

Financial report Half-year 2014

Caisse Française de Financement Local
Local public sector assets - *Obligations foncières*

Financial Report

Half-year 2014

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Management Report For the period January 1 to June 30, 2014

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

1.1 – SHAREHOLDING STRUCTURE OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

The capital of Caisse Française de Financement Local is fully owned by Société de Financement Local (Sfil). Sfil is a credit institution approved by the Autorité de contrôle prudentiel et de résolution (ACPR). Since 2013, it plays a key role in the French State's new organization of local government financing and funding of public hospitals in France.

Sfil's shareholders are the French State (75%), Caisse des Dépôts et Consignations (20%) and La Banque Postale (5%). Sfil's shareholders are firmly rooted in the public sphere, thereby reflecting the mission entrusted to it by the French Government.

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.

1.2 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. Sfil has three essential missions, as follows.

- Sfil provides servicing for Caisse Française de Financement Local, and within this framework, in particular conducts comprehensive operational management for the Company and provides the non-privileged funding and derivatives required by the activity of Caisse Française de Financement Local.
- 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.

Caisse des Dépôts et Consignations (CDC) makes available to Sfil the resources it needs to finance the operations of Caisse Française de Financement Local booked prior to the date of acquisition. It contributes 35% of the needs created by new business originated by La Banque Postale, versus 65% provided by the latter.

On January 31, 2013, Sfil signed a declaration of support of Caisse Française de Financement Local, which is reproduced in the 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 can 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 was awarded the Covered Bond Label for all its *obligations foncières* on the basis of its cover pool. The Label was created by the European Covered Bond Council (ECBC) in 2012 to improve the quality of financial information and the transparency of the European covered bond market.

In order to meet Label requirements, Caisse Française de Financement Local has committed to respect a high degree of transparency in its investor relations. All detailed information related to the issues and cover pool of Caisse Française de Financement Local can be accessed through the Covered Bond Label site (<https://www.coveredbondlabel.com/issuer/47/>).

1.3 – RATING OF OBLIGATIONS FONCIÈRES ISSUED BY CAISSE FRANÇAISE DE FINANCEMENT LOCAL

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

The credit quality of the covered bonds of Caisse Française de Financement Local is reflected in its three Step 1 ratings.

Standard & Poor's and Fitch apply a ceiling to the rating of Caisse Française de Financement Local with regard to the French sovereign rating by reason of the strong link between Caisse Française de Financement Local and the French State and at the same time of the concentration of the cover pool on the French local public sector.

The rating of the *obligations foncières* issued by Caisse Française de Financement Local did not change during the first half.

The rating was as follows at the end of August 2014:

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

These ratings were qualified with a stable outlook.

The minimum over-collateralization currently associated with these ratings is, respectively, 2.5%, 4.5% and 5%.

2. Highlights of the first half of 2014 and post closing events

2.1 – THE COVERED BOND MARKET

In the first half of 2014, the offering on the euro-denominated covered bond primary market totaled EUR 67 billion, up 22% from the first half of 2013. Despite this rise, the negative net offering of the period is EUR 21 billion due to significant amortized amounts. This situation is expected to become more marked in the second half as a result of the volume of covered bonds reaching their maturity (EUR 65 billions) and of the implementation of the TLTRO (Targeted Long-Term Refinancing Operations) which could slow down the needs for issue of covered bonds. The offering remained dominated by French and German issuers who represented almost a third of the issues. Canadian issuers increased their presence with more than 7%. In terms of collateral, mortgages lost ground, with 86% of total volume (versus 91% in the first half of 2013) to the public sector at 12%. In the public sector covered bond segment, the offering came from German, French (solely Caffil) and Austrian issuers. Lastly in terms of maturity, the significant change during the first half reflected a downturn in

transactions with a maturity of seven years to the benefit of five year issues (40% of the offering), and especially of ten year issues (24% of the offering), boosted by investors' search for absolute yield within a context of declining rates and spreads.

In this environment, Caisse Française de Financement Local launched two issues in the primary market. At the beginning of January, it opened the primary market by launching a ten year jumbo issue for EUR 1 billion, and increased its 15 year issue in the amount of EUR 500 million. In addition to public transactions, Caffil was active in the private placement segment and particularly in registered covered bonds, making it possible to meet investor's demand for long to very long maturities. Altogether, Caffil raised EUR 2.6 billion in the first half.

2.2 – LITIGATION AND GOVERNMENTAL MEASURES

In its portfolio, Caisse Française de Financement Local has structured loans considered as sensitive, which had been granted to French customers by Dexia Credit Local. Some of these customers sued Dexia Credit Local, Caisse Française de Financement Local and/or Société de Financement Local, contesting the contractual interest rate. As of June 30, 2014, the number of customers having brought suit was 207 as compared with 205 at the end of 2013.

A limited number of cases were judged in initial hearings.

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 and proceedings are underway. 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 February 2013 legal decisions concerning the Département de la Seine-Saint-Denis, decisions were handed down by the Tribunal de Grande Instance (TGI) of Nanterre in the suits brought by four municipalities against Dexia Credit Local (and Caisse Française de Financement Local, which intervened voluntarily in the proceedings in order to defend its interests). These decisions concerned structured loans marketed by Dexia Credit Local and recognized on the balance sheet of Caisse Française de Financement Local, with total initial capital of EUR 98 million. As in the February 2013 decisions, the Tribunal's decision did not address the core issue (validity of the agreement, failure to provide adequate information, advice and warning, etc.), but it was motivated by the formal absence in the fax which had preceded the signing of the loan agreement of the annual rate of charge (TEG) or intermediary data with which to calculate the TEG. This item led the Tribunal to decide to apply the official interest rate (*taux légal*) instead of the contractual rate. Dexia Credit Local and Caisse Française de Financement Local have appealed or may appeal these decisions.

In order to find a permanent and comprehensive solution for the problem of the most sensitive structured loans contracted by local governments, and in compliance with its press releases dated June 18, and July 16, 2013, the French government took the following measures.

- the creation of a multi-year support fund endowed with significant resources enabling local governments to finance the unwinding of structured loans; a similar system is currently being set up for public healthcare facilities;
- legislative measures targeting a legal basis to secure loan agreements in effect with local gov-

ernments.

The multi-year support fund was created by the 2014 law of Finances voted in December 2013. It is endowed with EUR 1.5 billion and has a life span of 15 years maximum (EUR 100 million per year). It functions as described in the decree of application published in the May 2, 2014, edition of the Journal Officiel:

- Eligible customers: local governments and groups of such holding the most sensitive loans;
- Use of the aid received by local governments: refinancing of a part of the early reimbursement indemnity (option preferred), or in an initial phase and for a limited time, financing a part of the interest on the loan in question;
- Renunciation by the entities that benefit from the fund of current or future litigation on the loans benefiting from the fund;
- Management of the fund ensured by the State, with a committee of orientation and supervision bringing together representatives of the State, local governments and qualified individuals;
- The funds come half from the banks and half from the State.

Caisse Française de Financement Local has committed to contribute to the fund dedicated to local governments for EUR 10 million per year for 15 years, as well as to the planned arrangements for public hospitals for a total amount of EUR 18 million. All of these contributions have been recorded in the Company's accounts.

New legislative provisions targeting a legal basis to secure loan agreements in effect with local governments were specified, and they take into account the comments handed down by the Conseil constitutionnel at the end of December 2013. Legislation was adopted by the National Assembly on July 10, 2014, and passed by the Senate on July 17, 2014. The Conseil constitutionnel validated this legislation on July 24, 2014 and it is now in effect.

The financial statements as of June 30th, 2014 of Caisse Française de Financement Local were prepared by taking into account the comprehensive set of measures taken by the French government to provide a solution to the problem of structured loans, and in particular the law aiming to provide a solid legal base for structured loan agreements in effect with public sector entities. With this law coming into force on July 30th, 2014, residual legal risks have been very appreciably reduced and their financial impact at the closing date was considered as very low.

It should be recalled that to prepare its financial statements for 2013, Caisse Française de Financement Local had worked on the hypothesis that these measures would be voted and applied in 2014.

2.3 – CHANGES IN THE REGULATION OF COVERED BONDS IN FRANCE

During the first half of 2014, changes were introduced into regulations governing the activity of issuers of French covered bonds - *sociétés de crédit foncier* (SCF) and *sociétés de financement de l'habitat* (SFH). The objective is to bolster the prudential framework of SCF/SFH and guarantee the eligibility of issues with the best prudential treatment.

These measures mainly consist in:

- raising the minimum level of over-collateralization from 2% to 5%;
- limiting the exposure of an SCF or SFH to its parent company by modifying the way in which the cover ratio and the liquidity coefficient are calculated;
- imposing greater congruence between asset/liability maturities with the introduction of an annual cover plan and the maintenance of a weighted average life of eligible assets, considered as the minimum amount required to satisfy the cover ratio of 5%, not exceeding by more than 18 months that of the privileged liabilities;
- rendering effective the possibility of a transfer of servicing the SCF/SFH via the annual setting up of a servicing transfer plan submitted to the Autorité de contrôle prudentiel et de résolution.
- limiting the eventual use of securitizations.

These changes were integrated into current regulations by decree 2014-526 of May 23, 2014, and by an *arrêté* dated May 26, 2014. They took effect at the end of May 2014, after publication in the Journal Officiel.

Caisse Française de Financement Local will be able to respect all of these changes before the specified deadlines.

2.4 – PREPARATION FOR THE SINGLE SUPERVISION MECHANISM

In November 2014, the European Central Bank (ECB) will take charge of banking supervision in the euro zone, within the framework of the Single Supervision Mechanism (SSM). To this end, since November 2013, it has conducted, with national regulators, a comprehensive assessment of approximately 130 credit institutions in the euro zone.

Like all the major banks, Caffil and its parent company Sfil are subject to such an assessment, which includes a prudential evaluation of risks, an asset quality review (AQR) and a stress test. The results of this assessment will be announced at the end of October.

3. Changes in main balance sheet items

EUR billions - value after swaps	12/31/2012	12/31/2013	6/30/2014	Change Jun. 2014 / Dec. 2013
Cover pool	69.2	63.7	62.0	(2.7)%
Loans	51.7	53.2	52.2	(1.9)%
Securities	15.1	9.0	9.3	3.6%
Cash in central bank	2.4	1.5	0.5	(69.3)%
Assets assigned in guarantee to Banque de France	-	-	-	-
Privileged debt	59.7	55.3	54.2	(2.0)%
<i>Obligations foncières *</i>	56.2	52.8	51.7	(2.0)%
Cash collateral received	3.5	2.5	2.5	(1.7)%
Non-privileged debt	7.6	6.8	6.2	(9.1)%
Parent company	7.6	6.8	6.2	(9.1)%
Banque de France	-	-	-	-
Equity IFRS (excluding unrealized gains and losses)	1.5	1.5	1.5	0.0%

*Including registered covered bonds

As of June 30, 2014, Caisse Française de Financement Local's cover pool, composed of loans, debt securities and cash (temporary cash surplus) totaled EUR 62.0 billion, excluding accrued interest not yet due. As of December 31, 2013, the total was EUR 63.7 billion; the decrease was therefore EUR 1.7 billion (-2.7%).

As of June 30, 2014, 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 54.2 billion, including cash collateral received, down 2.0% from December 2013.

The debt contracted with the parent company totaled EUR 6.2 billion and does not benefit from the legal privilege. It mainly corresponds to the financing of the over-collateralization of the cover pool which is at a significantly higher level than the amount required by regulators and the rating agencies.

4. Cover pool

4.1 – CHANGE IN ASSETS IN 2014

The net change in the cover pool as of June 30, 2014, corresponded to a decrease in assets in the amount of EUR 1.7 billion. This change is explained by the following items.

(EUR billions)	H1 2014	
1- Amortization of portfolio of loans and securities		-2,4
2- Acquisition of loans to La Banque Postale		0,8
Loans to the French public sector (vanilla loans in euros)	0,8	
3- Reduction of loan sensitivity		0,3
Sensitive structured loans removed	-0,2	
Refinancing loans (vanilla loans in euros)	0,2	
New loans (vanilla loans in euros)	0,3	
4- Other changes		-0,4
French government securities with short maturity	0,5	
Change in Banque de France cash deposit	-1,0	
Other loans to the French public sector	0,1	
Early reimbursements	0,0	
Divestments	-0,1	
Impairment and currency adjustment	0,1	
Net change in the cover pool		-1,7

The natural amortization of the portfolio of loans and securities represented EUR 2.4 billion in the first half of 2014.

In March and June, Caisse Française de Financement Local acquired a total amount of EUR 0.8 billion in loans to the French public sector originated by La Banque Postale.

The operations conducted within the framework of the reduction of loan sensitivity since the beginning of 2013 made it possible to decrease outstanding loans considered as sensitive by EUR 0.2 billion in the first half of 2014 by substituting fixed rate loans in their place. They were accompanied by new fixed rate loans in the amount of EUR 0.3 billion. After accounting for the amortization of the loans considered as sensitive in the first half of 2014 in the amount of EUR 0.2 billion, outstanding loans considered as sensitive diminished by EUR 0.4 billion in the first half of 2014.

The other changes in assets (EUR 0.4 billion) mainly corresponded to fluctuations in available cash deposited at the Banque de France or invested in short term French sovereign securities.

4.2 – OUTSTANDING ASSETS AS OF JUNE 30, 2014

Caisse Française de Financement Local's pool of assets is exclusively composed of exposures on public sector entities, or guaranteed by the same, and replacement assets (within the limits specified by current legislation).

EUR billions	12/31/2013	6/30/2014
Loans and bonds to the public sector	57.8	57.4
Funds available on the Banque de France account	1.5	0.5
Replacement assets	4.4	4.1
Total	63.7	62.0

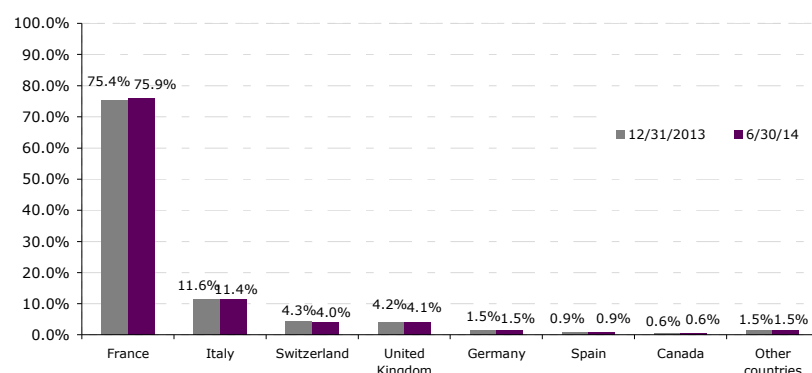
Surplus cash is deposited in an account opened by Caisse Française de Financement Local at the Banque de France or invested in short term French sovereign securities.

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

1. Geographic breakdown

French assets are predominant in the cover pool (almost 76%), and their percentage is expected to rise in the future. 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.

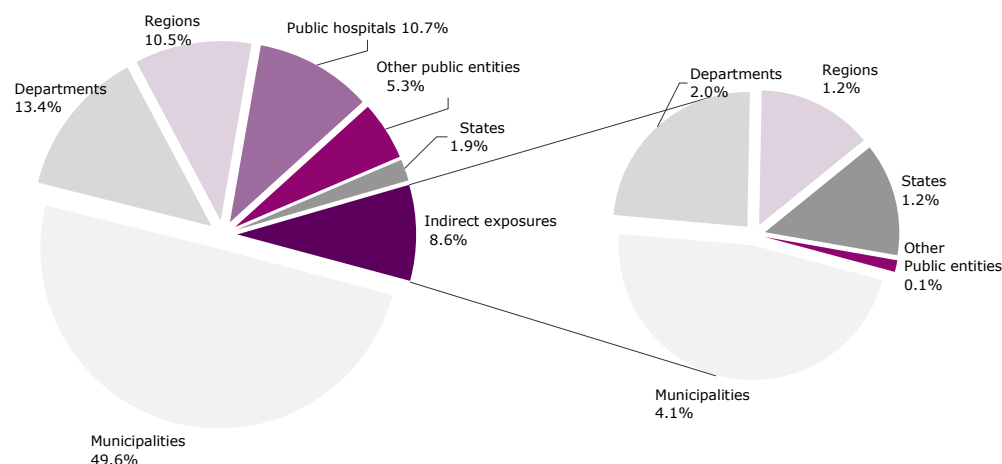
The relative proportion of the total assets can be broken down as follows:



Exposures on Other countries are broken down by country in the section Bonds and public sector loans as of June 30, 2014, presented at the end of 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 or indirect exposures on municipalities, departments or regions. Indirect exposures are composed of exposures guaranteed by public sector entities, most of which are local.



3. Securitizations

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

4. Exposures on sovereign countries

EUR millions	Ratings **	12/31/2013	6/30/2014	in % of the cover pool
France*	AA/Aa1/AA+	147	657	1.1%
United Kingdom	AAA/Aa1/AA+	555	518	0.8%
Italy	BBB/Baa2/BBB+	580	581	0.9%
TOTAL		1,282	1,757	2.8%

*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 June 30, 2014, and which guaranteed these loans. The increase in exposures in the first half of 2014 was the result of the acquisition of French sovereign securities, with maturities of less than one year, within the

framework of its active cash management.

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 June 30, 2014, the replacement assets of Caisse Française de Financement Local were comprised of long term loans to Société de Financement Local, which benefited from a Step 1 rating (rated AA by S&P, Aa2 by Moody's and AA by Fitch), as well as bank account balances with a Step 2 rating. They represented 7.6% of the privileged debt (*obligations foncières*, registered covered bonds and cash collateral received) of Caisse Française de Financement Local.

Replacement assets	Country	Issuer	EUR millions	
			12/31/2013	6/30/2014
Step 1 credit rating				
Loans to sponsor bank	France	Société de Financement Local	4,363	4,087
Step 2 credit rating				
Bank account balances	Other	Other	18	15
TOTAL			4,381	4,102

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 or to meet the need for temporary liquidity, Caisse Française de Financement Local may also convert into cash a portion of its assets. The loans or securities assigned in guarantee with the central bank in order to obtain financing on the occasion of tenders organized by the Banque de France are then removed from the cover pool and replaced, if necessary, by the cash thus obtained. During the first half of 2014, Caisse Française de Financement Local mobilized no assets with the Banque de France.

d. Structured loans

1. Definition

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

To define this notion, Caisse Française de Financement Local refers to the charter of good practices signed by banks and local governments (the Gissler charter), which can be consulted on the Internet site of the French Ministry of the Interior¹. This document was signed on December 7, 2009, by several organizations that represent local governments in France (Association des maires de France, Fédération des maires des villes moyennes, Association des petites villes de France, Association des maires de grandes villes de France and Assemblée des communautés de France) as well as certain banks.

Therefore, structured loans are defined as:

- all the loans with structures belonging to Gissler charter categories B to E;
- all the loans 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 June 2014 represented EUR 12.8 billion (versus EUR 13.6 billion at the end of 2013).

2. 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 moni-

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

tored and specific measures are taken to reduce their sensitivity. These loans represented a total of EUR 7.2 billion at the end of June 2014 compared with EUR 7.6 billion at the end of 2013.

The EUR 0.4 billion decrease in these outstanding loans was due for EUR 0.2 billion to concentrated efforts to reduce the sensitivity of the outstanding amount and for EUR 0.2 billion to the contractual amortization of these loans.

EUR billions	Amount 12/31/2013	Amount 6/30/2014	% cover pool	Number of clients
Total cover pool	63.7	62.0		
French public sector loans	42.9	42.3	68.2%	17,937
Sensitive loans not in the charter	3.7	3.6	5.8%	395
Sensitive loans (3E/4E/5E)	3.9	3.6	5.8%	421
Other structured loans	6.0	5.6	9.0%	1,357
Vanilla loans	29.3	29.5	47.6%	15,764

The most sensitive structured loans (loans not in the charter) represented 5.8% of the cover pool and 395 customers.

These loans concern the following customer categories:

Sensitive loans not in the charter	Amounts EUR billions	Number of clients
Municipalities with fewer than 10,000 inhabitants	0.3	78
Municipalities with more than 10,000 inhabitants and groups of municipalities	1.9	226
Regions and departments	0.8	25
Public hospitals	0.5	51
Other clients	0.1	15
TOTAL	3.6	395

3. Reduction in loan sensitivity

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

The method used consists in reducing the sensitivity of loans definitively. 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.

The support fund recently created by the French State may, under certain conditions, finance the payment of a portion of the early reimbursement indemnity or of the reimbursement of the loan that refinances it.

5. Debt benefiting from the legal privilege as of June 30, 2014

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	12/31/2013	6/30/2014
Cash collateral received	2.5	2.5
<i>Obligations foncières</i> and registered covered bonds	52.8	51.7
Total	55.3	54.2

5.1 – CASH COLLATERAL IN 2014

Cash collateral received by Caisse Française de Financement Local was stable compared with the situation at the end of December 2013. It stood at EUR 2.5 billion at the end of June 2014.

5.2 – ISSUES IN 2014

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.

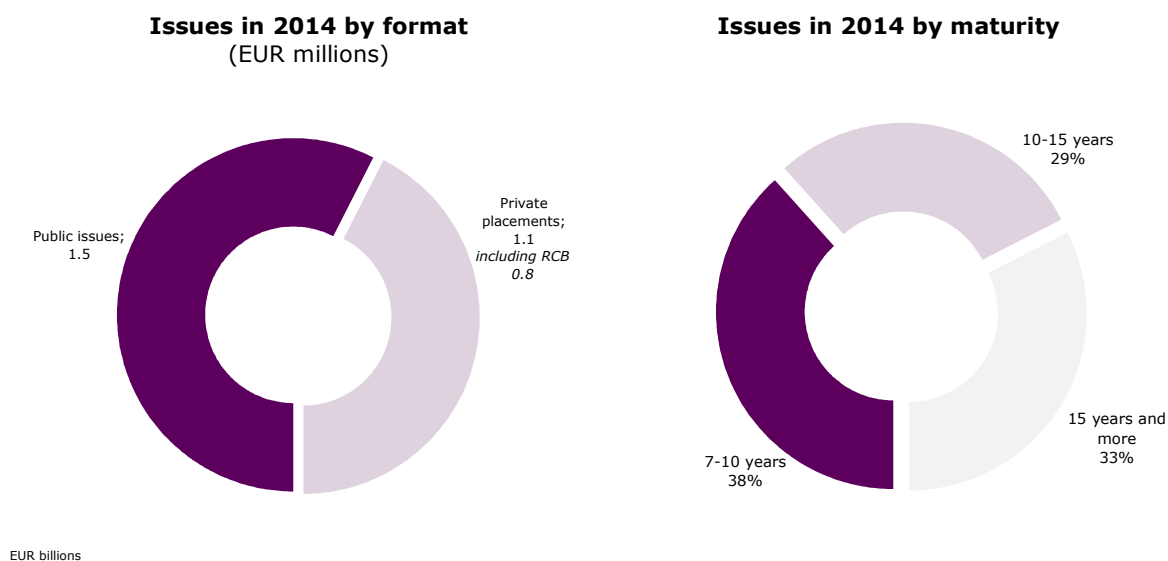
Private placements during the year partially took the form of registered covered bonds, a variety of private placement designed for German investors. This issuance format makes it possible to meet the specific needs of certain investors rapidly and flexibly.

a. New issues in 2014

At the beginning of January, Caisse Française de Financement Local opened the 2014 primary market for covered bonds by launching a ten year benchmark issue in the amount of EUR 1 billion. Then at the beginning of the second quarter, it added EUR 0.5 billion to the 2028 issue (issued last September), bringing it to EUR 1.0 billion.

In addition to these public issues, Caisse Française de Financement Local benefited from dynamic investor demand for maturities of more than 15 years to engage in private placements in the amount of EUR 1.1 billion, with average maturity of more than 18 years.

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

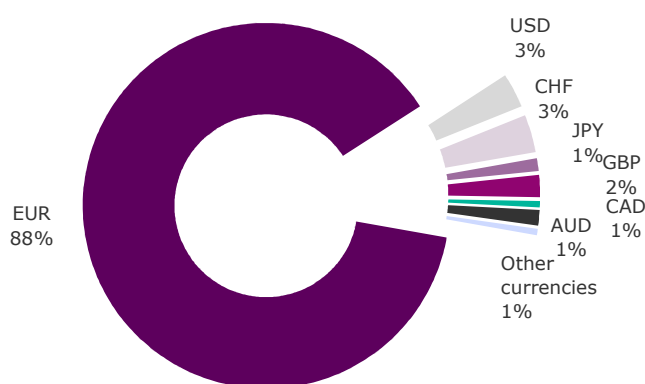


b. Outstanding debt as of June 2014

Outstanding *obligations foncières* and registered covered bonds totaled EUR 51.7 billion in swapped value at the end of June 2014, including the new *obligations foncières* for EUR 2.6 billion and the amortization of issues arriving at maturity for EUR 3.3 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 billions - Swapped value	2013	2014 H1
Beginning of the year	56.2	52.8
Issues	3.1	2.6
Amortizations	-6.1	-3.3
Buyback	-0.4	-0.4
TOTAL	52.8	51.7

As of June 30, 2014, issues can be broken down by currency as follows.

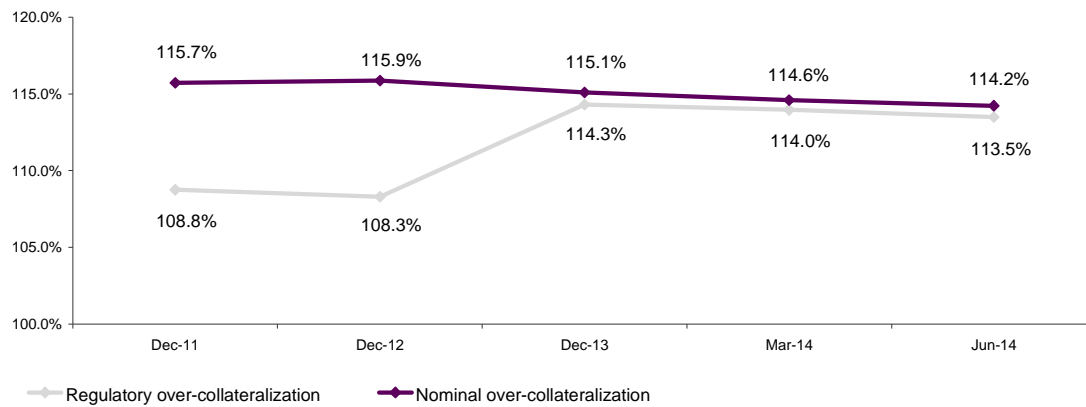


6. Changes in the over-collateralization ratio in 2014

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. Since the reinforcement of the regulatory framework of SCF/SFH took effect (at the end of May 2014 – cf. Highlights 2.3), it must be more than 105% versus 102% in the past. Caisse Française de Financement Local is able to respect this limitation.

This new legal minimum threshold of 105% corresponds to the minimum level that Caisse Française de Financement Local had committed to maintain since its creation.

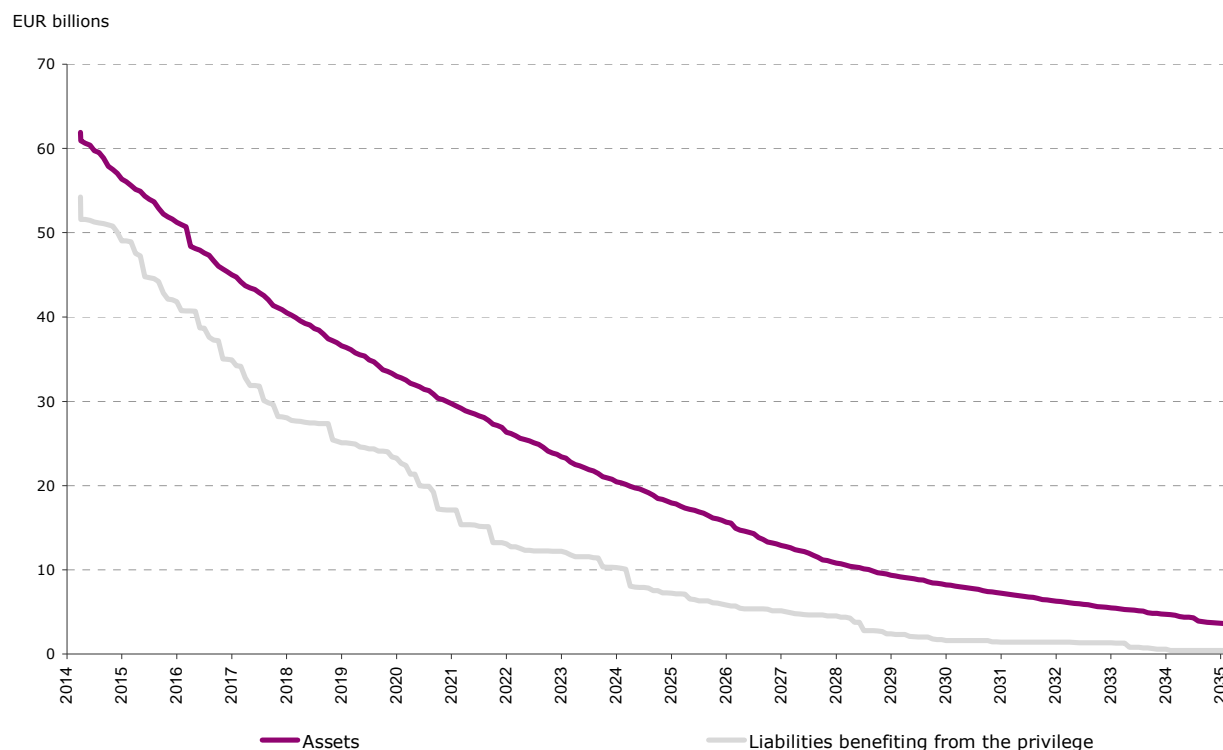
In practice, the over-collateralization ratio is regularly higher than 105%. To maintain an adequate level of credit rating, a level of over-collateralization of more than 5% may be required. This requirement depends on the method applied by each of the rating agencies and on the new assets and liabilities on Caisse Française de Financement Local's balance sheet, and it may vary over time. Caisse Française de Financement Local takes these particular requirements into account in the management of its activity in order to make sure they are constantly met and strives to maintain its over-collateralization at a relatively stable level, as can be seen in the following graph.



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

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

Over-collateralization may also be illustrated by the gap between the amortization curves of the assets and issues benefiting from the privilege. The following graph presents the curves as of June 30, 2014.



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

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

Such financing is generally obtained through the parent company. At the end of June 2014, 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.

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

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

EUR billions	12/31/2013	6/30/2014
Parent company	6.8	6.2
Banque de France	-	-
Total	6.8	6.2

The decrease in debt not benefiting from the legal privilege was due to the reduction of the size of

the balance sheet compared with December 31, 2013, and to the level of nominal over-collateralization.

8. Risk management

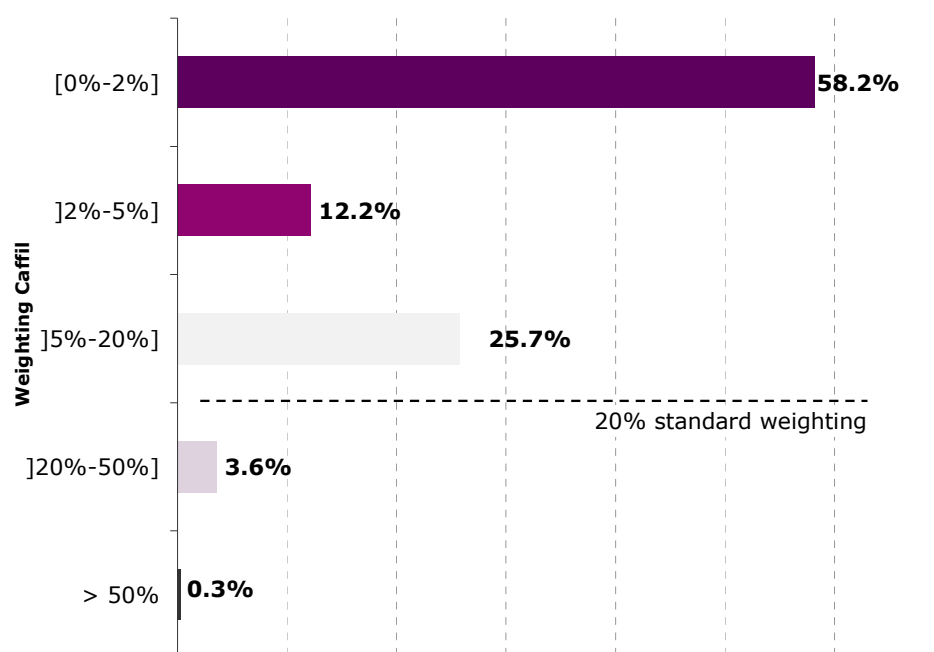
8.1 – CREDIT RISK

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 solvency ratio.

The Company chose the advanced method within the framework of the calculation of the solvency ratio and capital adequacy. Banking regulators authorized the Company and its mother 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 June 2014, 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 June 30, 2014



This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio, since only 4.0% of the portfolio has a weighting of more than 20%.

The average weighting of the cover pool risk is 6.8%, versus 20% for European local governments in the Basel II / III standard model.

By the credit quality of its assets, combined with its high level of regulatory equity, Caisse Française de Financement Local was able to post a Basel III solvency ratio of 21% as of June 30, 2014, compared to a Basel II solvency ratio of 28% as of December 2013.

b. Concentration by customer

As of June 30, 2014, the 20 largest exposures (excluding replacement assets and cash accounts) represented 15.1% of the cover pool, versus 14.4% as of December 31, 2013. The increase results from the acquisition of French sovereign securities within the framework of its active cash management.

The largest exposure accounted for only 1.6% of the cover pool and the twentieth exposure 0.4%.

c. Non-performing loans, litigious loans, provisions

Loans and most of the bonds held by Caisse Française de Financement Local are classified in the Loans and advances portfolio according to IFRS, corresponding to its intention to hold them until maturity. They are valued at their historical cost and, if necessary, are hedged for variations in the fair value of the risk covered (if there is a fair value hedge); they are subject to provisions for impairment when there is a risk of non-payment.

In addition, collective impairment is calculated on the different portfolios of loans and advances. In the absence of specific depreciation, it covers the risk of loss in value when there is an objective indication of the probability of loss in certain segments of the portfolio or in other commitments involving outstanding loans at the end of the period. These losses are estimated on the basis of each segment's past performance and trends, each borrower's rating, and the borrower's economic environment. To this end, Caisse Française de Financement Local uses a credit risk model based on an approach that combines probabilities of default (PD) and loss given default (LGD). This model is regularly tested *a posteriori*.

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

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

Non-performing loans & litigious loans (number of clients)	12/31/2013		6/30/2014	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
Beginning of the year	33	25	47	53
New	23	28	41	4
Outgoing	9	-	5	10
End of the year	47	53	83	47

No litigious situation was resolved in 2013, given the length of the procedures involved (cf. 5.3.d – Structured loans). In the first half of 2014, a file was resolved following the payment of the sums due and nine litigious files were reclassified as non-performing.

Non-performing and litigious loans at the end of June 2014 totaled EUR 395 million, approximately 0.6% of the total cover pool (EUR 62 billion). These commitments can be broken down as follows.

- EUR 326 million of commitments qualified as non-performing, corresponding to loans to customers with total unpaid loans of EUR 24.2;
- EUR 69 million of commitments qualified as litigious, corresponding to unpaid interest on structured loans that are subject to litigation.

Non-performing loans & litigious loans EUR millions	12/31/2013		6/30/2014	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
FRANCE				
Etat	0	-	0	-
Regions	-	-	1	-
Departments	2	17	2	17
Group of municipalities	46	20	53	25
Municipalities	87	27	186	25
Public sector entities	52	1	84	2
Total	188	66	326	69

As in 2012 and 2013, Caisse Française de Financement Local bolstered its provisions in the first half of 2014 in the amount of EUR 44 million, of which EUR 28 million in Cost of risk (compared with EUR 28 million also for each full year 2012 and 2013).

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

EUR millions	12/31/2013	6/30/2014
Specific impairment	14	41
Collective impairment	70	87
Total	84	128

Specific provisions for non-performing loans increased by EUR +27 million in the first half. The main reason for this rise was due to the mandatory provisions for interest on non-performing loans (EUR 16 million), the outstanding amount of which was higher.

The review of the portfolio and its risks entailed an adjustment of the collective impairment which were completed by EUR 17 million.

The provisions were determined by taking into account the comprehensive set of measures taken by the French government to provide a solution to the problem of structured loans, and in particular the law aiming to provide a solid legal base for structured loan agreements in effect with public sector entities. With this law coming into force on July 30th, 2014, residual legal risks has been very appreciably reduced and their financial impact at the closing date was considered as very low.

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 in the amount of EUR 4.1 billion (cf. 4.2.b);

- bank account balances in euros and other currencies, representing EUR 15 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 June 30, 2014, Caisse Française de Financement Local was exposed (positive fair value of the swaps) on 12 banking counterparties. Ten of these paid collateral for EUR 2.5 billion, offsetting total exposure, and two paid no collateral because of their very good short-term ratings. These counterparties represented an exposure of EUR 0.2 billion. All derivative exposures as of June 30, 2014, are listed below.

EUR billions	ST notional amounts	LT notional amounts	% LT notional amounts	Mark to Market		Collateral received	Number of counterparties
				-	+		
SFIL	2.9	19.5	19.7%	(3.2)	-	-	1
Other counterparties	44.2	79.6	80.3%	(4.0)	2.7	2.5	28
Total	47.1	99.1	100.0%	(7.2)	2.7	2.5	29

The swaps negotiated with external counterparties represented 80.3% of outstanding long-term swaps and those signed with Société de Financement Local 19.7%. Long-term swaps signed with the five largest counterparties represented a total of 32.7% of notional amounts.

Short-term swaps (Eonia) were principally contracted with external counterparties (93.8%).

8.2 – 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 refixing 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.

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 June 30, 2014.

Breakdown of outstanding swaps	Notional * (EUR billions)	Sfil (%)	Other counterparties (%)
Euribor against Eonia			
Macro-hedges	47.1	6.2%	93.8%
Total short-term swaps	47.1	6.2%	93.8%
Fixed rate swaps against Euribor			
Micro-hedges on <i>obligations foncières</i>	45.7	10.4%	89.6%
Micro-hedges on loans and debt securities	23.6	10.6%	89.4%
Macro-hedges on loans	19.8	37.4%	62.6%
Subtotal	89.1	16.5%	83.5%
Currency swaps			
Micro-hedges on <i>obligations foncières</i>	6.2	44.0%	56.0%
Micro-hedges on loans	2.7	53.5%	46.5%
Micro-hedges on debt securities	1.1	58.3%	41.7%
Subtotal	10.0	48.2%	51.8%
Total long-term swaps	99.1	19.7%	80.3%

* Absolute value

In addition, any debt contracted with its shareholder to finance over-collateralization is directly borrowed with a monetary index, and does not have to be swapped, or with an Euribor index and thus finances assets that also have an Euribor index. If such is the case, debt vis-à-vis the Banque de France, which is short-term and at a fixed rate, is not hedged, but finances assets that also have a fixed rate.

The objective targeted by this interest rate risk management is to convert the assets and liabilities on the balance sheet into floating rates, so that they move together in a parallel manner following the trend in interest rates, while maintaining the margin unchanged.

The sensitivity limits for the fixed rate gap and the monetary gap mentioned above are defined as the change in the gaps' net present value (NPV) under the impact of a parallel 1% (100 basis points) shift in the yield curve. The aggregate of these two limits for the fixed rate gap and the monetary gap is set at 3% of equity, and this figure is reviewed every year. This general sensitivity limit is EUR 40.0 million, including EUR 9.0 million for the monetary gap and EUR 31.0 million for the fixed rate gap.

In practice, the sensitivity is maintained significantly below this limit, as can be seen in the following table.

Sensitivity of the interest rate gap (EUR millions)

		Average	Maximum	Minimum	Limit
Fixed Rate	3Q 2013	16.0	19.7	14.1	31.0
	4Q 2013	12.2	16.5	3.2	31.0
	1Q 2014	13.4	13.5	13.1	31.0
	2Q 2014	12.1	12.9	11.5	31.0
Monetary	3Q 2013	1.5	1.7	1.3	9.0
	4Q 2013	(0.3)	2.9	(4.7)	9.0
	1Q 2014	0.8	1.0	0.5	9.0
	2Q 2014	0.9	1.2	0.7	9.0
Total	3Q 2013	17.5	21.1	15.9	40.0
	4Q 2013	11.9	19.5	(1.5)	40.0
	1Q 2014	14.2	14.5	13.6	40.0
	2Q 2014	13.0	13.6	12.4	40.0

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

1. Duration gap

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 Financement Local's balance sheet appears to indicate that there is a single loan vis-à-vis a single borrowing. Duration (D) is calculated as follows: "sum of the periods weighted by the cash flows and discounted at the interest rate of the zero coupon curve for period (t) / sum of the cash flows discounted at the interest rate of the zero coupon curve for period (t)".

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

The duration gap between the assets and the liabilities is closely monitored since it is sensitive to fluctuations in interest rates used to calculate the net present value and to significant changes in assets and liabilities. Thus, 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	6/30/2013	12/31/2013	3/31/2014	6/30/2014
Cover pool	7.31	7.44	6.99	7.24	7.21
Privileged liabilities	4.94	4.96	4.91	5.17	5.26
Gap in asset-liability duration	2.37	2.48	2.08	2.07	1.95
<i>Duration gap limit</i>	3	3	3	3	3

2. Weighted average life gap

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

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

Weighted average life (in years)	12/31/2012	6/30/2013	12/31/2013	3/31/2014	6/30/2014
Cover pool	8,38	8,61	8,23	8,34	8,17
Privileged liabilities	5,25	5,32	5,36	5,58	5,65
Gap in asset-liability weighted average life	3,13	3,29	2,87	2,76	2,52

3. Regulatory limit

The regulatory changes in May 2014 imposed a limit of one and a half years on the weighted average life gap between the cover pool, considered on the basis of the minimum amount required to satisfy the legal coverage ratio of 5% and the resources benefiting from the privilege. This limit must be respected as of December 31, 2015. Caisse Française de Financement Local will be able to respect the new limit. Its regulatory weighted average life gap at the end of June 2014 is presented below.

Weighted average life (in years)			6/30/2014
Cover pool - total			8.17
Cover pool – limited to 105% of resources benefiting from the legal privilege			7.12
Resources benefiting from the legal privilege			5.65
Regulatory weighted average life gap			1.47

d. Liquidity risk

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

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

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

- first of all, the cash flows from the amortization of the assets in the cover pool or 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).

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.

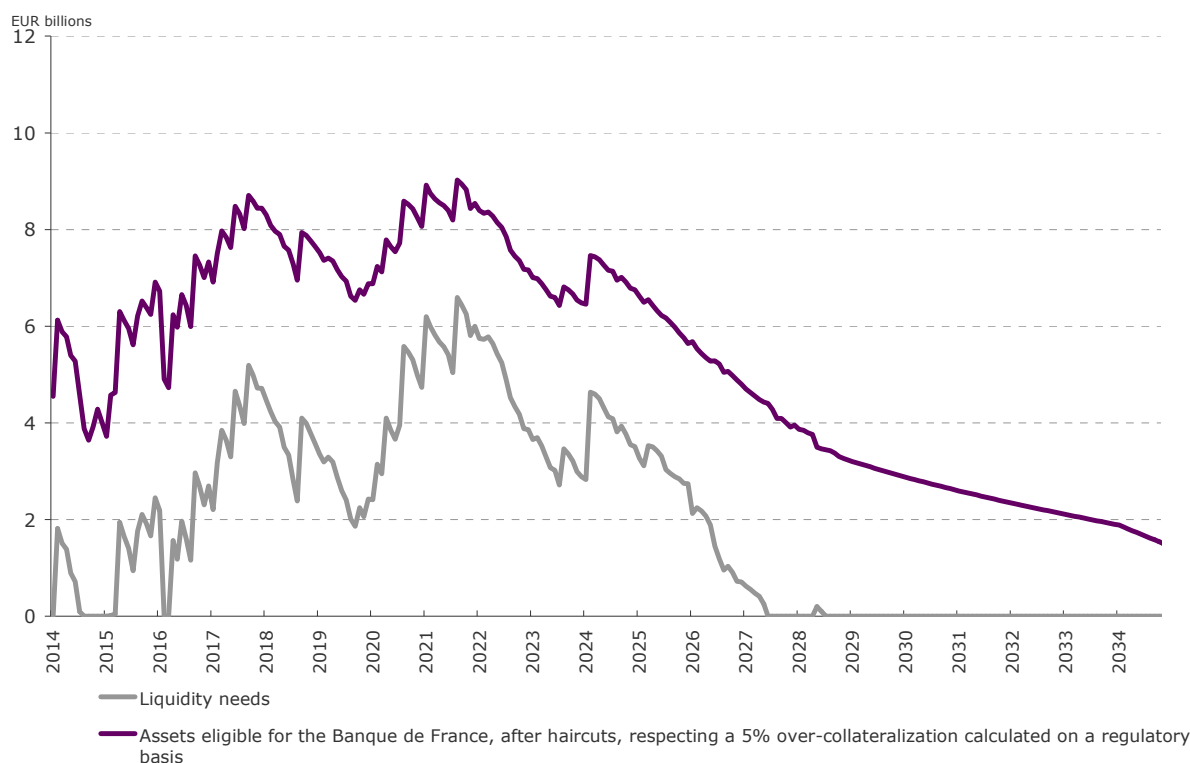
Since it is a credit institution, Caisse Française de Financement Local can post these eligible assets:

- 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).

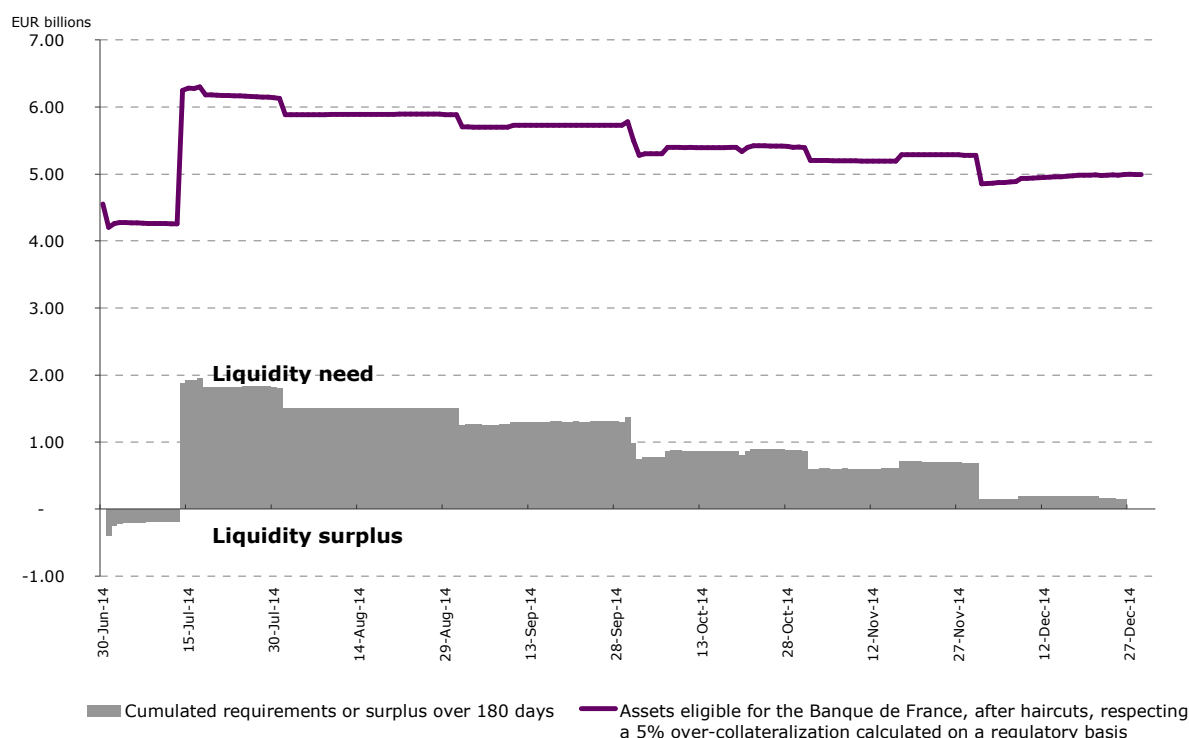
The maximum cumulated liquidity that Caisse Française de Financement Local might need in the future, in a run-off situation, is less than the financing already occasionally negotiated in the past. This need is less than Caisse Française de Financement Local’s capacity to obtain refinancing from the Banque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

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



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

- the liquidity ratio for one month and the Liquidity Coverage Ratio (LCR) (regulatory reporting to the Autorité de contrôle prudentiel et de résolution);
- the duration gap between the assets and the resources benefiting from the legal privilege (limited to three years), which is published quarterly, and the new regulatory limit on weighted average life gap;
- 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, at this date, of the cash collateral received (EUR 2.5 billion), after deduction of available cash, i.e. EUR 0.5 billion. The other fluctuations correspond to cash flows from the amortization of *obligations foncières* and from assets.

8.3. MANAGEMENT OF OTHER RISKS

a. Legal risks

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

b. Operating 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 applied to operating risks and permanent control are described in the section entitled as followed – Supplemental information – Statement of the Chairman of the Supervisory Board in the 2013 Annual Report (available at this Internet site).

c. Security and means of payment

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

9. Income for the period

9.1. INCOME FOR THE PERIOD IN IFRS

Caisse Française de Financement Local publishes its financial statements according to IFRS in order to ensure a better understanding and greater comparability of its accounts internationally.

Since the fiscal year 2013, the application of IFRS 13 produces a significant impact that makes it difficult to compare net banking income with previous periods.

The income statement for the period ended June 30, 2014, is presented synthetically in the following table.

EUR millions - IFRS	H1 2013	2013	H1 2014	Change H1 2014 / H1 2013
Interest margin	74	141	41	(45)%
Net commissions	(4)	(24)	(16)	
Net result of assets at fair value	145	119	(30)	
Net result of financial assets available for sale	(1)	6	4	
Other income and expense	-	0	-	
NET BANKING INCOME	215	242	(1)	(100)%
General operating expenses	(35)	(74)	(40)	
Taxes	(3)	(5)	(2)	
OPERATING INCOME BEFORE COST OF RISK	177	163	(43)	(124)%
Cost of risk	(172)	(178)	(46)	
PRE-TAX INCOME	5	(15)	(89)	(2077)%
Income tax	8	18	31	
NET INCOME	13	3	(58)	(564)%

The results 2013 and 2014 are strongly influenced by two exceptional elements that need to be taken in consideration when analyzing them:

- fair value adjustments on interest rate risk hedging: the first time application of the normative or methodological changes had a very positive effect on the net banking income (NBI) in 2013, and the impact of the variations of these changes in the future may bring volatility to the NBI. So, these adjustments contributed to the NBI for EUR +141 million in the first half-year 2013 and EUR -40 million in the first half-year 2014.
- contributions to support fund set up by the French state to settle the problem of the sensitive structured loans: those contributions were totally funded and had an impact on the cost of risk of EUR 150 millions (local authorities fund) in 2013 and of EUR 18 millions (hospitals fund) in 2014.

Corrected for these elements, the half-year NBI decreases from EUR 74 millions to EUR 39 millions, and the net income of the period from EUR +9 millions to EUR -20 millions.

NBI - fair value adjustments on interest rate risk hedging

While the NBI previously recorded low (or no) inefficiency from interest rate risk hedging, it records since 2013 the effects of Credit Value Adjustment Adjustment/Debit Value Adjustment introduced by the application of the new IFRS 13. The effect of the application of this standard on net banking income for the first half of 2014 totaled EUR +5 million for the CVA (versus EUR -20 million in the first half of 2013), and EUR -32 million for the DVA (versus EUR +161 million in the first half of 2013). Two other causes of accounting inefficiency in interest rate risk hedging have come into play since the implementation of the following methodological changes in the second half of 2013.

- Valuation of collateralized derivatives. To account for changes in current practices, the Company decided to apply valuation against Eonia for its derivatives subject to the payment of collateral to its benefit. The derivatives for which no payment is made continue to be valued against Euribor. This modification in the valuation of hedging derivatives, while the valuation of the hedged items has not been modified, creates an element of inefficiency in hedging relationship. The inefficiency observed in net banking income in the first half of 2014 stood at EUR -4 million and is recognized as Net result of assets at fair value.
- Evaluation of the hedged risk of certain assets and liabilities. These items are swapped

against an Euribor index different from that with a traditional curve serving to value these instruments on the balance sheet. The value of the derivative and that of the hedged item vary independently, thereby creating an accounting inefficiency in the hedge. This inefficiency represented a charge of EUR 9 million in the first half of 2014.

Those adjustments are mainly recognized in the item "Net result of assets at fair value".

NBI – Other changes

Corrected for these adjustments of fair value observed in the first half of 2013 and 2014, net banking income went from EUR 74 million to EUR 39 million, down by EUR 35 million.

The Interest margin decreased by EUR 33 million. The interest margin corresponded to the difference between revenues from the assets and the cost of the liabilities (generally hedged against interest rate and foreign exchange risks). The decline in the margin was mainly due to the reduction in the size of the cover pool and to the change in the financing structure of over-collateralization.

The item Net result of financial assets available for sale increased in comparison with the same period in 2013. For the first half of 2014, this item included net gains on the early reimbursement of loans and borrowings.

The EUR 12 million rise in net commissions paid corresponded to the billing from Sfil within the framework of the management agreement stipulated by article L.513-15 of the Financial and Monetary Code. In 2013, billing had been noticed in the second half-year for the full year.

Other items

The largest share of General operating expense was likewise composed of billings by the parent company for the Company's operational management.

The cost of risk was impacted by the accounting of the contribution of Caisse Française de Financement Local to the support fund for local governments in the amount of EUR 150 million in 2013 and for the similar organization set up for public hospitals in the amount of EUR 18 million in 2014. The bolstering of specific and collective impairment impacted the cost of risk in the amount of EUR -28 million in the first half of 2014 versus EUR -22 million for the same period in 2013 (cf. 8.1.c – Non-performing loans, litigious loans, provisions).

9.2 – INCOME FOR THE PERIOD IN FRENCH GAAP

The income statement for the first half of 2014 is presented synthetically in the following table.

EUR millions - French GAAP	H1 2013	2013	H1 2014	Change H1 2014 / H1 2013
Interest margin	86	160	41	(52)%
Net commissions	(4)	(24)	(16)	
Provisions and income on trading portfolio	1	-	-	
Provisions and income on securities	11	41	(0)	
Other income and expense	-	-	-	
NET BANKING INCOME	94	177	25	(74)%
General operating expenses	(35)	(79)	(40)	
Taxes	(3)	-	(2)	
OPERATING INCOME BEFORE COST OF RISK	56	98	(17)	(131)%
Cost of risk	(172)	(183)	(46)	
OPERATING INCOME	(116)	(85)	(63)	46%
Income (loss) on fixed assets	-	-	-	
Income tax	(14)	(5)	-	
Regulated provision on long- and medium- term loans	(1)	70	-	
NET INCOME	(131)	(20)	(63)	52%

Net banking income was down 74% (EUR 69 million) from the same period in 2013 and went from

EUR 94 million to EUR 25 million. This trend was the result of the following items:

- Interest margin. This item decreased by 52% (EUR 45 million). The interest margin corresponds to the difference between the revenues from the assets and the cost of the liabilities (generally hedged against interest rate and foreign exchange risks). It was influenced in 2014 by the decline in the size of the balance sheet and by the change in the financing structure of over-collateralization.
- Provisions and income on trading portfolio. This item was down EUR 11 million in 2014.

The interest margin reacted differently according to whether it was presented in IFRS (economic presentation) or in French GAAP (presentation based on fiscal rules). The accounting treatment of debt rescheduling is asymmetrical in French GAAP (cf. below), and this may make the variations difficult to interpret, especially in years in which the debt management of local governments is very active.

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

This accounting method introduces accelerated recognition of income compared with systematic amortization. These penalties and payments are generated by early reimbursements, but also by renegotiations, which generally accompany active debt management by borrowers.

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 EUR 12 million increase in net commissions paid corresponded to the billing from Sfil within the framework of the management agreement stipulated by article L.513-15 of the Monetary and Financial Code. In 2013, billing had been noticed in the second half-year for the full year.

The largest share of General operating expense was composed of billings by the parent company for the Company's operational management.

The cost of risk was impacted by the accounting of the contribution of Caisse Française de Financement Local to the support fund in the amount of EUR 18 million (against EUR 150 million in 2013) and by the bolstering of specific and collective impairment in the amount of EUR 28 million (cf. 8.1.c – Non-performing loans, litigious loans, provisions).

Net income for the first half is increasing by EUR 68 million compared with the same period in the previous year, of which EUR 150 million corresponded to the contribution to the support fund made in 2013.

10. Outlook for 2014

Caisse Française de Financement Local and its shareholder Sfil play a key role in the organization of the financing of the French local public sector set up by the French State at the beginning of 2013 with La Banque Postale and Caisse des Dépôts et Consignations.

The mission entrusted to Caisse Française de Financement Local, which consists in raising in the market the resources required in terms of volume, maturity and cost to finance the loans commercialized by LBP, was perfectly successful in 2013 as well as in the first half of 2014. The first half's public issues, a ten year EUR 1 billion benchmark launched in January 2014, then an addition in April 2014 in the amount of EUR 0.5 billion to the 15 year issue launched in September 2013 were complemented by many private placements making it possible to meet investor demand for a total amount of EUR 1.1 billion. For the whole year 2014, Caisse Française de Financement Local plans to issue an amount of *obligations foncières* that may total EUR 4 billion or more.

In terms of the management of the cover pool, the activity is also promising, as concerns both acquisitions of loans granted by La Banque Postale, which has become a major player in the sector (EUR 1.8 billion acquired since mid-2013), and the implementation of the strategy to reduce sensitivity of outstanding structured loans.

Bonds and public sector loans as of June 30, 2014

EUR millions	6/30/2014				12/31/2013	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
France						
State		500	157		657	147
Banque de France	461				461	1,471
Regions	1,694	114	285		2,093	2,160
Departments	6,019		286		6,305	6,156
Municipalities	15,449	102	687		16,238	16,626
Groups of municipalities	9,112	107	222		9,441	9,601
Public sector entities :						
- health	6,136				6,136	6,168
- social housing	1,731				1,731	1,795
- others	982		8		990	998
Credits institutions	4,102				4,102	4,381
Subtotal	45,686	823	1,645	0	48,154	49,503
Germany						
Länder		508		342	850	854
Subtotal		508		342	850	854
Austria						
Länder	198				198	199
Subtotal	198				198	199
Belgium						
Regions	37		59		96	114
Communities		50			50	50
Public sector entities	70				70	74
Subtotal	107	50	59		216	238
Canada						
Provinces		22			22	22
Communities	192				192	202
Public sector entities	129				129	129
Subtotal	321	22			343	353
Spain						
Regions		232			232	229
Municipalities	260				260	267
Subtotal	260	232			492	496
United States						
Federated States		253			253	253
Subtotal		253			253	253
Finland						
Municipalities	3				3	5
Public sector entities	41				41	42
Subtotal	44				44	47

EUR millions	6/30/2014				12/31/2013	
	Direct exposure		Indirect exposure			
PAYS	Loans	Bonds	Loans	Bonds	Total	Total
Italy						
State		581			581	580
Regions		3,010			3,010	3,051
Provinces		680			680	717
Municipalities	11	2,280			2,291	2,351
Subtotal	11	6,551		-	6,562	6,699
Japan						
Municipalities		25			25	25
Subtotal		25			25	25
Portugal						
Municipalities	54				54	58
Public sector entities	8				8	8
Subtotal	62				62	66
United Kingdom						
State				518	518	555
Counties			398		398	398
Districts			28		28	28
Municipalities			1,368		1,368	1,368
Public sector entities			56		56	56
Subtotal			1,850	518	2,368	2,405
Sweden						
Municipalities	28		22		50	55
Public sector entities					-	5
Subtotal	28		22		50	60
Switzerland						
Cantons	957		480		1,437	1,621
Municipalities	772				772	778
Public sector entities	91				91	91
Subtotal	1,820		480		2,300	2,490
Supranational						
International organizations	41				41	43
Subtotal	41				41	43
TOTAL COVER POOL	48,578	8,464	4,056	860	61,958	63,731

Loans and securities are off premium / discount. Exposures denominated in foreign currencies are recorded at their euro swapped value. Loans are presented net of specific provisions, and securities net of unrealized losses after accounting for hedges. In addition, Caisse Française de Financement Local recognizes collective and sector-based provisions.

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Financial Statements
Half-year 2014 (*IFRS*)

BALANCE SHEET

Assets as of june 30, 2014

EUR millions	Note	6/30/2013	12/31/2013	6/30/2014
Central banks	2.1	10	1,471	461
Financial assets at fair value through profit or loss		-	-	3
Hedging derivatives	4.1	6,961	6,501	7,532
Financial assets available for sale	2.2	1,095	1,084	1,656
Loans and advances due from banks	2.3	3,021	7,314	6,955
Loans and advances to customers	2.4	67,401	61,929	61,849
Fair value revaluation of portfolio hedge		1,768	1,611	2,380
Financial assets held to maturity		-	-	-
Current tax assets	2.5	2	13	-
Deferred tax assets	2.5	127	90	106
Accruals and other assets	2.6	22	4	2
TOTAL ASSETS		80,407	80,017	80,944

Liabilities as of june 30, 2014

EUR millions	Note	6/30/2013	12/31/2013	6/30/2014
Central banks	3.1	-	-	-
Financial liabilities at fair value through profit or loss		-	8	9
Hedging derivatives	4.1	10,877	10,605	12,009
Due to banks	3.2	7,995	6,774	6,199
Customer borrowings and deposits		-	-	-
Debt securities	3.3	55,925	57,129	57,057
Fair value revaluation of portfolio hedge		1,560	1,398	1,648
Current tax liabilities	3.4	10	2	2
Deferred tax liabilities	3.4	-	-	-
Accruals and other liabilities	3.5	2,754	2,742	2,690
Provisions		-	-	-
Subordinated debt		-	-	-
Equity		1,286	1,359	1,330
Capital and related reserve		1,315	1,315	1,315
Reserves and retained earnings		167	215	218
Gains and losses through equity		(209)	(174)	(145)
Net income		13	3	(58)
TOTAL LIABILITIES		80,407	80,017	80,944

Income statement

EUR millions	Note	6/30/2013	12/31/2013	6/30/2014
Interest income	5.1	2,790	5,086	2,230
Interest expense	5.1	(2,716)	(4,945)	(2,189)
Fee and commission income	5.2	-	-	0
Fee and commission expense	5.2	(4)	(24)	(16)
Net result of financial instruments at fair value through profit or loss	5.3	145	119	(30)
Net result of financial assets available for sale	5.4	(1)	6	4
Net result of hedge accounting and fair value option		-	-	-
Other income		-	0	-
Other expense		-	0	0
Net banking income		215	242	(1)
Operating expense	5.5	(38)	(79)	(42)
Gross operating income		177	163	(43)
Cost of risk	5.6	(172)	(178)	(46)
Operating income		5	(15)	(89)
Net gains (losses) on other assets			-	-
Income before tax		5	(15)	(89)
Income tax	5.7	8	18	31
NET INCOME		13	3	(58)
Earnings per share (in EUR)				
- Basic		1	0	(4)
- Diluted		1	0	(4)

Net income and unrealized or deferred gains and losses through equity

EUR millions	6/30/2013	12/31/2013	6/30/2014
Net income	13	3	(58)
Items will be reclassified subsequently to profit and loss	35	70	29
Unrealized or deferred gains and losses of financial assets available for sale	36	71	32
Unrealized or deferred gains and losses of cash flow hedges	3	21	12
Taxes on items reclassified subsequently to profit or loss	(4)	(22)	(15)
Items will not be reclassified subsequently to profit and loss	-	-	-
Total of unrealized or deferred gains and losses through equity	35	70	29
NET INCOME AND GAINS AND LOSSES THROUGH	47	73	(29)

Cash flow statement

EUR millions	6/30/2013	12/31/2013	6/30/2014
NET INCOME BEFORE TAXES	5	(15)	(89)
+/- Depreciation and write-downs	174	178	62
+/- Expense/income from investing activities	111	5	131
+/- Expense/income from financing activities	(246)	(110)	(98)
+/- Other non-cash items	(1)	40	(47)
= Non-monetary items included in net income before tax and other adjustments	38	113	48
+/- Cash from interbank operations	4,458	(474)	(180)
+/- Cash from customer operations	1,835	2,610	652
+/- Cash from financing assets and liabilities	274	4,775	(427)
+/- Cash from not financing assets and liabilities	0	0	0
- Income tax paid	(9)	(14)	(1)
= Decrease/(increase) in cash from operating activities	6,558	6,897	44
CASH FLOW FROM OPERATING ACTIVITIES (A)	6,601	6,995	3
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-	-
+/- Cash from or for shareholders	-	-	-
+/- Other cash from financing activities	-	-	(1,016)
CASH FLOW FROM FINANCING ACTIVITIES (C)	(5,035)	(3,417)	(1,016)
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)		-	-
Increase/(decrease) in cash equivalents (A + B + C + D)	1,566	3,578	(1,013)
Cash flow from operating activities (A)	6,601	6,995	3
Cash flow from investing activities (B)	-	-	-
Cash flow from financing activities (C)	(5,035)	(3,417)	(1,016)
Effect of changes in exchange rates on cash and cash equivalents (D)	-	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	(2,090)	(2,090)	1,488
Cash and balances with central banks (assets & liabilities)	2,400	2,400	1,471
Interbank accounts (assets & liabilities) and loans/deposits at sight	(4,490)	(4,490)	17
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	(524)	1,488	475
Cash and balances with central banks (assets & liabilities)	10	1,471	461
Interbank accounts (assets & liabilities) and loans/deposits at sight	(534)	17	14
CHANGE IN NET CASH	1,566	3,578	(1,013)

Equity

	Capital and reserves			Unrealized or deferred gains and losses			Total equity
(EUR millions)	Share capital, additional paid-in capital	Retained earnings and net income for the period	Total	Net change in fair value of available-for-sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax	Total	
EQUITY AS OF DECEMBER 31, 2013	1,315	218	1,533	(143)	(30)	(174)	1,359
Shares issued	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Changes in fair value of available-for-sale financial assets through equity	-	-	-	21	-	21	21
Changes in fair value of derivatives through equity	-	-	-	-	8	8	8
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	-	(58)	(58)	-	-	-	(58)
Other movements	-	-	-	-	-	-	-
EQUITY AS OF JUNE 30, 2014	1,315	160	1,475	(123)	(22)	(145)	1,330

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).

The financial statements as of June 30, 2014 were examined by the Executive Board on August 25, 2014.

The financial statements as of June 30th, 2014 of Caisse Française de Financement Local were prepared by taking into account the comprehensive set of measures taken by the French government to provide a solution to the problem of structured loans, and in particular the law aiming to provide a solid legal base for structured loan agreements in effect with public sector entities. With this law coming into force on July 30th, 2014, residual legal risks have been very appreciably reduced and their financial impact at the closing date was considered as very low.

1.2. Highlights of the period and post-closing events

a. The covered bond market

In the first half of 2014, the offering on the euro-denominated covered bond primary market totaled EUR 67 billion, up 22% from the first half of 2013. Despite this rise, the negative net offering of the period is EUR 21 billion due to significant amortized amounts. This situation is expected to become more marked in the second half as a result of the volume of covered bonds reaching their maturity (EUR 65 billions) and of the implementation of the TLTRO (Targeted Long-Term Refinancing Operations) which could slow down the needs for issue of covered bonds. The offering remained dominated by French and German issuers who represented almost a third of the issues. Canadian issuers increased their presence with more than 7%. In terms of collateral, mortgages lost ground, with 86% of total volume (versus 91% in the first half of 2013) to the public sector at 12%. In the public sector covered bond segment, the offering came from German, French (solely Caffil) and Austrian issuers. Lastly in terms of maturity, the significant change during the first half reflected a downturn in transactions with a maturity of seven years to the benefit of five year issues (40% of the offering), and especially of ten year issues (24% of the offering), boosted by investors' search for absolute yield within a context of declining rates and spreads.

In this environment, Caisse Française de Financement Local launched two issues in the primary market. At the beginning of January, it opened the primary market by launching a ten year jumbo issue for EUR 1 billion, and increased its 15 year issue in the amount of EUR 500 million. In addition to public transactions, Caffil was active in the private placement segment and particularly in registered covered bonds, making it possible to meet investor's demand for long to very long maturities. Altogether, Caffil raised EUR 2.6 billion in the first half.

b. Litigation and governmental measures

In its portfolio, Caisse Française de Financement Local has structured loans considered as sensitive, which had been granted to French customers by Dexia Credit Local. Some of these customers sued Dexia Credit Local, Caisse Française de Financement Local and/or Société de Financement Local, contesting the contractual interest rate. As of June 30, 2014, the number of customers having brought suit was 207 as compared with 205 at the end of 2013.

A limited number of cases were judged in initial hearings.

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 and proceedings are underway. 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 February 2013 legal decisions concerning the Département de la Seine-Saint-Denis, decisions were handed down by the Tribunal de Grande Instance (TGI) of Nanterre in the suits brought by four municipalities against Dexia Credit Local (and Caisse Française de Financement Local, which intervened voluntarily in the proceedings in order to defend its interests). These decisions concerned structured loans marketed by Dexia Credit Local and recognized on the balance sheet of Caisse Française de Financement Local, with total initial capital of EUR 98 million. As in the February 2013 decisions, the Tribunal’s decision did not address the core issue (validity of the agreement, failure to provide adequate information, advice and warning, etc.), but it was motivated by the formal absence in the fax which had preceded the signing of the loan agreement of the annual rate of charge (TEG) or intermediary data with which to calculate the TEG. This item led the Tribunal to decide to apply the official interest rate (*taux légal*) instead of the contractual rate. Dexia Credit Local and Caisse Française de Financement Local have appealed or may appeal these decisions.

In order to find a permanent and comprehensive solution for the problem of the most sensitive structured loans contracted by local governments, and in compliance with its press releases dated June 18, and July 16, 2013, the French government took the following measures.

- the creation of a multi-year support fund endowed with significant resources enabling local governments to finance the unwinding of structured loans; a similar system is currently being set up for public healthcare facilities;

- legislative measures targeting a legal basis to secure loan agreements in effect with local governments.

The multi-year support fund was created by the 2014 law of Finances voted in December 2013. It is endowed with EUR 1.5 billion and has a life span of 15 years maximum (EUR 100 million per year). It functions as described in the decree of application published in the May 2, 2014, edition of the Journal Officiel:

- Eligible customers: local governments and groups of such holding the most sensitive loans;
- Use of the aid received by local governments: refinancing of a part of the early reimbursement indemnity (option preferred), or in an initial phase and for a limited time, financing a part of the interest on the loan in question;
- Renunciation by the entities that benefit from the fund of current or future litigation on the loans benefiting from the fund;
- Management of the fund ensured by the State, with a committee of orientation and supervision bringing together representatives of the State, local governments and qualified individuals;
- The funds come half from the banks and half from the State.

Caisse Française de Financement Local has committed to contribute to the fund dedicated to local governments for EUR 10 million per year for 15 years, as well as to the planned arrangements for public hospitals for a total amount of EUR 18 million. All of these contributions have been recorded in the Company's accounts.

New legislative provisions targeting a legal basis to secure loan agreements in effect with local governments were specified, and they take into account the comments handed down by the Conseil constitutionnel at the end of December 2013. Legislation was adopted by the National Assembly on July 10, 2014, and passed by the Senate on July 17, 2014. The Conseil constitutionnel validated this legislation on July 24, 2014 and it is now in effect.

c. Changes in the regulation of covered bonds in France

During the first half of 2014, changes were introduced into regulations governing the activity of issuers of French covered bonds - *sociétés de crédit foncier* (SCF) and *sociétés de financement de l'habitat* (SFH). The objective is to bolster the prudential framework of SCF/SFH and guarantee the eligibility of issues with the best prudential treatment.

These measures mainly consist in:

- raising the minimum level of over-collateralization from 2% to 5%;
- limiting the exposure of an SCF or SFH to its parent company by modifying the way in which the cover ratio and the liquidity coefficient are calculated;
- imposing greater congruence between asset/liability maturities with the introduction of an annual cover plan and the maintenance of a weighted average life of eligible assets, considered as the minimum amount required to satisfy the cover ratio of 5%, not exceeding by more than 18 months that of the privileged liabilities;
- rendering effective the possibility of a transfer of servicing the SCF/SFH via the annual setting up of a servicing transfer plan submitted to the Autorité de contrôle prudentiel et de résolution.
- limiting the eventual use of securitizations.

These changes were integrated into current regulations by decree 2014-526 of May 23, 2014, and by an *arrêté* dated May 26, 2014. They took effect at the end of May 2014, after publication in the Journal Officiel.

Caisse Française de Financement Local will be able to respect all of these changes before the specified deadlines.

d. Preparation for the single supervision mechanism

In November 2014, the European Central Bank (ECB) will take charge of banking supervision in the euro zone, within the framework of the Single Supervision Mechanism (SSM). To this end, since November 2013, it has conducted, with national regulators, a comprehensive assessment of approximately 130 credit institutions in the euro zone.

Like all the major banks, Caffil and its parent company Sfil are subject to such an assessment, which includes a prudential evaluation of risks, an asset quality review (AQR) and a stress test. The results of this assessment will be announced at the end of October.

e. Post-closing events

No significant event that could have material impact on the financial position of the Caisse Française de Financement Local occurred after the half-year closing.

1.3. Applicable accounting standards

a. Application of IFRS adopted by the European Commission

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

Since its publication in 2002, regulation EC 1606/2002 has been updated several times. Caisse Française de Financement Local's financial statements have therefore been prepared in accordance with all IFRS as adopted and endorsed by the European Commission up to the accounting closing on June 30, 2014, 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 as of June 30, 2014. .

IASB and IFRIC texts endorsed the European Commission and effective as on January 1, 2014

- Amendment to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting.
- Amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance.

As of June 30, 2014, these amendments do not have a material impact on the financial statements of Caisse Française de Financement Local.

IASB and IFRIC texts endorsed by the European Commission during the year but not applicable as of January 1, 2014

- IFRIC 21 Levies: this interpretation, effective as from January 1, 2015, identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation.
Caisse Française de Financement Local anticipated the application of this interpretation on January 1, 2014. This amendment do not have a material impact.

New standards, interpretations and amendments issued during the year but not yet endorsed by the European Commission

- Amendment to IFRS 11 Acquisition of an interest in a joint operation

- IFRS 15 Revenue from contracts with customers

Caisse Française de Financement Local is assessing the potential 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

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

d. Financial assets

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

Loans and advances to banks and customers

Loans are defined as non-derivative financial assets with fixed or determinable payments that are not 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 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.

Financial assets held to maturity

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

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. 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 on fixed-income securities is recognized based on the effective interest rate method in the interest margin. Dividends on variable-income securities are recorded in Net gains (losses) on financial assets available for sale.

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

When available-for-sale financial assets are restated as Loans and advances at a later date on the basis of the October 2008 amendment to IAS 39, the reserve representative of changes in the fair value of available-for-sale financial assets as presented in the financial statements as of June 30, 2014, corresponds to the part of this reserve still to be amortized with regard to the securities restated as of October 1, 2008.

Financial assets held for trading

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

Financial assets designated at fair value through profit or loss

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

Realized gains and losses on sales of financial assets

For financial assets at amortized cost, realized gains and losses on disposals are the differences between the proceeds received (net of transaction costs) and the carrying amount of the assets. The carrying amount is systematically determined based on the “first in, first out” approach. When an available-for-sale financial asset is sold, the total of gains and losses previously recognized in equity is reversed in the income statement.

Early reimbursement indemnities

Caisse Française de Financement Local has determined the accounting principles applicable to the restructuring of loans in accordance with AG 62 of IAS 39 concerning financial liabilities. Several possibilities are considered depending on whether the early reimbursement is recognized as being an early reimbursement with refinancing or without refinancing.

Early reimbursement with refinancing

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

In line with the principles of AG 62 of IAS 39, Caisse Française de Financement Local considers that the conditions are substantially different when the net present value of the cash flows under the new conditions, including any fees paid net of any fees received, is more than 10% different from the discounted net present value of the cash flows remaining from the original loan.

If the difference in net present value is less than 10%, any early reimbursement indemnities are amortized over the term of the new loan as there is continuity between the two operations. If the difference exceeds 10%, early reimbursement indemnities are recognized directly in income.

Early reimbursement without refinancing

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

Sale and repurchase agreements and lending of securities

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

Securities purchased under an agreement to resell (reverse repo) are recorded as off-balance sheet items and the corresponding loans are recorded in Loans and advances to customers or Loans and advances due from banks, as appropriate.

The difference between the sale and repurchase price is 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.

Impairment of financial assets

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

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

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

Reclassified financial assets

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 available-for-sale financial

assets, and the net present value of the expected cash flows discounted at the effective interest rate at the time of reclassification. Any existing unamortized reserve of unrealized gains and losses will be taken to profit or loss account in Cost of risk.

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

Financial assets available for sale

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

- **Determination of impairment**

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 impairment**

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

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

Off-balance sheet commitments

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

e. Financial liabilities

Financial liabilities designated at fair value through profit and loss

Caisse Française de Financement Local does not use this option.

Financial liabilities at amortized cost

Financial liabilities at amortized cost are recognized initially at fair value, being their issue proceeds net of transaction costs incurred. They are subsequently recognized at amortized cost and any difference between their initial carrying amount and the redemption value is

recognized in the income statement over the period of the borrowings using the effective interest rate method.

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

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, *prorate temporis*. They are recorded on the balance sheet in items corresponding to the type of debt concerned. The amortization of these premiums is recorded in the income statement as Interest income and expense on debt securities. In the case of bonds issued above par, the spread of issue premiums is deducted from related interest income and expense on debt securities.

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

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

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

f. Derivatives

Derivatives not used in a hedging relationship

Caisse Française de Financement Local is not authorized to conduct derivative transactions that would not be documented in a hedging relationship.

Nevertheless, as of June 30, 2014, transaction derivatives were recorded. They resulted from operations in which hedge ineffectiveness arose. Gains and losses (realized and unrealized) were recognized as Net result of financial instruments at fair value through profit and loss.

Hedging derivatives

Hedging derivatives can be categorized as either:

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

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

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

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

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

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

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

Hedging 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 models 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

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

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

Financial instruments measured at fair value

Available-for-sale financial assets and derivatives are measured at fair value by reference to 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 available-for-sale financial assets, 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.

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

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 effective interest rate used to discount the recoverable future cash flows.

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 other comprehensive income, are also credited or charged directly to other comprehensive income.

k. Provisions

Provisions are mainly for litigation, restructuring and ff-balance sheet loan commitments.

A provision is measured at the present value of the expenditures expected to be required to settle the obligation.

Provisions are recognized when:

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

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

l. Dividends and ordinary shares

Dividends on ordinary shares are recognized in liabilities in the period in which they are authorized. Dividends of the year that are authorized after the 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 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, which is owned by the French State, Caisse des Dépôts et Consignations and La Banque Postale, incorporated in France. Within this framework, related party transactions are those with parent companies and with directors.

o. Segment reporting

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

Caisse Française de Financement Local conducts its business solely from France. The Company has no direct activities in other countries and is unable to present a relevant breakdown of its results by geographic region. 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	6/30/2013	12/31/2013	6/30/2014
Mandatory reserve deposits with central banks	-	-	-
Other deposits	10	1,471	461
TOTAL	10	1,471	461

2-2 FINANCIAL ASSETS AVAILABLE FOR SALE

a. Analysis by nature

EUR millions	6/30/2013	12/31/2013	6/30/2014
Loans	-	-	-
Bonds	1,095	1,084	1,656
TOTAL	1,095	1,084	1,656

b. Analysis by counterparty

EUR millions	6/30/2013	12/31/2013	6/30/2014
Public sector	753	742	1,313
Credit institutions guaranteed by the public sector	342	342	343
Total public sector	1,095	1,084	1,656
Replacement assets	-	-	-
TOTAL	1,095	1,084	1,656
<i>of which eligible for central bank refinancing</i>	<i>814</i>	<i>835</i>	<i>1,391</i>

c. Impairment

EUR millions	6/30/2013	12/31/2013	6/30/2014
Public sector	1,095	1,084	1,656
Replacement assets	-	-	-
Total performing assets	1,095	1,084	1,656
Public sector	-	-	-
Replacement assets	-	-	-
Total impaired assets	-	-	-
Specific impairment	-	-	-
TOTAL ASSETS AFTER IMPAIRMENT	1,095	1,084	1,656

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	6/30/2013	12/31/2013	6/30/2014
Sight accounts	12	18	15
Other loans and advances due from banks	3,009	7,296	6,940
Performing assets	3,021	7,314	6,955
Impaired loans and advances	-	-	-
Impaired assets	-	-	-
Total assets before impairment	3,021	7,314	6,955
Specific impairment	-	-	-
Collective impairment	(0)	-	-
TOTAL	3,021	7,314	6,955

b. Breakdown by counterparty

EUR millions	6/30/2013	12/31/2013	6/30/2014
Credit institutions	10	8	6
Swiss cantonal banks benefiting from their cantons' legal guarantee	736	686	635
Banks guaranteed by a local government, <i>crédits municipaux</i>	143	129	105
Other credit institutions : loans benefiting from the assignment in guarantee of refinanced public debt	2,106	2,105	2,102
Credit institutions guaranteed by the State	14	-	-
Assets assigned in guarantee to the central bank	-	-	-
Replacement assets	12	4,386	4,107
TOTAL	3,021	7,314	6,955
<i>of which eligible for central bank refinancing</i>	<i>-</i>	<i>-</i>	<i>-</i>

c. Replacement assets

EUR millions	6/30/2013	12/31/2013	6/30/2014
Dexia Sabadell - <i>cedulas territoriales</i>	-	-	-
Dexia LdG Banque - <i>Lettres de gage publiques</i>	-	-	-
Dexia Credit Local - loans secured by public sector assets	-	-	-
Société de Financement Local - loans secured by public sector assets	-	4,368	4,092
Credit institutions - sight accounts	12	18	15
TOTAL	12	4,386	4,107

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	6/30/2013	12/31/2013	6/30/2014
Public sector	56,049	58,234	58,050
Other - guaranteed by a State or local government	3,640	3,525	3,532
Other - ABS made up solely of public commitments	7,817	-	-
Performing assets	67,506	61,759	61,582
Impaired loans and advances	122	254	395
Impaired assets	122	254	395
Total assets before impairment	67,628	62,013	61,977
Specific impairment	(11)	(14)	(41)
Collective impairment	(216)	(70)	(87)
TOTAL	67,401	61,929	61,849
<i>of which eligible for central bank refinancing</i>	<i>40,901</i>	<i>42,118</i>	<i>41,366</i>
<i>Assets assigned in guarantee to the central bank</i>	<i>-</i>	<i>-</i>	<i>-</i>

The loans depreciated concern customers that represent an identified credit risk (non-performing loans: EUR 326 million) and customers with unpaid loans corresponding to disagreement on the amount due (compromised non-performing loans : EUR 69 million).

During the first semester, Caisse Française de Financement Local strengthened its hedges of the credit risk by increasing specific impairments by EUR 27 million and collective impairments by EUR 17 million.

b. Public sector ABS

EUR millions	Rating	6/30/2013	12/31/2013	6/30/2014
Colombo	-	-	-	-
Astrea	-	-	-	-
Blue Danube	-	-	-	-
DCC - Dexia Crediop per la Cartolarizzazione	-	3,266	-	-
DSFB - Dexia Secured Funding Belgium 2	-	1,240	-	-
DSFB - Dexia Secured Funding Belgium 4	-	3,311	-	-
TOTAL		7,817	-	-

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	6/30/2013	12/31/2013	6/30/2014
Current income tax	2	13	-
Other taxes	-	0	0
Current tax assets	2	13	0
Deferred tax assets (see note 4.2)	127	90	106
TOTAL TAX ASSETS	129	103	106

2-6 ACCRUALS AND OTHER ASSETS

EUR millions	6/30/2013	12/31/2013	6/30/2014
Cash collateral paid	-	-	-
Other accounts receivable	-	0	-
Prepaid charges	-	1	0
Other assets	22	3	2
TOTAL ACCRUALS AND OTHER ASSETS	22	4	2

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	6/30/2013	12/31/2013	6/30/2014
Overnight borrowing	-	-	-
Term borrowing	-	-	-
Accrued interest	-	-	-
TOTAL FUNDING FROM BANQUE DE FRANCE	-	-	-

3-2 DUE TO BANKS

a. Analysis by nature

EUR millions	6/30/2013	12/31/2013	6/30/2014
Demand deposits	-	1	0
Term deposits	7,995	6,773	6,199
TOTAL	7,995	6,774	6,199

At the end of June 2014, 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	6/30/2013	12/31/2013	6/30/2014
Current account - parent company	-	-	-
Interest accrued not yet due	-	-	-
Term borrowing - parent company	7,973	6,758	6,185
Interest accrued not yet due	22	15	14
Sight accounts	-	1	0
TOTAL	7,995	6,774	6,199

b. Analysis by residual maturity : see note 7.4

3-3 DEBT SECURITIES

a. Analysis by nature

EUR millions	6/30/2013	12/31/2013	6/30/2014
Obligations foncières	50,727	51,522	50,404
Registered covered bonds	5,198	5,607	6,653
TOTAL	55,925	57,129	57,057

b. Analysis by residual maturity : see note 7.4

3-4 TAX LIABILITIES

EUR millions	6/30/2013	12/31/2013	6/30/2014
Current income tax	9	-	-
Other taxes	1	2	2
Current tax liabilities	10	2	2
Deferred tax liabilities (see note 4.2)	-	-	-
TOTAL TAX LIABILITIES	10	2	2

3-5 ACCRUALS AND OTHER LIABILITIES

EUR millions	6/30/2013	12/31/2013	6/30/2014
Cash collateral received	2,713	2,546	2,502
Other accrued charges	41	45	20
Deferred income	-	-	-
Contribution to the support funds (1)	-	150	168
Other accounts payable and other liabilities	-	1	-
TOTAL	2,754	2,742	2,690

(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. Besides, Caisse Française de Financement Local also committed to contribute to the fund for public hospitals in the amount of EUR 18 millions in 2014.

4 OTHER NOTES ON THE BALANCE SHEET

4-1 DERIVATIVES

a. Analysis by nature

EUR millions	6/30/2013		12/31/2013		6/30/2014	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss⁽¹⁾	-	7	-	8	3	9
Derivatives designated as fair value hedges	3,881	7,484	3,770	7,638	4,539	8,267
Derivatives designated as cash flow hedges	9	113	6	128	5	139
Derivatives designated as portfolio hedges	3,071	3,273	2,734	2,966	2,992	3,698
Hedging derivatives	6,961	10,870	6,510	10,732	7,536	12,104
CVA /DVA Impact	-	-	(9)	(127)	(4)	(95)
TOTAL DERIVATIVES	6,961	10,877	6,501	10,613	7,535	12,018

(1) Caisse Française de Financement Local is not authorized to conduct derivative transactions that would not be documented as hedging relations. Nevertheless, since 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. This only concerns interest rate derivatives.

b. Detail of derivatives designated as fair value hedges

EUR millions	6/30/2013			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	10,721	10,871	534	616
Interest rate derivatives	50,075	50,062	3,347	6,868
TOTAL	60,796	60,933	3,881	7,484

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
TOTAL	61,599	61,967	3,770	7,638

EUR millions	6/30/2014			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	9,012	9,235	449	637
Interest rate derivatives	53,096	53,080	4,090	7,630
TOTAL	62,108	62,315	4,539	8,267

c. Detail of derivatives designated as cash flow hedges

EUR millions	6/30/2013			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,556	1,598	9	113
Interest rate derivatives	-	-	-	-
TOTAL	1,556	1,598	9	113

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	-	-	-	-
TOTAL	1,468	1,547	6	128

EUR millions	6/30/2014			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,257	1,357	5	139
Interest rate derivatives	-	-	-	-
TOTAL	1,257	1,357	5	139

EUR millions	6/30/2013	12/31/2013	6/30/2014
Amount removed from equity and included in the carrying amount of a non-financial instrument (hedging of cash flows of a highly probable transaction)	-	-	-

d. Detail of derivatives designated as portfolio hedges

EUR millions	6/30/2013			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	105,759	105,754	3,071	3,273
Total	105,759	105,754	3,071	3,273

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

EUR millions	6/30/2014			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	82,898	82,893	2,992	3,698
Total	82,898	82,893	2,992	3,698

4-2 DEFERRED TAXES**a. Analysis by nature**

EUR millions	6/30/2013	12/31/2013	6/30/2014
Deferred tax assets before impairment	127	90	106
Impairment on deferred tax assets	-	-	-
Deferred tax assets	127	90	106
Deferred tax liabilities	-	-	-
TOTAL	127	90	106

b. Movements

EUR millions	6/30/2013	12/31/2013	6/30/2014
As of January 1	114	89	90
Charge/credit recognized in the income statement	17	23	31
Effect of change in tax rates - impact on the income statement	-	-	-
Movements directly recognized in equity	(4)	(22)	(15)
Effect of change in tax rates - impact on equity	-	-	-
Translation adjustment	-	-	-
Other movements	-	-	-
At closing date	127	90	106

c. Deferred taxes from assets on the balance sheet

EUR millions	6/30/2013	12/31/2013	6/30/2014
Loans and loan loss provisions	461	475	174
Securities	97	91	70
Derivatives	22	(37)	(10)
Accruals and other assets	28	14	13
TOTAL	608	543	247

d. Deferred taxes from liabilities on the balance sheet

EUR millions	6/30/2013	12/31/2013	6/30/2014
Borrowings, deposits and issues of debt securities	(354)	(453)	(141)
Derivatives	(102)	-	-
Provisions	-	-	-
Regulatory provisions	(25)	-	-
Accruals and other liabilities	-	-	-
TOTAL	(481)	(453)	(141)

4-3 TRANSACTIONS WITH RELATED-PARTY**Analysis by nature**

EUR millions	Parent company and entities consolidated (1)			Other related parties (2)		
	6/30/2013	12/31/2013	6/30/2014	6/30/2013	12/31/2013	6/30/2014
ASSETS						
Loans and advances	-	4,368	4,092	-	-	-
Bonds	-	-	-	-	-	-
LIABILITIES						
Due to banks - sight accounts	-	-	-	-	-	-
Due to banks - term loans	7,995	6,773	6,199	-	-	-
INCOME STATEMENT						
Interest income on loans and advances	-	16	13	-	-	(2)
Interest income on bonds	-	-	-	-	-	-
Interest expense on borrowings	(30)	(65)	(33)	-	-	-
Fees and commissions	-	(19)	(12)	-	(0)	-
OFF-BALANCE SHEET						
Foreign exchange derivatives	6,116	5,832	5,164	-	-	-
Interest rate derivatives	12,663	13,898	17,606	-	-	-
Commitments and guarantees received	50	4,420	4,142	-	134	131

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

(2) This item includes transactions with Caisse des Dépôts et Consignations and La Banque Postale, shareholders of Sfil, the parent company of Caisse Française de Financement Local.

4.4 UNREALIZED OR DEFERRED GAINS AND LOSSES, BREAKDOWN BY COUNTRY

EUR millions	6/30/2013	12/31/2013	6/30/2014
Unrealized gains and losses on available for sale securities	(144)	(116)	(86)
Germany	1	1	1
France	(1)	2	3
Italy	(150)	(110)	(87)
United States	6	(9)	(3)
Unrealized gains and losses on loans and receivable securities	(111)	(105)	(102)
Belgium	(2)	0	-
Spain	(2)	(2)	(2)
France	5	5	5
Italy	(112)	(108)	(105)
Unrealized gains and losses on derivatives designated as cash-flow hedge:	(63)	(45)	(33)
TOTAL	(318)	(266)	(221)
Deferred taxes on gains and losses, available for sale securities	50	40	30
Deferred taxes on gains and losses, loans and receivable securities	38	36	35
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	21	16	11
TOTAL	(209)	(174)	(145)

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	12/31/2013					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	592	-	-	592
Securities guaranteed by the State	-	-	-	-	-	0
TOTAL	-	-	592	-	-	592

EUR millions	6/30/2014					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	597	-	-	597
Securities Guaranteed by the State	-	-	-	-	-	-
TOTAL	-	-	597	-	-	597

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
TOTAL	-	-	592	-	-	592

UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES	-	-	(110)	-	-	(110)
UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES	-	-	(0)	-	-	(0)

EUR millions	6/30/2014					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	-	-	482	-	-	482
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	115	-	-	115
TOTAL	-	-	597	-	-	597

UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES	-	-	(87)	-	-	(87)
UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES	-	-	-	-	-	-

5 NOTES TO THE INCOME STATEMENT

5-1 INTEREST INCOME - INTEREST EXPENSE

EUR millions	6/30/2013	6/30/2014
INTEREST INCOME	2,790	2,230
Central banks	-	-
Loans and advances due from banks	31	43
Loans and advances to customers	871	855
Financial assets available for sale	20	20
Financial assets held to maturity	-	-
Derivatives used for hedging	1,868	1,312
Impaired assets	-	-
Other	-	0
INTEREST EXPENSE	(2,716)	(2,189)
Accounts with central banks	(0)	(0)
Due to banks	(36)	(35)
Customer borrowings and deposits	-	-
Debt securities	(1,036)	(1,021)
Subordinated debt	-	-
Derivatives used for hedging	(1,644)	(1,133)
Other	-	(0)
INTEREST MARGIN	74	41

5-2 FEES AND COMMISSIONS

EUR millions	6/30/2013			6/30/2014		
	Income	Expense	Net	Income	Expense	Net
Lending activity	0	(0)	(0)	0	-	0
Purchase and sale of securities	-	-	-	-	(0)	(0)
Financial engineering	-	-	-	-	-	-
Services on securities other than custodian services	-	(3)	(3)	-	(4)	(4)
Custodian services	-	-	-	-	-	-
Issuance and underwriters of securities	-	(0)	(0)	-	(0)	(0)
Rebiling of cost of cash collateral by Sfil	-	-	-	-	(12)	(12)
TOTAL	0	(4)	(4)	0	(16)	(16)

5-3 NET RESULT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

EUR millions	6/30/2013	6/30/2014
Net trading income	3	3
Net result of hedge accounting	142	(33)
Net result of foreign exchange transactions	0	(0)
TOTAL	145	(30)

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 millions	6/30/2013	6/30/2014
Fair value hedges (1)	1	(1)
Fair value changes in the hedged item attributable to the hedged risk	(1,636)	129
Fair value changes in the hedging derivatives	1,637	(130)
Cash flow hedges	-	-
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
Portfolio hedge (1)	-	(5)
Fair value changes in the hedged item	20	519
Fair value changes in the hedging derivatives	(20)	(524)
CVA / DVA Impact (2)	141	(27)
TOTAL	142	(33)

(1) Since 2013, 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 in the first half of the year 2014 is EUR -4 millions.

(2) As of June 30, 2014, the application of IFRS 13 shows an net impact of EUR -27 million, wich includes EUR +5 million for CVA and EUR -32 million for DVA.

5-4- NET RESULT OF FINANCIAL ASSETS AVAILABLE FOR SALE

EUR millions	6/30/2013	6/30/2014
Net result of disposals of loans and securities available for sale	(1)	-
Net result of disposals of debt securities	0	8
Net result of the sale or cancellation of loans and advances	0	(4)
TOTAL	(1)	4

5-5 - OPERATING EXPENSE

EUR millions	6/30/2013	6/30/2014
Payroll costs	-	-
Other general and administrative expense (1)	(35)	(40)
Taxes	(3)	(2)
TOTAL	(38)	(42)

(1) of which EUR 38 million to be paid to Sfil as of June 30, 2014.

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. 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	6/30/2013				6/30/2014			
	Collective impairment	Specific impairment and losses	Contribution to support fund	Total	Collective impairment	Specific impairment and losses	Contribution to support fund	Total
Credit (loans, commitments and securities held to maturity)	(172)	(0)	0	(172)	(17)	(11)	(18)	(46)
Fixed income securities available for sale	-	-	-	-	-	-	-	-
TOTAL	(172)	(0)	0	(172)	(17)	(11)	(18)	(46)

Detail of collective and specific impairments

Collective impairment EUR millions	6/30/2013			6/30/2014		
	Charges	Recoveries and uses	Total	Charges	Recoveries and uses	Total
Loans and borrowings	(174)	2	(172)	(71)	54	(17)
Off-balance sheet commitments	-	-	-	-	-	-
TOTAL	(174)	2	(172)	(71)	54	(17)

Specific Impairment EUR millions	6/30/2013				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(2)	2	-	-	(0)
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	(2)	2	-	-	(0)
Fixed income securities	-	-	-	-	-
TOTAL	(2)	2	-	-	(0)

Specific Impairment EUR millions	6/30/2014				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(12)	1	-	-	(11)
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	(12)	1	-	-	(11)
Fixed income securities	-	-	-	-	-
TOTAL	(12)	1	-	-	(11)

(1) Greek Sovereign bonds

5-7 CORPORATE INCOME TAX**a. Detail of tax expense**

EUR millions	6/30/2013	6/30/2014
Current taxes	(12)	-
Deferred taxes	18	31
Tax on prior years' income	2	-
Deferred taxes on prior years	-	-
Provisions for tax litigation	-	-
TOTAL	8	31

b. Effective tax expense as of June 30, 2014

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

EUR millions	6/30/2013	6/30/2014
INCOME BEFORE INCOME TAXES	5	(89)
Net income from associates	-	-
TAX BASE	5	(89)
Applicable tax rate at end of the period	36.10%	38.00%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	2	(34)
Impact of differences between foreign tax rates and the French standard tax rate	(10)	0
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
Liability method	-	-
Provisions for tax litigation	-	-
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	(8)	(31)
EFFECTIVE TAX RATE	N/A	34.4%

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	6/30/2013	12/31/2013	6/30/2014
Assets to be delivered	-	-	-
Liabilities to be received (1)	-	120	439

(1) For 2013, this amount correspond to registered covered bond. For 2014, this amount corresponds to regular way trade loan to Sfil.

6-2 - GUARANTEES

EUR millions	6/30/2013	12/31/2013	6/30/2014
Guarantees received from credit institutions (1)	4,569	4,568	4,276
Guarantees received from customers (2)	7,179	6,801	6,712

(1) At the end of June 2014, 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	6/30/2013	12/31/2013	6/30/2014
Loan commitments granted to credit institutions	0	-	0
Loan commitments granted to customers (1)	277	228	178
Loan commitments received from credit institutions (2)	50	50	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 June 30, 2014.

(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 June 30, 2014, the amount of the overdraft authorized on the current account with Sfil totaled EUR 50 million.

6-4 - OTHER COMMITMENTS

EUR millions	6/30/2013	12/31/2013	6/30/2014
Commitments received	-	278	274

7 NOTES ON RISK EXPOSURE

7-1 - FAIR VALUE

a. Composition of the fair value of the assets

	12/31/2013		
	Book value	Fair value	Unrecognized fair value adjustment
(EUR millions)			
Central banks	1,471	1,471	-
Loans and advances due from banks	7,314	7,314	-
Loans and advances to customers	61,929	59,505	(2,424)
Financial assets available for sale	1,084	1,084	-
Derivatives	6,501	6,501	-
TOTAL	78,299	75,875	(2,424)

	6/30/2014		
	Book value	Fair value	Unrecognized fair value adjustment
(EUR millions)			
Central banks	461	461	-
Loans and advances due from banks	6,955	6,942	(13)
Loans and advances to customers	61,849	60,080	(1,769)
Financial assets available for sale	1,656	1,656	-
Derivatives	7,535	7,535	-
TOTAL	78,456	76,674	(1,782)

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

	12/31/2013		
	Book value	Fair value	Unrecognized fair value adjustment
(EUR millions)			
Due to banks	6,774	6,864	90
Hedging derivatives	10,613	10,613	-
Debt securities	57,129	55,529	(1,600)
TOTAL	74,516	73,006	(1,510)

	6/30/2014		
	Book value	Fair value	Unrecognized fair value adjustment
(EUR millions)			
Due to banks	6,199	6,259	60
Hedging derivatives	12,018	12,018	-
Debt securities	57,057	55,356	(1,701)
TOTAL	75,274	73,633	(1,641)

This note presents the fair value adjustments that are not accounted for in income or in equity, because they correspond to assets and 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 risk hedging, amortization profile, and for assets, the rating); they are also influenced by the current market conditions, in particular in terms of liquidity and margin, for these very operations or operations to which they can be assimilated.

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

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

Fair value of financial assets (EUR millions)	12/31/2013			
	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
Financial assets available for sale	589	153	342	1,084
Derivatives	-	5,233	1,268	6,501
TOTAL	589	5,386	1,610	7,585

(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 assets (EUR millions)	6/30/2014			
	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
Financial assets available for sale	1,150	163	343	1,656
Derivatives	-	6,440	1,095	7,535
TOTAL	1,150	6,603	1,438	9,191

Fair value of financial liabilities (EUR millions)	12/31/2013			
	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
Derivatives	-	4,951	5,662	10,613
TOTAL	-	4,951	5,662	10,613

Fair value of financial liabilities (EUR millions)	6/30/2014			
	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
Derivatives	-	7,914	4,104	12,018
TOTAL	-	7,914	4,104	12,018

d. Transfer between Level 1 and 2

(EUR millions)	12/31/2013	6/30/2014
Level 1 to Niveau 2	-	-
TOTAL	-	-

e. Level 3 : analyses of flow

(EUR millions)	12/31/2013	Total gains and losses through profit and loss	Total unrealized or deferred gains and losses	Total unrealized or deferred gains and losses	Purchase	Sale	Direct Origination	Settlement	Transfer into activities held for sale	Transfer t in Level 3	Transfert out of Level 3	Other changes	06/30/2014
Financial assets available for sale	342	-	0	0	-	-	-	-	-	-	-	1	343
Derivatives	1,268	(6)	(189)	-	12	-	-	-	-	16	(6)	0	1,095
TOTAL FINANCIAL ASSETS	1,610	(6)	(189)	0	12	-	-	-	-	16	(6)	1	1,438
Derivatives	5,662	(431)	(1,100)	-	-	-	-	-	-	-	(27)	0	4,104
TOTAL FINANCIAL LIABILITIES	5,662	(431)	(1,100)	-	-	-	-	-	-	-	(27)	0	4,104

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)	12/31/2013					
	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 § 13
				Effect of master netting contracts	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	6,501	-	6,501	(3891)	(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
TOTAL	75,744	-	75,744	(3891)	(4344)	67,509

(EUR millions)	6/30/2014					Net Amounts according to IFRS 7 § 13
	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		
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	7,535	-	7,535	(4820)	(2496)	219
Loans and advances due from banks	6,955	-	6,955	0	(1857)	5,098
Loans and advances to customers	61,849	-	61,849	0	0	61,849
TOTAL	76,339	-	76,339	(4820)	(4353)	67,166

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

(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 § 13
				Effect of master netting arrangements	Financial Instruments pledged	
Derivatives (including hedging instruments)	10,613	-	10,613	(3891)	-	6,722
Due to banks	6,774	-	6,774	-	-	6,774
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	17,387	-	17,387	(3891)	-	13,496

(EUR millions)	6/30/2014					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net Amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net Amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments pledged	
Derivatives (including hedging instruments)	12,018	-	12,018	(4820)	-	7,198
Due to banks	6,199	-	6,199	-	-	6,199
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	18,217	-	18,217	(4820)	-	13,397

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.

Breakdown of exposure to credit risks :

Analysis of exposure by geographic region

EUR millions	6/30/2014
France	51,267
Belgium	238
Italy	6,978
Spain	477
Luxembourg	0
Germany	1,086
United Kingdom	2,340
Switzerland	2,929
Other European Union countries	403
United States and Canada	595
Japan	26
Other	0
TOTAL EXPOSURE	66,340

Analysis of exposure by category of counterparty

EUR millions	6/30/2014
States	3,055
Local public sector	57,449
ABS	0
Financial institutions	5,836
TOTAL EXPOSURE	66,340

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

Analysis of exposure by category of instrument

EUR millions	6/30/2014
Debt securities	1,656
Loans and advances	64,094
Financing commitments on loans	178
Derivatives	412
TOTAL EXPOSURE	66,340

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 client 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 on June 30, 2014, 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 seventy percent of the portfolio has a weighting of less than 5% and ninety eight percent of the portfolio has a weighting that is less than or equal to 20%.

EUR millions	Risk weighting (Basel II)				
	from 0 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	Total
Debt securities	1,006	650	-	-	1,656
Loans and advances	45,496	17,009	1,417	172	64,094
Financing commitments on loans	158	20	-	-	178
Derivatives	-	-	401	11	412
TOTAL EXPOSURE	46,660	17,679	1,818	183	66,340
SHARE	70.3%	26.6%	2.7%	0.3%	100.0%

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	6/30/2014						
	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	461	-	-	-	-	-	461
Hedging derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	-	762	156	547	-	1,465
Loans and advances due from banks	15	145	489	3,854	2,395	-	6,898
Loans and advances to customers	2	1,335	3,599	15,872	35,106	-	55,914
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	106	106
Accruals and other assets	-	2	-	-	-	-	2
TOTAL	478	1,482	4,850	19,882	38,048	106	64,846

EUR millions	6/30/2014				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	461	-	-	-	461
Hedging derivatives	-	455	7,080	-	7,535
Financial assets available for sale	1,465	7	184	-	1,656
Loans and advances due from banks	6,898	23	34	-	6,955
Loans and advances to customers	55,914	780	5,283	(128)	61,849
Fair value revaluation of portfolio hedge	-	-	2,380	-	2,380
Financial assets held to maturity	-	-	-	-	-
Tax assets	106	-	-	-	106
Accruals and other assets	2	-	-	-	2
TOTAL	64,846	1,265	14,961	(128)	80,944

b. Analysis of liabilities, excluding equity

EUR millions	6/30/2014						
	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	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-
Due to banks	0	1,201	547	3,971	466	-	6,185
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	206	2,562	23,541	25,643	-	51,952
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	-	-	-	2	2
Accruals and other liabilities	-	2,690	-	-	-	-	2,690
Provisions	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-
TOTAL	0	4,097	3,109	27,512	26,109	2	60,829

EUR millions	6/30/2014			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Hedging derivatives	-	827	11,191	12,018
Due to banks	6,185	14	-	6,199
Customer borrowings and deposits	-	-	-	-
Debt securities	51,952	963	4,142	57,057
Fair value revaluation of portfolio hedge	-	-	1,648	1,648
Tax liabilities	2	-	-	2
Accruals and other liabilities	2,690	-	-	2,690
Provisions	-	-	-	-
Subordinated debt	-	-	-	-
TOTAL	60,829	1,804	16,981	79,614

c. Balance-sheet sensitivity gap

EUR millions	As of June 30, 2014							
	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
Amount	478	(2,615)	1,741	(7,630)	11,939	104	(2,687)	1,330

7-5 - CURRENCY RISK

Classification by original currency EUR millions	6/30/2013				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	71,129	3,784	2,562	2,932	80,407
Total liabilities	71,129	3,784	2,562	2,932	80,407
NET BALANCE SHEET POSITION	0	0	0	0	0

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
NET BALANCE SHEET POSITION	0	0	0	0	0

Classification by original currency EUR millions	6/30/2014				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	73,342	3,770	1,869	1,963	80,944
Total liabilities	73,342	3,770	1,869	1,963	80,944
NET BALANCE SHEET POSITION	0	0	0	0	0

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

7-6 - SENSITIVITY TO 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.

In addition, any debt contracted with its shareholder to finance over-collateralization is directly borrowed with a monetary index, and does not have to be swapped, or with an Euribor index and are fully parts of management of Euribor/Eonia macro-hedging. If such is the case, debt vis-à-vis the Banque de France, which is short-term and at a fixed rate, is not hedged, but finances assets that also have a fixed rate.

The objective targeted by this interest rate risk management is to convert the assets and liabilities on the balance sheet into floating rates, so that they move together in a parallel manner following the trend in interest rates, while maintaining the margin unchanged.

The sensitivity limits for the fixed rate gap and the monetary gap mentioned above are defined as the change in the gaps' net present value (NPV) under the impact of a parallel 1% (100 basis points) shift in the yield curve. The aggregate of these two limits for the fixed rate gap and the monetary gap is set at 3% of equity, and this figure is reviewed every year. This general sensitivity limit is EUR 40.0 million, including EUR 9.0 million for the monetary gap and EUR 31.0 million for the fixed rate gap.

In practice, the real sensitivity is maintained significantly below this limit, as can be seen in the following table.

Sensitivity of the gap		Average	Maximum	Minimum	Limit
Fixed rate	Q3 2013	16.0	19.7	14.1	31.0
	Q4 2013	12.2	16.5	3.2	31.0
	Q1 2014	13.4	13.5	13.1	31.0
	Q2 2014	12.1	12.9	11.5	31.0
Monetary	Q3 2013	1.5	1.7	1.3	9.0
	Q4 2013	(0.3)	2.9	(4.7)	9.0
	Q1 2014	0.8	1.0	0.5	9.0
	Q2 2014	0.9	1.2	0.7	9.0
Total	Q3 2013	17.5	21.1	15.9	40.0
	Q4 2013	11.9	19.5	(1.5)	40.0
	Q1 2014	14.2	14.5	13.6	40.0
	Q2 2014	13.0	13.6	12.4	40.0

3

Statutory auditor's report Half-year 2014 (*IFRS*)

Statutory Auditors' Review Report on the intermediate financial statements established under IFRS standards

Period from January 1st to June 30th, 2014

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

Ladies and gentlemen,

In our capacity as Statutory Auditors of Caisse Française de Financement Local (the "Company") and pursuant to your request, in the context of the wish of your Company to provide more extensive financial information to investors, we have conducted a review on the accompanying intermediate financial statements of Caisse Française de Financement Local for the six-month period ended June 30th, 2014.

These intermediate financial statements were prepared under the responsibility of the Executive Board. Our role is to express a conclusion on these financial statements, based on our review.

We conducted our review in accordance with professional standards applicable in France. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

Based on our review, we did not identify any material misstatements that would cause us to believe that the accompanying intermediate financial statements do not present fairly, in all material respects, the results of operations for the six-month period ended June 30th, 2014 and the financial position of Caisse Française de Financement Local and its assets at that date, in accordance with IFRS as adopted by the European Union.

Without qualifying our opinion, we draw your attention to Note 1.1. that outlines the context of publication of the financial statements and Note 1.3.b. that outlines the first-time application of new standards, amendments and interpretations as of January 1st, 2014.

This report is made for your exclusive attention in the context described above and should not be used, transmitted or quoted for any other purpose.

We disclaim any liability in the use of this report by any third party receiving it.

This report is governed by French law. French courts shall have exclusive jurisdiction for hearing any litigation, claim or dispute arising from our engagement letter, this report or any question relating thereto. Each party hereby irrevocably waives its right to contest any legal action that may be brought before French courts or allege that any legal action has been brought before a French court not having proper jurisdiction or that French courts do not have jurisdiction.

Courbevoie and Neuilly-sur-Seine, August 28th, 2014

The statutory auditors

French original signed by

MAZARS

DELOITTE & ASSOCIÉS

Virginie CHAUVIN - Anne VEAUTE

Charlotte VANDEPUTTE - José-Luis GARCIA

Financial Statements

Half-year 2014 (*French Gaap*)

BALANCE SHEET**Assets as of June 30, 2014**

(EUR millions)	Notes	6/30/2013	12/31/2013	6/30/2014
Central banks	2.1	10	1,471	461
Government and public securities, eligible for central bank financing	2.2	3,232	4,983	5,467
Loans and advances due from banks	2.3	3,056	7,348	6,952
Loans and advances to customers	2.4	48,230	47,373	46,672
Bonds and other fixed income securities	2.5	10,807	4,368	4,187
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	0	13	0
Accruals and other assets	2.7	3,543	3,525	3,390
TOTAL ASSETS	2.8	68,878	69,081	67,129

Liabilities as of June 30, 2014

(EUR millions)	Notes	6/30/2013	12/31/2013	6/30/2014
Central banks	3.1	-	-	-
Due to banks	3.2	7,995	6,774	6,199
Customer borrowings and deposits		-	-	-
Debt securities	3.3	52,493	53,913	52,937
Other liabilities	3.4	2,726	2,699	2,672
Accruals and other liabilities	3.5	4,042	4,182	3,846
Provisions	3.6	354	134	159
General banking risks reserve		-	-	-
Subordinated debt		-	-	-
Equity		1,268	1,379	1,316
Share capital	3.7	1,315	1,315	1,315
Additional paid-in capital	3.7	-	-	-
Reserves and retained earnings	3.7	84	84	64
Net income	3.7	(131)	(20)	(63)
TOTAL LIABILITIES	3.8	68,878	69,081	67,129

Off-balance sheet items as of June 30, 2014

(EUR millions)	Notes	6/30/2013	12/31/2013	6/30/2014
COMMITMENTS GRANTED	4.1	277	228	178
Financing commitments		277	228	178
Guarantees granted		-	-	-
Other commitments granted		-	-	-
COMMITMENTS RECEIVED	4.2	11,798	11,816	11,752
Financing commitments		50	170	489
Guarantees received		11,748	11,646	11,263
Forward commitments		-	-	-
Other commitments received		-	-	-
Foreign currency transactions	4.3	24,939	23,012	21,184
Interest rate derivatives	4.4	156,147	148,666	136,227

Income statement

(EUR millions)	Notes	2Q2013	2013	2Q2014
Interest income	5.0	4,119	4,976	818
Interest expense	5.0	(4033)	(4816)	(777)
Income from variable income securities		-	-	-
Commission income	5.1	-	-	-
Commission expense	5.1	(4)	(24)	(16)
Net gains (losses) on held for trading portfolio	5.2	1	-	-
Net gains (losses) on <i>placement</i> portfolio	5.2	11	41	(0)
Other banking income	5.6	-	-	-
Other banking expense		-	-	-
NET BANKING INCOME		94	177	25
General operating expense	5.3	(38)	(79)	(42)
Depreciation and amortization		-	-	-
OPERATING INCOME BEFORE COST OF RISK		56	98	(17)
Cost of risk		(172)	(183)	(46)
INCOME FROM OPERATIONS		(116)	(85)	(63)
Income (loss) on fixed assets	5.4	-	-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		(116)	(85)	(63)
Non-recurring items		-	-	-
Income tax	5.5	(14)	(5)	-
Net allocation to general banking risks reserve and regulated provisions		(1)	70	-
NET INCOME		(131)	(20)	(63)
Basic earnings per share		(9.96)	(1.56)	(4.80)
Diluted earnings per share		(9.96)	(1.56)	(4.80)

Equity

(EUR millions)	Amount
AS OF 12/31/2013	
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 year	(20)
Interim dividends	-
EQUITY AS OF 12/31/2013	1 379
MOVEMENTS FOR THE PERIOD	
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	(63)
Other movements	-
AS OF 6/30/2014	
Share capital	1 315
Additional paid-in capital (APIC)	-
Commitments to increase share capital and APIC	-
Reserves and retained earnings	64
Net income for the period	(63)
EQUITY AS OF 6/30/2014	1 316

Cash flow statement

(EUR millions)	6/30/2013	12/31/2013	6/30/2014
NET INCOME BEFORE TAXES	(116)	(85)	(63)
+/- Depreciation and write-downs	173	186	62
+/- Expense/income from operating activities	251	81	74
+/- Expense/income from financing activities	(246)	(110)	(98)
+/- Other non cash items	(20)	26	(16)
= Non monetary elements included in net income before tax and other adjustments	158	183	22
+/- Cash from interbank operations	4,458	(474)	(180)
+/- Cash from customer operations (loans)	1,835	2,610	652
+/- Cash from customer financing assets	1,077	5,787	(315)
+/- Cash from hedging financial instruments	(803)	(1,012)	(112)
- Income tax paid	(9)	(14)	(1)
= Decrease/(increase) in cash from operating activities	6,558	6,897	44
CASH FLOW FROM OPERATING ACTIVITIES (A)	6,600	6,995	3
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-	-
+/- Cash from or for shareholders	-	-	-
+/- Other cash from financing activities	(5,035)	(3,417)	(1,016)
CASH FLOW FROM FINANCING ACTIVITIES (C)	(5,035)	(3,417)	(1,016)
EFFECT OF EXCHANGE RATES CHANGES ON CASH (D)	-	-	-
Increase/(decrease) in cash equivalents (A + B+ C + D)	1,566	3,578	(1,013)
Cash flow from operating activities (A)	6,600	6,995	3
Cash flow from investing activities (B)	-	-	-
Cash flow from financing activities (C)	(5,035)	(3,417)	(1,016)
Effect of exchange rates on cash (D)	-	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	(2,090)	(2,090)	1,488
Central banks (assets & liabilities)	2,400	2,400	1,471
Interbank accounts (assets & liabilities) and loans/deposits at sight	(4,490)	(4,490)	17
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	(524)	1,488	475
Central banks (assets & liabilities)	10	1,471	461
Interbank accounts (assets & liabilities) and loans/deposits at sight	(534)	17	14
NET CASH	1,566	3,578	(1,013)

Notes to the French GAAP financial statements

1. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

1.1. Context of publication

The financial statements as of June 30th, 2014 of Caisse Française de Financement Local were prepared by taking into account the comprehensive set of measures taken by the French government to provide a solution to the problem of structured loans, and in particular the law aiming to provide a solid legal base for structured loan agreements in effect with public sector entities. With this law coming into force on July 30th, 2014, residual legal risks have been very appreciably reduced and their financial impact at the closing date was considered as very low.

1.2. Highlights of the period

a. The covered bond market

In the first half of 2014, the offering on the euro-denominated covered bond primary market totaled EUR 67 billion, up 22% from the first half of 2013. Despite this rise, the negative net offering of the period is EUR 21 billion due to significant amortized amounts. This situation is expected to become more marked in the second half as a result of the volume of covered bonds reaching their maturity (EUR 65 billions) and of the implementation of the TLTRO (Targeted Long-Term Refinancing Operations) which could slow down the needs for issue of covered bonds. The offering remained dominated by French and German issuers who represented almost a third of the issues. Canadian issuers increased their presence with more than 7%. In terms of collateral, mortgages lost ground, with 86% of total volume (versus 91% in the first half of 2013) to the public sector at 12%. In the public sector covered bond segment, the offering came from German, French (solely Caffil) and Austrian issuers. Lastly in terms of maturity, the significant change during the first half reflected a downturn in transactions with a maturity of seven years to the benefit of five year issues (40% of the offering), and especially of ten year issues (24% of the offering), boosted by investors' search for absolute yield within a context of declining rates and spreads.

In this environment, Caisse Française de Financement Local launched two issues in the primary market. At the beginning of January, it opened the primary market by launching a ten year jumbo issue for EUR 1 billion, and increased its 15 year issue in the amount of EUR 500 million. In addition to public transactions, Caffil was active in the private placement segment and particularly in registered covered bonds, making it possible to meet investor's demand for long to very long maturities. Altogether, Caffil raised EUR 2.6 billion in the first half.

b. Litigation and governmental measures

In its portfolio, Caisse Française de Financement Local has structured loans considered as sensitive, which had been granted to French customers by Dexia Credit Local. Some of these customers sued Dexia Credit Local, Caisse Française de Financement Local and/or Société de Financement Local, contesting the contractual interest rate. As of June 30, 2014, the number of customers having brought suit was 207 as compared with 205 at the end of 2013.

A limited number of cases were judged in initial hearings.

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 and proceedings are underway. 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 February 2013 legal decisions concerning the Département de la Seine-Saint-Denis, decisions were handed down by the Tribunal de Grande Instance (TGI) of Nanterre in the suits brought by four municipalities against Dexia Credit Local (and Caisse Française de Financement Local, which intervened voluntarily in the proceedings in order to defend its interests). These decisions concerned structured loans marketed by Dexia Credit Local and recognized on the balance sheet of Caisse Française de Financement Local, with total initial capital of EUR 98 million. As in the February 2013 decisions, the Tribunal’s decision did not address the core issue (validity of the agreement, failure to provide adequate information, advice and warning, etc.), but it was motivated by the formal absence in the fax which had preceded the signing of the loan agreement of the annual rate of charge (TEG) or intermediary data with which to calculate the TEG. This item led the Tribunal to decide to apply the official interest rate (*taux légal*) instead of the contractual rate. Dexia Credit Local and Caisse Française de Financement Local have appealed or may appeal these decisions.

In order to find a permanent and comprehensive solution for the problem of the most sensitive structured loans contracted by local governments, and in compliance with its press releases dated June 18, and July 16, 2013, the French government took the following measures.

- the creation of a multi-year support fund endowed with significant resources enabling local governments to finance the unwinding of structured loans; a similar system is currently being set up for public healthcare facilities;
- legislative measures targeting a legal basis to secure loan agreements in effect with local governments.

The multi-year support fund was created by the 2014 law of Finances voted in December 2013. It is endowed with EUR 1.5 billion and has a life span of 15 years maximum (EUR 100 million per year). It functions as described in the decree of application published in the May 2, 2014, edition of the Journal Officiel:

- Eligible customers: local governments and groups of such holding the most sensitive loans;
- Use of the aid received by local governments: refinancing of a part of the early reimbursement indemnity (option preferred), or in an initial phase and for a limited time, financing a part of the interest on the loan in question;
- Renunciation by the entities that benefit from the fund of current or future litigation on the loans benefiting from the fund;
- Management of the fund ensured by the State, with a committee of orientation and supervision bringing together representatives of the State, local governments and qualified individuals;
- The funds come half from the banks and half from the State.

Caisse Française de Financement Local has committed to contribute to the fund dedicated to local governments for EUR 10 million per year for 15 years, as well as to the planned arrangements for public hospitals for a total amount of EUR 18 million. All of these contributions have been recorded in the Company's accounts.

New legislative provisions targeting a legal basis to secure loan agreements in effect with local governments were specified, and they take into account the comments handed down by the Conseil constitutionnel at the end of December 2013. Legislation was adopted by the National Assembly on July 10, 2014, and passed by the Senate on July 17, 2014. The Conseil constitutionnel validated this legislation on July 24, 2014 and it is now in effect.

c. Changes in the regulation of covered bonds in France

During the first half of 2014, changes were introduced into regulations governing the activity of issuers of French covered bonds - *sociétés de crédit foncier* (SCF) and *sociétés de financement de l'habitat* (SFH). The objective is to bolster the prudential framework of SCF/SFH and guarantee the eligibility of issues with the best prudential treatment.

These measures mainly consist in:

- raising the minimum level of over-collateralization from 2% to 5%;
- limiting the exposure of an SCF or SFH to its parent company by modifying the way in which the cover ratio and the liquidity coefficient are calculated;
- imposing greater congruence between asset/liability maturities with the introduction of an annual cover plan and the maintenance of a weighted average life of eligible assets, considered as the minimum amount required to satisfy the cover ratio of 5%, not exceeding by more than 18 months that of the privileged liabilities;
- rendering effective the possibility of a transfer of servicing the SCF/SFH via the annual setting up of a servicing transfer plan submitted to the Autorité de contrôle prudentiel et de résolution.
- limiting the eventual use of securitizations.

These changes were integrated into current regulations by decree 2014-526 of May 23, 2014, and by an *arrêté* dated May 26, 2014. They took effect at the end of May 2014, after publication in the Journal Officiel.

Caisse Française de Financement Local will be able to respect all of these changes before the specified deadlines.

d. Preparation for the single supervision mechanism

In November 2014, the European Central Bank (ECB) will take charge of banking supervision in the euro zone, within the framework of the Single Supervision Mechanism (SSM). To this end, since November 2013, it has conducted, with national regulators, a comprehensive assessment of approximately 130 credit institutions in the euro zone.

Like all the major banks, Caffil and its parent company Sfil are subject to such an assessment, which includes a prudential evaluation of risks, an asset quality review (AQR) and a stress test. The results of this assessment will be announced at the end of October.

e. Post-closing events

There have been no significant events after the period end which would require a change to or disclosure in the financial statements.

1.3. Applicable accounting standards : rules adopted the French Accounting Standards Board (Autorité des Normes Comptables – ANC)

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

The financial statements as of June 30, 2014, were prepared using the same accounting principles as those used in the financial statements as of December 31, 2013.

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

- Going concern principle,
- Segregation of accounting periods,
- Consistency of methods.

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

1.4. Principes comptables appliqués aux états financiers

a. Loans and advances to banks and to customers

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

Customer loans and advances comprise loans granted to local governments. They are recorded in the balance sheet net of impairment for possible loss. The undrawn portion of signed loan agreements is recorded as an off-balance sheet item.

Interest on loans is recorded as Interest income *prorata temporis* for accrued amounts due and not yet due, as is interest on unpaid installments. Interest on non-performing loans recorded in net banking result is neutralized with an impairment 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 n° 2002-03, modified by CRC standards n° 2005-03 and n° 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 (past-due 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 past-due 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 percentage of impaired capital in function of the expected loss. Interest income 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

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

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

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

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

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

They are recognized for accounting purposes as *investment* securities or *placement* securities, according to CRC standard n° 2005-01.

Investment securities

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 recognized 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

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

Obligations foncières

These debt securities are recorded at nominal value. 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 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 Interest expense for accrued amounts calculated *prorate 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).

Registered covered bonds

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

e. Provisions

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

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

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

Micro-hedge transactions

Transactions are booked as micro-hedges when they are designed to hedge against the interest rate risk related to an item or set of homogeneous items identified from the start. They involve swaps used to hedge issues of debt securities and certain 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 termination fee received or paid because of the early interruption of the hedging instrument is recorded in the following manner, if the hedging instrument has been cancelled.

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

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

Macro-hedge transactions

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

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

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

- Since January 1, 2005, termination fees are recorded in the income statement at cancellation.

Monitoring market risks

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

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

The policy of Caisse Française de Financement Local is to avoid any foreign exchange risk. Market risks related to foreign exchange transactions are eliminated from the start by currency swaps when an asset or liability that is not denominated in euros is recorded on the balance sheet.

General accounting verifies that at each 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, debt securities and customer loans.

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

i. Non-recurring income and expense

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

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

j. Tax consolidation

Since January 1, 2014, Caisse Française de Financement Local belongs to the tax group which head is Société de Financement Local. This entity pays the total income tax owed by the group. Caisse Française de Financement Local records in its accounts the amount of tax for which it would be liable if it were not a member of the tax group.

Tax savings realized by the tax group are recorded in the accounts of Société de Financement Local.

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 June 30, 2014

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**

	6/30/2013	12/31/2013	6/30/2014
Mandatory reserves	-	-	-
Other deposits	10	1,471	461
TOTAL	10	1,471	461

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

a. Accrued interest included in this item: 43

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
-	577	681	4,166	5,424

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

	Amount as of 6/30/2013	Amount as of 12/31/2013	Amount as of 6/30/2014	Impairment as of 6/30/2014	Unrealised capital gain or loss as of 6/30/2014 (2)
Listed securities (1)	3,202	4,481	5,090	-	201
Other securities	-	432	334	-	(18)
TOTAL	3,202	4,913	5,424	-	183

(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	Net amount as of 6/30/2013	Net amount as of 12/31/2013	Gross amount as of 12/31/2013	Increases (1)	Decreases	Transfers (2)	Conversion differences	Impairment as of 6/30/2014	Net amount as of 6/30/2014	Unrealised capital loss as of 6/30/2014
Trading	-	-	-	-	-	-	-	-	-	-
Placement	723	756	764	500	(1)	50	(0)	-	1,313	111
Investment	2,479	4,157	4,157	-	(44)	(3)	1	-	4,111	72
TOTAL	3,202	4,913	4,921	500	(45)	47	1	-	5,424	183

(1) French Treasury bills with short maturity.

(2) In the first semester 2014, Caisse Française de Financement Local reclassified securities according to the criteria of eligibility for central bank refinancing.

(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

	6/30/2013	12/31/2013	6/30/2014
Sight accounts	12	18	15
Unallocated sums	17	-	-
TOTAL	29	18	15

b. Term loans and advances due from banks

b.a. Accrued interest included in this item: 23

b.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
145	490	3,853	2,426	6,914

b.c. Analysis by initial maturity excluding accrued interest

	Net amount as of 6/30/2013	Net amount as of 12/31/2013	Gross amount as of 6/30/2014	Decrease in value as of 6/30/2014	Net amount as of 6/30/2014
Loans of less than 1 year	-	-	-	-	-
Loans of more than 1 year	3,008	7,308	6,914	-	6,914
TOTAL	3,008	7,308	6,914	-	6,914

b.d. Breakdown by counterparty

	6/30/2013	12/31/2013	6/30/2014
Swiss cantonal banks benefiting from their cantons' legal guarantee	729	684	594
Banks guaranteed by a local government, <i>crédits municipaux</i>	149	133	108
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	2130	2128	2,125
Loans to Société de Financement Local	-	4,363	4,087
TOTAL	3,008	7,308	6,914
- of which replacement assets	-	4,363	4,087

2.4 - CUSTOMER LOANS AND ADVANCES

a. Accrued interest included in this item: 729

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
860	3,228	13,925	27,930	45,943

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

Economic sector	6/30/2013	12/31/2013	6/30/2014
Public sector	44,082	43,373	42,788
Other sectors (1)	3,403	3,280	3,155
TOTAL	47,485	46,653	45,943

(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 6/30/2013	Net amount as of 12/31/2013	Gross amount as of 6/30/2014	Impairment as of 6/30/2014	Net amount as of 6/30/2014
Loans of less than 1 year	2	2	2	-	2
Loans of more than 1 year	47,483	46,651	45,982	(41)	45,941
TOTAL	47,485	46,653	45,984	(41)	45,943

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

	Net amount as of 6/30/2013	Net amount as of 12/31/2013	Gross amount as of 6/30/2014	Impairment as of 6/30/2014	Net amount as of 6/30/2014
Performing commitments	47,377	46,418	45,598	-	45,598
Restructured commitments	-	-	-	-	-
Non-performing loans	102	193	282	(20)	262
Compromised non-performing loans	6	42	104	(21)	83
TOTAL	47,485	46,653	45,984	(41)	45,943

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

	6/30/2013	12/31/2013	Allocations	Reversals	Transfers	6/30/2014
For non-performing loans						
On loans	(3)	(3)	(7)	1	-	(9)
On interest	(6)	(5)	(9)	3	-	(11)
For compromised non-performing loans						
On loans	0	(3)	(5)	1	-	(7)
On interest	(1)	(3)	(11)	0	-	(14)
TOTAL	(10)	(14)	(32)	5	-	(41)

- 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: 16

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
0	267	362	3,542	4,171

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

	6/30/2013	12/31/2013	6/30/2014
Public sector	2,068	3,452	3,294
Other sectors (guaranteed by a State or by a local government)	905	890	877
DCC – Dexia Crediop per la Cartolarizzazione (1)	3,263	-	-
DSFB – Dexia Secured Funding Belgium (1)	4,546	-	-
TOTAL	10,782	4,342	4,171
- of which eligible for central bank refinancing	622	556	394
- assets assigned in guarantee to the central bank and removed from the coover pool	-	-	-
- of which replacement assets	-	-	-

(1) These bonds were sold during the second semester of 2013.

d. Replacement assets

Rating	6/30/2013	12/31/2013	6/30/2014
Dexia Sabadell	-	-	-
Dexia LdG Banque	-	-	-
TOTAL	-	-	-

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

	6/30/2013	12/31/2013	6/30/2014	Impairment as of 6/30/2014	Unrealized capital gain or loss as of 6/30/2014
Listed securities	1,501	1,904	1,734	-	143
Other securities	9,281	2,438	2,437	-	(105)
TOTAL	10,782	4,342	4,171	-	38

(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 6/30/2013	Net amount as of 12/31/2013	Gross amount as of 12/31/2013	Increases	Decreases	Transfers (1)	Conversion differences	Impairment as of 6/30/2014	Net amount as of 6/30/2014	Unrealized capital gain or loss as of 6/30/2014 (2)
Trading	-	-	-	-	-	-	-	-	-	-
Placement	9,238	1,012	1,012	-	(33)	(50)	21	-	950	43
Investment	1,544	3,330	3,330	-	(117)	3	5	-	3,221	(5)
	10,782	4,342	4,342	-	(150)	(47)	26	-	4,171	38

(1) In the first semester of 2014, the Caisse Française de Financement Local reclassified some bonds according to their eligibility for central bank refinancing. Likewise, a security was reclassified from Bonds and other fixed income securities to Government and public securities (see 2.2)

(2) The unrealized capital gain or loss is the difference between accounting value and market value.

g. Impairment breakdown by country

See note 2.9

2.6 - OTHER ASSETS

	6/30/2013	12/31/2013	6/30/2014
Other receivables	0	13	0
TOTAL	0	13	0

2.7 - ACCRUALS AND OTHER ASSETS

	6/30/2013	12/31/2013	6/30/2014
Deferred losses on hedging transactions	2,201	2,079	2,000
Deferred charges on bond issues	44	44	44
Deferred charges on hedging transactions	164	148	156
Premiums on acquisition of loans	101	110	120
Other prepaid charges	-	-	-
Accrued interest not yet due on hedging transactions	1,029	1,141	1,069
Translation adjustments	-	0	-
Other deferred income	-	-	-
Other accruals	4	3	1
TOTAL	3,543	3,525	3,390

2.8 - TOTAL ASSETS

Analysis by original currency	Amount in original currency as of 6/30/2013	Amount in euros as of 6/30/2013	Amount in original currency as of 12/31/2013	Amount in euros as of 12/31/2013	Amount in original currency as of 6/30/2014	Amount in euros as of 6/30/2014
EUR	60,650	60,650	61,634	61,634	60,467	60,467
AUD	1,079	760	1,079	700	531	365
CAD	1,022	747	1,020	696	1,020	699
CHF	2,659	2,161	2,660	2,168	2,642	2,175
GBP	656	766	637	764	643	803
HKD	206	20	201	19	206	19
JPY	156,759	1,213	106,641	737	95,434	689
NOK	1,012	128	1,039	124	1,012	121
PLN	35	8	36	9	36	9
SEK	1,340	153	1,335	150	1,338	146
USD	2,957	2,272	2,868	2,080	2,237	1,636
TOTAL		68,878		69,081		67,129

2.9 - IMPAIRMENT BREAKDOWN BY COUNTRY

	Amount as of 6/30/2013	Amount as of 12/31/2013	Amount as of 6/30/2014
Government and public entity securities eligible for central	(5)	(8)	-
Spain	-	-	-
Italy	(5)	(8)	-
Bonds and other fixed income securities - placement	(32)	0	-
Spain	(3)	-	-
France	-	-	-
Germany	-	-	-
Austria	-	-	-
Italy	(14)	-	-
United Kingdom	(15)	-	-
Bonds and other fixed income securities - investment securities	-	-	-
Greece	-	-	-
Loans and advances to customers	(10)	(14)	(41)
France	(10)	(14)	(41)

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

a. Breakdown of government bonds on a selection of European countries

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

	12/31/2013					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	585	-	-	585
Securities guaranteed by State	-	-	-	-	-	-
TOTAL	-	-	585	-	-	585

	6/30/2014					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	597	-	-	597
Securities guaranteed by State	-	-	-	-	-	-
TOTAL	-	-	597	-	-	597

	12/31/2013					
	Spain	Ireland	Italy	Portugal	Greece	Total
Investment securities	-	-	480	-	-	480
Placement securities	-	-	105	-	-	105
TOTAL	-	-	585	-	-	585
IMPAIRMENT	-	-	(8)	-	-	(8)

	6/30/2014					
	Spain	Ireland	Italy	Portugal	Greece	Total
Investment securities	-	-	482	-	-	482
Placement securities	-	-	115	-	-	115
TOTAL	-	-	597	-	-	597
IMPAIRMENT	-	-	-	-	-	0

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.515-19 of the Monetary and Financial Code.

	6/30/2013	12/31/2013	6/30/2014
Overnight borrowing	-	-	-
Time borrowing	-	-	-
Accrued interest	-	-	-
TOTAL BANQUE DE FRANCE	-	-	-

3.2 DUE FROM BANKS

At the end of June 2014, funding obtained from Sfil, within the framework of the financing agreement, was comprised of different loans with maturities initially between twenty-one days and seven years, indexed on Euribor or Eonia.

	6/30/2013	12/31/2013	6/30/2014
Sight accounts	-	1	0
Current account parent company	-	-	-
Interest accrued not yet due	-	-	-
Term borrowing parent company	7,973	6,758	6,184
Interest accrued not yet due	22	15	15
Unallocated sums	-	0	-
TOTAL	7,995	6,774	6,199

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	0	-	-	-	0
Term	1,200	547	3,971	466	6,184
TOTAL	1,200	547	3,971	466	6,184

3.3 - DEBT SECURITIES

A. Debt securities (*obligations foncières*) :

a. Accrued interest included in this item: 846

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
Obligations foncières	207	2,566	23,291	20,465	46,529
of which issue premiums (1)	-	-	(26)	(44)	(70)

(1) The gross amount of issue premiums, before amortization, totaled EUR 187,3 million.

c. Changes during the year excluding accrued interest

12/31/2013	Increases	Decreases	Translation adjustment	6/30/2014
48,162	1,847	(3,620)	140	46,529

B. Other bonds (registered covered bonds)

a. Accrued interest included in this item: 118

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	-	-	292	5,152	5,444
of which issue premiums (1)	-	-	-	(5)	(5)

(1) The gross amount of issue premiums totaled EUR 6,7 million.

c. Analysis by residual maturity excluding accrued interest

12/31/2013	Increases	Decreases	Translation adjustment	6/30/2014
4,705	815	(76)	-	5,444

3.4 - OTHER LIABILITIES

	6/30/2013	12/31/2013	6/30/2014
Cash collateral received	2,713	2,546	2,502
Accrued interest not yet due on cash collateral received	-	0	0
Taxes	13	3	2
Balances to pay on unwound hedging contracts	-	-	-
Contribution to the support fund (1)	-	150	168
Other creditors	-	-	-
TOTAL	2,726	2,699	2,672

(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. In addition, Caisse Française de Financement Local contribute to the support fund for hospitals for EUR 18 million.

3.5 - ACCRUALS AND OTHER LIABILITIES

	6/30/2013	12/31/2013	6/30/2014
Deferred gains on hedging transactions	-	-	-
Deferred income on hedging transactions	2,571	2,432	2,322
Deferred income on loans	192	195	183
Accrued interest not yet due on hedging transactions	1,045	1,040	998
Other accrued charges	41	45	20
Translation adjustments	193	462	323
Other accruals	-	8	-
TOTAL	4,042	4,182	3,846

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

	Amount as of 6/30/2013	Amount as of 12/31/2013	Increases	Decreases	Translation adjustments	Amount as of 6/30/2014
Loans commitments	209	70	71	(54)	-	87
Financial instruments	44	35	10	(2)	-	43
Regulated provision	72	-	-	-	-	-
Other provisions	29	29	-	-	-	29
TOTAL	354	134	81	(56)	-	159

Caisse Française de Financement Local increase its provisions on a loan portfolio to EUR 87 million.
As a reminder, the 2014 Law of Finances eliminates the provision for medium- and long-term loans.

3.7 EQUITY

	6/30/2013	12/31/2013	6/30/2014
Share capital	1,315	1,315	1,315
Legal reserve	46	46	46
Retained earnings (+/-)	38	38	18
Net income (+/-)	(131)	(20)	(63)
TOTAL	1,268	1,379	1,316

On May 22, 2014, the Ordinary and Extraordinary Shareholders' Meeting decided to allocate the 2013 net income of EUR - 20 million to retained earnings, constituting income for distribution of EUR 18 million.

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 6/30/2013	Amount in euros as of 6/30/2013	Amount in original currency as of 12/31/2013	Amount in euros as of 12/31/2013	Amount in original currency as of 6/30/2014	Amount in euros as of 6/30/2014
EUR	60,650	60,650	61,634	61,634	60,467	60,467
AUD	1,079	760	1,079	700	531	365
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CHF	2,659	2,161	2,660	2,168	2,642	2,175
GBP	656	766	637	764	643	803
HKD	206	20	201	19	206	19
JPY	156,759	1,213	106,641	737	95,434	689
NOK	1,012	128	1,039	124	1,012	121
PLN	35	8	36	9	36	9
SEK	1,340	153	1,335	150	1,338	146
USD	2,957	2,272	2,868	2,080	2,237	1,636
TOTAL		68,878		69,081		67,129

3.9 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Parent company (1)			Other related parties (2)		
	6/30/2013	12/31/2013	6/30/2014	6/30/2013	12/31/2013	6/30/2014
ASSETS						
Loans and advances due from banks - sight	-	-	-	-	-	-
Loans and advances due from banks - time	-	4,368	4,092	-	-	-
Bonds and other fixed income securities	-	-	-	-	-	-
LIABILITIES						
Due to banks - sight	-	-	-	-	-	-
Due to banks - time	7,995	6,773	6,199	-	-	-
INCOME STATEMENT						
Interest income on loans and advances	-	16	13	-	-	(1)
Interest income on debt securities	-	-	-	-	-	-
Interest expense on borrowings	(30)	(65)	(33)	-	-	-
Net commissions	-	(19)	(12)	-	-	0
OFF-BALANCE SHEET						
Interest rate derivatives	12,664	13,900	17,608	-	-	-
Foreign exchange derivatives	5,569	5,180	4,624	-	-	-
Commitments and guarantees received	50	4,420	4,581	-	134	131

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

(2) This item includes transactions with Caisse des Dépôts et Consignations and La Banque Postale, shareholders of Sfil, the parent company of Caisse Française de Financement Local.

4. NOTES TO THE OFF-BALANCE SHEET ITEMS (EUR millions)

4.1 - COMMITMENTS GRANTED

	6/30/2013	12/31/2013	6/30/2014
Financing commitments granted to credit institutions	-	-	-
Financing commitments granted to customers (1)	277	228	178
Other commitments given, assets assigned in guarantee	-	-	-
TOTAL	277	228	178

(1) Financing commitments on loans and advances correspond to contracts signed for loans not yet paid out to customers as of June 30.

4.2 - COMMITMENTS RECEIVED

	6/30/2013	12/31/2013	6/30/2014
Financing commitments received from credit institutions (1)	50	170	489
Currencies borrowed	-	-	-
Guarantees received from credit institutions (2)	4,569	4,568	4,276
Guarantees received from local governments and asset transfers as guarantees of commitments on	7,179	7,078	6,987
Other commitments received	-	-	-
TOTAL	11,798	11,816	11,752

(1) As of June 30, 2014, this item corresponded primarily to EUR 489 million linked to registered covered bonds waiting for settlement.

(2) As of June 30, 2014, 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.

	6/30/2013	12/31/2013	6/30/2014	Fair value as of 6/30/2014
Currencies to receive	12,276	11,275	10,269	531
Currencies to deliver	12,470	11,737	10,592	(528)
TOTAL	24,746	23,012	20,861	3

4.4 - COMMITMENTS ON INTEREST RATE DERIVATIVES

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

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

Type of transaction	12/31/2013	Less than 1 year	1 year to 5 years	More than 5 years	Total
Unconditional transactions	148,666	26,152	50,871	59,204	136,227
of which deferred start	8,547	3,300	116	595	4,011

These hedging transactions include micro- and macro-hedges.

b. Analysis of interest rate transactions by product type

	6/30/2013	12/31/2013	6/30/2014
Interest rate swaps	156,147	148,666	136,227
Term contracts	-	-	-
Interest rate options	-	-	-
TOTAL	156,147	148,666	136,227

c. Analysis of interest rate swap transactions

	6/30/2013	12/31/2013	6/30/2014	Fair value as of 6/30/2014
Micro-hedge	68,517	69,996	69,269	(865)
Macro-hedge	87,630	78,670	66,958	(3,405)
TOTAL	156,147	148,666	136,227	(4,270)

d. Analysis of interest rate transactions by counterparty

	6/30/2013	12/31/2013	6/30/2014
Related parties	12,664	13,900	17,608
Counterparties with equity interests	-	-	-
Other counterparties	143,483	134,766	118,619
TOTAL	156,147	148,666	136,227

5.0. - INTEREST AND RELATED INCOME / EXPENSE

	2Q2013	2Q2014
INTEREST AND RELATED INCOME	4,119	818
Due from banks	31	43
Due from customers	2,097	599
Bonds and other fixed income securities	39	59
Macro-hedge transactions	1,952	117
Other commitments	-	-
INTEREST AND RELATED EXPENSE	(4,033)	(777)
Due to banks	(36)	(36)
Due to customers	(1,584)	(136)
Bonds and other fixed income securities	(165)	(197)
Macro-hedge transactions	(2,247)	(408)
Other commitments	-	-
INTEREST MARGIN	86	41

5.1 - ANALYSIS OF COMMISSIONS PAID

	2Q2013	2Q2014
Commission for business brokerage and securities portfolio management billed by Dexia Crediop	(4)	(3)
Commission paid on securities transactions	(0)	(1)
Commission recharge to <i>Société de Financement Local</i>	-	(12)
TOTAL	(4)	(16)

5.2 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS

	2Q2013	2Q2014
Transactions on <i>placement</i> securities (1)	11	(0)
Transactions on investments securities	(0)	-
Transactions on interest rate derivatives	-	-
Foreign exchange transactions	1	0
TOTAL	12	(0)

(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, Société de Financement Local, a credit institution.

Particular agreements were also drawn up with the following entities: Kommalkredit 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:

	2Q2013	2Q2014
Taxes	(3)	(2)
Other general operating expense (1)	(35)	(40)
TOTAL	(38)	(42)

(1) of which EUR 38 million with *Sfil*.

5.4 - COST OF RISK

	2Q2013	2Q2014
Contribution to the support fund	-	(18)
Collective and specific impairments	(172)	(28)
TOTAL	(172)	(46)

5.5 - CORPORATE INCOME TAX

	2Q2013	2Q2014
Income tax for the year	(14)	-
Deferred tax	-	-
TOTAL	(14)	-

The tax rate applicable in France in 2014 is 38.00%.

5.6 - INCREASE AND DECREASE IN THE REGULATED PROVISION

	2Q2013	2Q2014
Increase and decrease in the regulated provision	(1)	-
TOTAL	(1)	-

Statutory auditor's report Half-year 2014 (*French Gaap*)

Statutory auditors' review report on the first half-year financial information

Period from January 1st, 2014 to June 30th, 2014

This is a free translation into English of the statutory auditors' review report issued in French and is provided solely for the convenience of English speaking readers. This report includes information relating to the specific verification of information presented in the interim management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the shareholders,

In our capacity as statutory auditors and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code ("*Code monétaire et financier*"), we completed:

- the review of the accompanying half-year financial statements of the Caisse Française de Financement Local, for the period from January 1st, 2014 to June 30th, 2014;
- the verification of the information contained in the interim management report.

These half-year financial statements have been prepared under the responsibility of the Executive Board. Our role is to express our conclusion on these financial statements, based on our review.

1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

Based on our review, we did not identify any material misstatements that would cause us to believe that the interim financial statements do not present fairly, in all material aspects, the results of operations for the six-month period ended June 30th, 2014 and the financial position of the Caisse Française de Financement Local and its assets at that date, in accordance with accounting rules and principles applicable in France.

Without qualifying our conclusion, we draw your attention to Note 1.1 that outlines the context of publication of the financial statements.

2. Specific verification

We have also verified the information presented in the interim management report commenting the half-year financial statements subject to our review. We have no matters to report as to its fair presentation and its consistency with the half-year financial statements.

Courbevoie and Neuilly-sur-Seine, August 28th, 2014

The Statutory Auditors

French original signed by

MAZARS

DELOITTE & ASSOCIES

Virginie CHAUVIN

Anne VEAUTE

Charlotte VANDEPUTTE

José-Luis GARCIA



STATEMENT OF THE PERSON RESPONSIBLE FOR THE HALF-YEAR FINANCIAL REPORT

I, the undersigned, Gilles GALLERNE, Chairman of the executive board of Caisse Française de Financement Local,

hereby affirm that, to the best of my knowledge, these half-year financial statements have been prepared in conformity with applicable accounting standards and provide an accurate and fair view of the assets and liabilities, financial position and earnings of the company, and that the half-year financial report presents a fair image of significant events that have taken place during the first six months of the year and their impact on the half-year financial statements, and a description of all the major risks and uncertainties concerning the remaining six months of the fiscal year.

La Défense – August 28, 2014

Gilles GALLERNE
Chairman of the executive board