a total amount of EUR 954 million.

**Agreement for the transfer of derivative transactions**

Nature and purpose:

Agreement signed with DCL and SFIL on January 11, 2013, under which DCL transferred to SFIL for consideration, on January 14, 2013, the rights and obligations associated with derivative transactions governed by the AFB master agreement in respect of forward financial instruments dated October 21, 1999.

DMA and SFIL have agreed to submit new transactions to the provisions of the applicable master agreement published by the FBF (French Banking Federation).

The agreement was authorized by your Supervisory Board on December 12, 2012, but had no impact during 2013

Courbevoie and Neuilly-sur-Seine, March 31, 2014

The Statutory Auditors

French original signed by:

**MAZARS**

Virginie Chauvin

Anne Veaute

**DELOITTE & ASSOCIÉS**

Charlotte Vandeputte

José-Luis Garcia



## 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, 2013.

The Supervisory Board wishes to thank the Executive Board for the initiatives taken and the results achieved during the year ended December 31, 2013.

The Supervisory Board

## Resolutions proposed to the Ordinary Shareholders' Meeting of May 22, 2014

To the Ordinary Shareholders' Meeting

### First resolution Approval of the financial statements

The Ordinary Shareholders' Meeting, 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, 2013, as presented, with all the transactions that generated these financial statements or are mentioned in the above reports, showing net income of EUR 20,519,278.02.

### Second 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 Ordinary Shareholders' Meeting approves the agreements and commitments mentioned therein, under the conditions of article L.225-88 of the same Code.

### Third resolution Discharge to members of the management bodies

By virtue of the adoption of the first two resolutions, the Ordinary Shareholders' Meeting gives full discharge to the members of the management bodies for the performance of their duties during the year ended December 31, 2013.

### Fourth resolution Allocation of net result

The Ordinary Shareholders' Meeting resolves to allocate net result for the year as follows:

ALLOCATION OF NET RESULT	(En EUR)
Net result for the year	(20,519,278.02)
Legal reserve (5%)	-
Retained earnings	45,633,981.27
2013 income available for distribution and completely allocated to retaining earnings	<b>25,114,703.25</b>

The Ordinary Shareholders' Meeting recalls, pursuant to article 243bis of the French General Tax Code, that the following dividends were paid in the previous three years:

(En EUR)	2010	2011	2012
Net dividend per share	9.25	1.16	-
Amount per share eligible for rebate (article 158.3-2 of the French General Tax Code)	9.25 <sup>(1)</sup>	1.16 <sup>(1)</sup>	-
Total amount per share eligible for rebate (article 158.3-2 of the French General Tax Code)	110,075,000 <sup>(1)</sup>	15,080,000 <sup>(1)</sup>	-

(1) Rate 40%

#### **Fifth resolution** **Certification of the financial statements**

In application of article L.822-14 of the Code of Commerce, the Ordinary Shareholders' Meeting takes note that the financial statements for the year ended December 31, 2013, were certified by the Statutory Auditors:

- Virginie Chauvin, Partner, and, Anne Veaute, Partner, representing the firm Mazars on the one hand,
- José-Luis Garcia, Partner, and Charlotte Vandeputte, Partner, representing the firm Deloitte & Associés, on the other hand

#### **Sixth resolution** **Powers**

The Ordinary Shareholders' Meeting gives full powers to the bearer of an original, a copy or an excerpt of the minutes of this meeting to carry out all legal formalities, in particular to notify the Clerk of the Tribunal de Commerce de Nanterre of any changes in registration.

# General Information

## Legal and administrative information

### Corporate name

The name Caisse Française de Financement Local was chosen to replace that of Dexia Municipal Agency at the Ordinary and Extraordinary Shareholders' Meeting of January 29, 2013, under the suspensive condition of the full transfer of all the shares of Société de Financement Local to the French State, Caisse des Dépôts et Consignations and La Banque Postale, which took place on January 31, 2013.

### Registered office

The Company's registered office is located at:  
1, passerelle des Reflets – La Défense 2  
92913 La Défense Cedex

### 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.

The ordonnance 2013-544 of June 27, 2013, modified the status of *sociétés de crédit foncier* (article L.513-2 of the Financial Monetary Code). Since January 1, 2014, *sociétés de crédit foncier* are no longer *sociétés financières* but *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.13-2 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 loans to public sector entities as defined in article L.513-4 of the Monetary and Financial Code as well as assets considered as loans as defined in article L.513-5 of the same code;
- to hold assets defined by decree as replacement assets;
- in order to finance the above-mentioned loans, to issue *obligations foncières* benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code and to raise other funds, under issue or subscription contract referring to the 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.

Pursuant to the law of January 2, 1981, facilitating corporate borrowing, the Company may assign all the assets it owns, whatever their nature (whether professional or not).

### 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, passerelle des Reflets – La Défense 2  
92913 La Défense Cedex

### Fiscal year (article 39 of the by-laws)

The Company's fiscal year begins on January 1 and ends on December 31.

### Exceptional events and litigation

See the section on litigation in this annual report pages 9-10.

### Allocation of income (article 40 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 dividends.

### Annual Shareholders' Meetings

#### Calling of meetings (article 28 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 the applicable legislation and regulations.

### Right to attend annual shareholders' meetings (article 29 of the by-laws)

All shareholders are entitled to attend the meetings upon presentation of proof of identity, provided that their shares have been paid up to the extent called and are registered in their name at least five days prior to the date of the meeting.

Shareholders may give proxy to another shareholder.

Proxies must be deposited at the company's headquarters at least five days prior to the date of the meeting.

### Voting rights (article 32 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

#### Amount of the capital

Share capital currently stands at EUR 1,315,000,000 represented by 13,150,000 nominative shares with a part value of EUR 100.

There are no other securities that grant rights to shares in the capital of Caisse Française de Financement Local.

### Shareholding structure in the last five years

Date of the Shareholders' Meeting	Date of the capital increase	Amount of the capital increase EUR	Cumulated capital EUR
5/26/09	6/9/09	114,000,000	1,060,000,000
5/26/10	5/28/10	130,000,000	1,190,000,000
5/26/11	6/7/11	110,000,000	1,300,000,000
5/24/12	5/30/12	15,000,000	1,315,000,000
5/24/13	-	-	1,315,000,000

Breakdown of capital	2009	2010	2011	2012	2013
Dexia Credit Local	99.99%	99.99%	99.99%	99.99%	-
Société Française de Financement Local	-	-	-	-	99.99%
Individual and corporate investors	0.01%	0.01%	0.01%	0.01%	0.01%

Since January 31, 2013, Caisse Française de Financement Local is 99.9%-owned by 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 Société de Financement Local has lent shares).

### Declaration of financial support

On January 31, 2013, 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<sup>(1)</sup> 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 L513-2 of the Monetary and Financial Code pursuant to the ordinance 2013-544 of June 27, 2013.

## Statement by the person responsible

I, Gilles Gallerne, Chairman of the Executive Board of Caisse Française de Financement Local,

hereby affirm that to the best of my knowledge, the financial statements have been prepared in conformity with applicable accounting standards and present fairly, in all material aspects, the assets and liabilities, financial position and results of Caisse Française de Financement Local, and that the management report presents a fair image of trends in the Company's business, results and financial position, as well as a description of the main risks and uncertainties it faces.

La Défense, March 31, 2014

Gilles Gallerne  
Chairman of the Executive Board

Management Report

IFRS Financial Statements

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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 1,315,000,000

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**Headquarters**

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This annual report is available in French and in English at  
[www.caissefrancaisedefinancementlocal.fr](http://www.caissefrancaisedefinancementlocal.fr)

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