

**Financial report**  
as of September 30, 2013  
**Caisse Française de Financement Local**  
Local public sector assets - *Obligations foncières*

# Financial Report

as of September 30, 2013

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## Management report

For the period January 1 to September 30, 2013

## 1. HIGHLIGHTS OF THE FIRST NINE MONTHS OF 2013

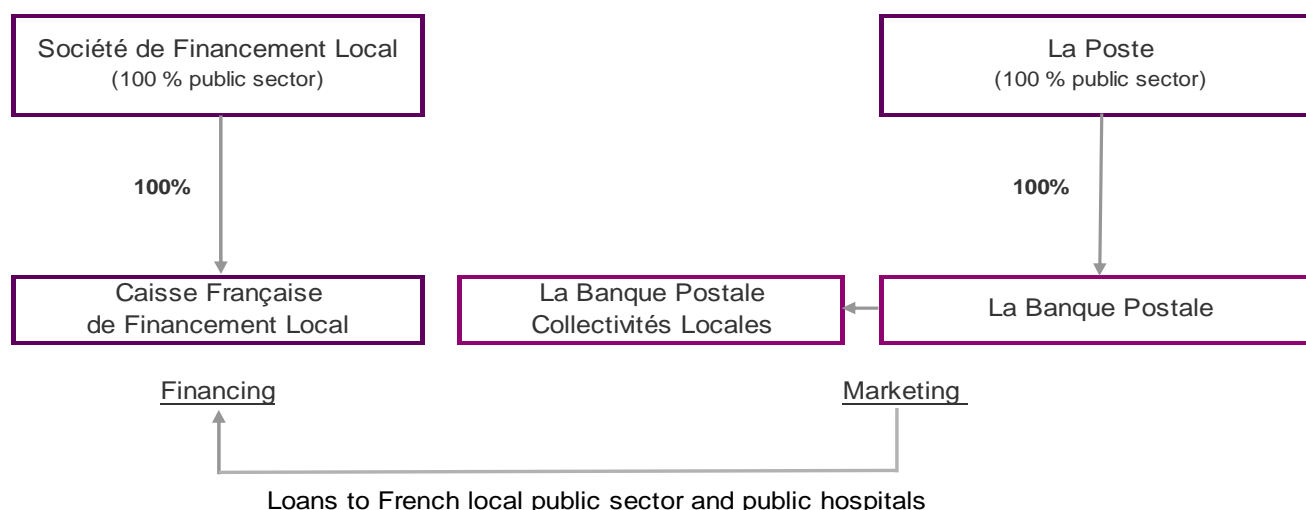
The third quarter marked a new step forward in the operational implementation of the system of local public sector financing in France in effect since February 1, 2013. Caisse Française de Financement Local conducted its first acquisition of assets originated by La Banque Postale, and completed its annual issuance program in the amount of EUR 3.1 billion in three months.

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

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

Sfil's shareholders are the French State (75%), Caisse des Dépôts et Consignations (20%) and La Banque Postale (5%). The French State is the reference shareholder for the Autorité de contrôle prudentiel, underlining its commitment to ensure oversight and strategic decision-making, as well as its determination to ensure Sfil's ongoing financial transactions if so required.

#### New organization for the financing of the local public sector in France



The role of Société de Financement Local is to support the activities of Caisse Française de Financement Local as a servicer. This role is defined by the regulations that apply to *sociétés de crédit foncier*, in particular in the sense of article L.515-22 of the Monetary and Financial Code. Three main missions have been assigned to Sfil,

- Sfil is the servicer of Caisse Française de Financement Local, and in this role, manages the company and provides Caisse Française de Financement Local with the non-privileged funding its activity requires;
- Sfil also manages the operational reduction of the sensitivity of the sensitive structured loans 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.

Furthermore, Sfil has replaced Dexia Credit Local in all derivative transactions at the date of sale by Dexia Municipal Agency and Dexia Credit Local.

Caisse des Dépôts et Consignations (CDC) provides Sfil with the resources required to finance business existing prior to the date of transfer. It will contribute with La Banque Postale to meet the financing needs engendered by new business originated by La Banque Postale Collectivités Locales, a joint venture held by

CDC for 35% and La Banque Postale for 65%, or directly by La Banque Postale. All the financing provided by Caisse des Dépôts et Consignations will be capped at EUR 12.5 billion.

On January 31, 2013, Sfil signed a declaration of support for Caisse Française de Financement Local. This declaration is reproduced in the 2012 annual report - General information.

As of September 30, 2013, Sfil's long-term ratings were respectively:

- AA+ by Standard and Poor's (same rating as the French State),
- Aa2 by Moody's and AA by Fitch (one notch below the French State).

These ratings reflect the strategic character of the role the French State has assigned to Sfil and Caisse Française de Financement Local, and the French State's long-term commitment to assure them of its support if so required. These long-term ratings include an outlook negative, reflecting the current outlook of the rating of the French State.

On November 8, 2013, S&P lowered Sfil's rating to AA outlook stable following the downgrade of France's sovereign rating.

## 1.2 RATINGS OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

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

As of June 30, 2013, Caisse Française de Financement Local was rated:

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

The S&P and Fitch ratings added an outlook negative which reflected the outlook negative of the sovereign rating as well as that of Société de Financement Local.

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

In fact, the agencies consider that there is a country ceiling, i.e. a ceiling for the rating of Caisse Française de Financement Local in relation to the sovereign rating).

Therefore, at the beginning of 2013, the rating of the *obligations foncières* (OF) of Caisse Française de Financement Local was as follows.

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

These ratings were qualified as outlook stable.

## 1.3 THE COVERED BOND MARKET

In the first nine months of 2013, issues of euro-denominated benchmark covered bonds, totaling EUR 76.5 billion, contracted significantly in the primary market, compared with the same period in 2012 (- 17.3%). The third quarter was particularly active with EUR 21.5 billion in covered bond issues, representing almost 30% of total issues in the first nine months of 2013.

French issuers (20% of the market share) were less present than usual since the beginning of 2013, although they remained one of the most active market players, together with the Germans (18%) and the Scandinavians (20%).

At the same time, issuers from Southern European countries made a marked return in the primary market, particularly Spain (13%) and to a lesser extent Italy (7%).

Average spreads for covered bonds in all countries continued to narrow progressively through the first nine

months of 2013, as they demonstrated resistance to political and economic uncertainties in Europe.

The spread of the *obligations foncières* of Caisse Française de Financement Local in the secondary market narrowed significantly since the change in the shareholding structure at the beginning of the year 2013, returning to the level of the best French issuers.

The return of Caisse Française de Financement Local to the euro benchmark market at the beginning of July 2013 was heralded by a successful issue of EUR 1 billion with maturity of 7 years. This inaugural issue was followed by a second public issue at the end of September in the amount of EUR 500 million with a maturity of 15 years. It was the first issue with this maturity in the *obligations foncières* market in three years.

## 1.4 STRUCTURED LOANS

In line with the French government announcements of June 18 and July 16, 2013, articles 23 and 60 of the finance bill for 2014 include provisions for a comprehensive, long-lasting solution to the problem of the most sensitive structured loans contracted by local governments and for guarantees to cover agreements currently in effect.

A complete discussion of structured loans and litigation is presented in part 3.3.d – Structured loans.

## 1.5 FIRST APPLICATION OF IFRS 13 FAIR VALUE MEASUREMENT

Since January 1, 2013, Caisse Française de Financement Local reports a credit value adjustment (CVA) and a debit value adjustment (DVA) in the context of the first application of IFRS 13. The impact of the initial application of the standard was a loss of EUR - 19 million for the CVA and a profit of EUR + 118 million for the DVA, as of September 30, 2013. These amounts include the overall effects of the first application of this standard and changes in the period.

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

The DVA represents an evaluation of the losses that the counterparties would assume in the event of the default of Caisse Française de Financement Local.

The absence of any payment of cash collateral by Caisse Française de Financement Local explains why the amount of DVA is high despite Caisse Française de Financement Local's very good rating. The DVA is sensitive to changes in Caisse Française de Financement Local's own credit risk.

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

Caisse Française de Financement Local also modified the method it uses to value collateralized derivatives to account for changes in market practices. It opted for a valuation against Eonia for its derivatives subject to the payment of collateral to its benefit. The derivatives for which no payment is made to the benefit of the counterparties remain valued against Euribor. Whereas the valuation of the items hedged was not modified, this change in the valuation of hedging derivatives introduced an element of inefficiency in hedging relations. The impact of this change totaled EUR +20 million.

## 2. CHANGES IN MAIN BALANCE SHEET ITEMS

EUR billions - value after swaps	12/31/2011	12/31/2012	9/30/2013	Change Sept. 2013 / Dec. 2012
<b>Cover pool</b>	<b>76.0</b>	<b>69.2</b>	<b>64.4</b>	<b>(7.0)%</b>
Central bank	2.2	2.4	1.2	(50.8)%
Loans	54.9	51.7	57.0	10.2%
Securities	18.9	15.1	6.2	(58.9)%
<b>Assets assigned in guarantee to Banque de France</b>	<b>3.2</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Privileged debt</b>	<b>65.6</b>	<b>59.7</b>	<b>55.8</b>	<b>(6.5)%</b>
<i>Obligations foncières *</i>	63.1	56.2	53.3	(5.1)%
Cash collateral received	2.5	3.5	2.5	(28.7)%
<b>Non-privileged debt</b>	<b>12.2</b>	<b>7.6</b>	<b>6.8</b>	<b>(10.3)%</b>
Parent company	9.5	7.6	6.8	(10.3)%
Banque de France	2.7	-	-	-
<b>Equity IFRS (excluding unrealized gains and losses)</b>	<b>1.3</b>	<b>1.5</b>	<b>1.5</b>	<b>0.0%</b>

\*Including registered covered bonds

As of September 30, 2013, Caisse Française de Financement Local's cover pool, composed of loans and debt securities, totaled EUR 64.4 billion, excluding accrued interest not yet due. As of December 31, 2012, the total pool was EUR 69.2 billion; the decrease was therefore EUR 4.8 billion (- 7.0%).

As of September 30, 2013, no asset had been assigned in guarantee to the Banque de France.

Outstanding debt benefiting from the legal privilege was EUR 55.8 billion, including cash collateral received, down 6.5% from December 2012.

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

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

### 3. CHANGE IN ASSETS IN THE FIRST NINE MONTHS OF 2013

#### 3.1 NEW ASSETS

The net change in the cover pool as of September 30, 2013, was a decrease of assets of EUR 4.8 billion. The change can be analyzed as follows.

EUR billions	3Q 2013
<b>Beginning of the year</b>	<b>69.2</b>
New assets	
<i>Loans to French public sector</i>	0.7
<i>Replacement assets</i>	7.8
Variation of Banque de France account	-1.2
Amortization	-4.3
Early reimbursements	-0.1
Divestments	-7.8
Changes in provisions	0.0
<b>End of the period</b>	<b>64.4</b>

The increase of gross assets on the balance sheet as of September 30, 2013, totaled EUR 8.5 billion and corresponds to:

- the acquisition for EUR 0.5 billion of loans to the French local public sector originated by La Banque Postale, with residual maturity of 15 years;
- the payment of EUR 0.2 billion from loan agreements signed previously and recorded on the balance sheet of Caisse Française de Financement Local, and EUR 0.1 billion for new commitments linked to operations to reduce the sensitivity of structured loans;
- the acquisition of replacement assets corresponding to loans for an outstanding total of EUR 7.6 billion to Société de Financement Local, the parent company of Caisse Française de Financement Local (cf. 3.3.c).

The decrease in assets mainly corresponds to the natural amortization of the portfolio of loans and securities, in particular EUR 0.5 billion in *cedulas territoriales* at the beginning of January 2013, as well as to the reduction of the balance of the Banque de France account for EUR 1.2 billion. Divestments represent the sale of all the internal and external ABS, which were reported on the balance sheet in the amount of EUR 7.8 billion.

#### 3.2 OUTSTANDING ASSETS AS OF SEPTEMBER 30, 2013

##### a. Geographic breakdown of the cover pool (excluding replacement assets and cash accounts)

French assets were predominant in the cover pool, and the geographical diversification was significant. The decline in the proportion related to Belgium and Italy in the cover pool was due to the sale of the securitization vehicles DSFB 2 and 4 and DCC 1 to DCC 3, which had been made up of exposures on the Belgian and Italian local public sector. In addition, Caisse Française de Financement Local committed to buy back the assets underlying the Italian securitization vehicles before the end of 2013. At the end of December 2013, the relative proportion in the cover pool will be similar to the one posted at the end of 2012.

The trend in the relative proportion of assets by country can be analyzed as follows.



%	12/31/2012	9/30/2013
France	69.3%	79.3%
Belgium	7.9%	0.4%
Italy	11.0%	7.0%
Switzerland	4.3%	4.7%
Spain	0.8%	0.9%
United Kingdom	3.7%	4.3%
<b>Subtotal</b>	<b>97.0%</b>	<b>96.6%</b>
Other countries	2.9%	3.4%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

As of September 30, 2013, exposures on other countries could be broken down as follows.:

Other countries (%)	12/31/2012	9/30/2013
Germany	1.3%	1.6%
Austria	0.4%	0.4%
Sweden/Finland	0.3%	0.2%
United States	0.4%	0.5%
Canada	0.5%	0.6%
Portugal	0.1%	0.1%
Japan	0.0%	0.1%
Luxembourg	0.0%	0.0%
<b>TOTAL</b>	<b>3.0%</b>	<b>3.4%</b>

#### b. Assets removed from the cover pool

As of September 30, 2013, no asset was assigned by Caisse Française de Financement Local in guarantee to the Banque de France.

#### c. Concentration by borrower

As of September 30, 2013, the 20 largest exposures (excluding replacement assets and cash accounts) represented 13.7% of the cover pool against 18.7% as of December 31, 2012. The largest exposure accounted for only 1.9% of the cover pool and the twentieth exposure less than 0.4%. The decrease in the outstanding of the twentieth largest exposures was mainly due to the elimination of Belgian and Italian exposures in the securitization vehicles, which were seen transparently.

#### d. Replacement assets

As of September 30, 2013, the replacement assets were made up of loans to Société de Financement Local, which at this date was rated AA by Fitch, Aa2 by Moody's and AA+ by S&P, as well as of bank account balances, the rating of which is in the step 2 category with regard to credit quality.

The *cedulas territoriales* of outstanding assets of EUR 500 million matured at the beginning of the month of January 2013.

Current legislation sets a ceiling on the amount of replacement assets, excluding bank current accounts, of 15% of outstanding *obligations foncières* and registered covered bonds. The total outstanding of replacement assets of Caisse Française de Financement Local is less than the ceiling imposed by legislation.

Replacement assets	Country	Issuer	EUR millions	
			12/31/2012	9/30/2013
<b>Step 1 credit rating</b>				
Loans to sponsor bank	France	Société de Financement Local		7,635
<b>Step 2 credit rating</b>				
Bank account balances			23	12
<b>Other assets</b>				
Cedulas territoriales	Spain	Dexia Sabadell	500	-
<b>TOTAL</b>			<b>523</b>	<b>7,647</b>

### 3.3 ASSET QUALITY

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

#### a. Quality of the assets in the portfolio

Caisse Française de Financement Local's portfolio of assets is composed of loans and debt securities.

Loans and advances: 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 an intention to hold them until maturity. They are valued at their historical cost and, if necessary, are covered by provisions for impairment when there is a risk of non-payment.

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

This model, which is also used for Caisse Française de Financement Local's transactions, is regularly tested *a posteriori*.

The small amount of non-performing loans observed indicates the low risk profile and the portfolio's overall high quality.

Non-performing and litigious loans as of September 30, 2013, amounted to EUR 206.1 million, i.e. less than 0.32% of the total cover pool (EUR 64.4 billion).

They can be broken down into:

- EUR 153.3 million of non-performing loans, which for the most part can be divided between municipalities and groups of municipalities for small unit amounts
- EUR 52.8 million of unpaid amounts related to structured loans subject to litigation.

Non-performing loans & litigious loans EUR millions	12/31/2012		9/30/2013	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
<b>FRANCE</b>				
Municipalities	40	9	94	23
Group of municipalities	45	6	47	16
Departments	-	13	3	13
Public sector entities	6	0	9	1
<b>Total</b>	<b>92</b>	<b>29</b>	<b>153</b>	<b>53</b>

Non-performing loans are carried by a limited number of counterparties and turnover is frequent. Since the beginning of 2013, seven files were resolved and twenty four new cases were identified.

The significant increase in non-performing loans in the third quarter (up EUR 69 million) mainly reflected the situation of borrowers with loans considered as non-performing for the full amount of their outstanding although the unpaid amounts they owed were minor or to come.

Consequently, an outstanding amount of EUR 66 million was classified as non-performing in the third quarter for nine borrowers whose unpaid amounts totaled EUR 1.3 million.

No litigation was resolved in the first six months of 2013 given the long delays in procedures (cf.3.3.d. Structured loans).

Non-performing loans & litigious loans (number of clients)	12/31/2012		9/30/2013	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
Beginning of the year	25	-	33	25
New	17	25	24	17
Outgoing	9	-	7	-
<b>End of the year</b>	<b>33</b>	<b>25</b>	<b>50</b>	<b>42</b>

In consideration of the situation of the structured loan portfolio, Caisse Française de Financement Local recorded an additional EUR 170 million in collective impairment linked with the structured loans, which totaled EUR 209 million as of September 30, 2013. The impairment was assessed on the basis of an estimate of the risk that some local authorities that had subscribed structured loans would not be able to refinance the cost of transformation of their structured loans into vanilla loans.

EUR millions	12/31/2012	9/30/2013
Specific impairment	8	14
Collective impairment	44	215
<b>Total</b>	<b>52</b>	<b>229</b>

Provisions for non-performing loans increased by EUR +66 million since the beginning of 2013. This rise was mainly due to the recognition of provisions for all the interest on non-performing loans.

**AFS securities.** Because of their liquidity, in particular, certain securities, issued by states or banks guaranteed by local governments, remain classified for accounting purposes as available for sale according to IFRS and are valued for accounting purposes on the basis of their fair value.

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

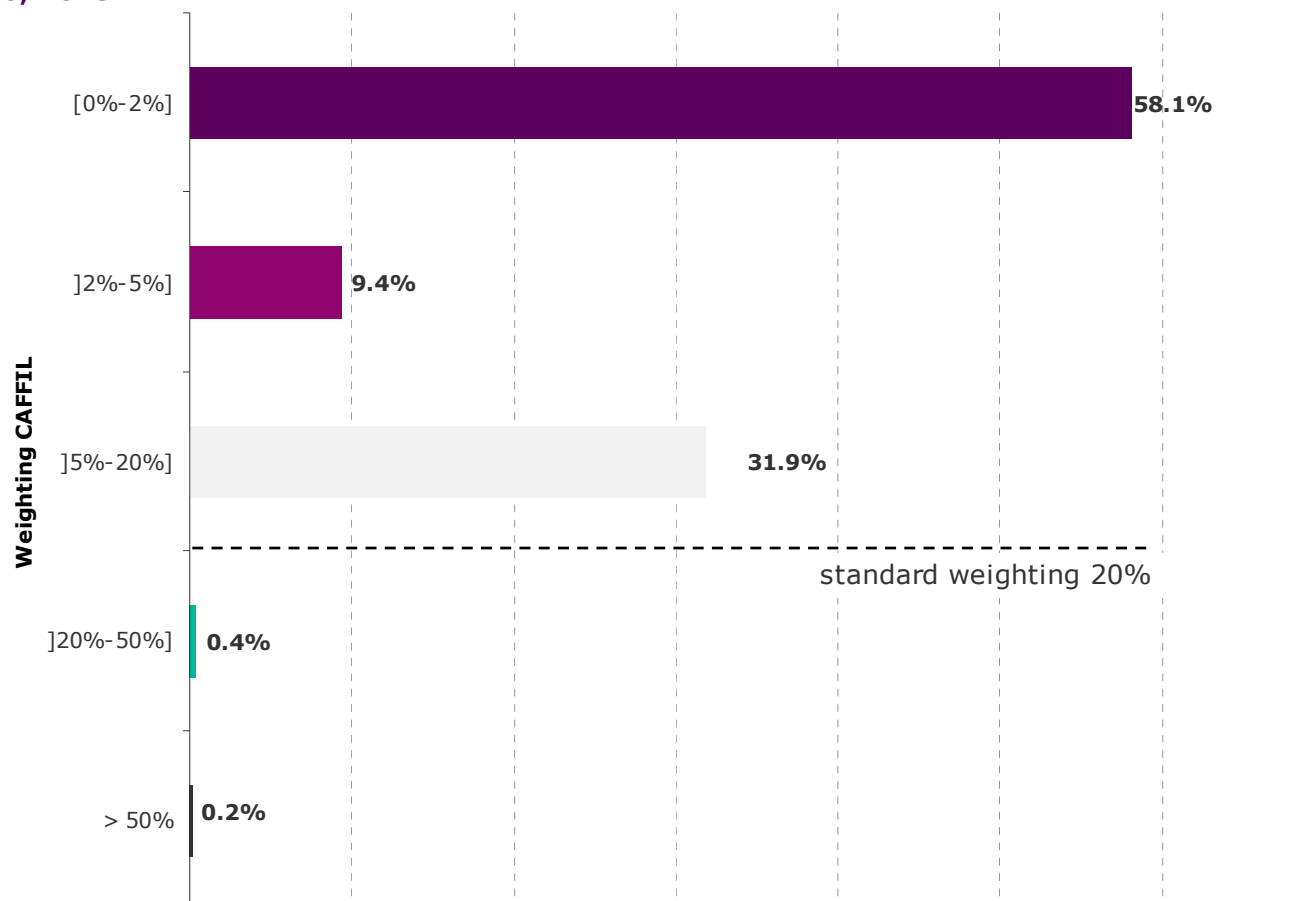
As of September 30, 2013, the overall AFS reserve, before taxes, was stable at EUR -220 million, versus EUR -291 million as of December 31, 2012. The value of Italian sovereign issues contribute to this reserve for EUR -120 million.

## b. Breakdown of exposures according to Basel II 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 reform of the solvency ratio and capital adequacy according to Basel II criteria. Banking regulators authorized the company to use advanced internal models for the calculation

and reporting of equity requirements for credit risk. As of September 30, 2013, Caisse Française de Financement Local was therefore able to present in the following graph an analysis of its exposures, broken down by risk weighting, such as used for the calculation of equity requirements for credit risk. This risk weighting is calculated by combining the counterparty's probability of default and the risk incurred in the event of default.

### Risk weighting (Basel II) of Caisse Française de Financement Local's portfolio as of September 30, 2013



This analysis confirms the excellent quality of the assets in the portfolio of Caisse Française de Financement Local, of which only 0.6% of the portfolio has weighting greater than 20%. The quality of Caisse Française de Financement Local's cover pool is reflected by average risk weighting of 5.9% versus 20% in the standard Basel II model.

Caisse Française de Financement Local has a solvency ratio close to 30% as of September 30, 2013, by reason of the size of its equity and the credit quality of its assets.

### c. Exposure to ABS, banks and sovereign countries

#### Exposure in the form of asset-backed securities (ABS)

At the beginning of July 2013, Caisse Française de Financement Local sold all its securitization notes to its parent company Société de Financement Local.

All of the external securitization units were sold in April and May 2013.

Since the sale of all the securitizations in the cover pool, the current and future *obligations foncières* issued by Caisse Française de Financement Local are in line with the new eligibility criteria for refinancing by the European Central Bank and European regulation CRR / CRD IV.

### Exposure to banks

Caisse Française de Financement Local held two types of exposure to banks as of June 30, 2013:

- loans to Société de Financement Local, sponsor bank of Caisse Française de Financement Local ;
- bank account balances in euros and other currencies;
- the value of 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 September 30, 2013, Caisse Française de Financement Local was exposed (positive fair value of the swaps) to 14 banking counterparties. Eleven of these paid collateral for EUR 2.5 billion, offsetting total exposure, and three paid no collateral because of their very good short-term ratings. These counterparties represented an exposure of EUR 58 million. All long-term derivative exposures as of September 30, 2013, are listed below.

EUR billions	Notional amounts	%	Mark to Market		Collateral received	Number of counterparties
			-	+		
SFIL	19.4	19.3%	(3.1)	-	-	1
Other counterparties	81.3	80.7%	(3.5)	2.6	2.5	28
<b>Total</b>	<b>100.7</b>	<b>100.0%</b>	<b>(6.5)</b>	<b>2.6</b>	<b>2.5</b>	<b>29</b>

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

Derivatives contracted with external counterparties represented a total of 80.7% of outstanding long-term swaps and those signed with Société de Financement Local 19.3%. Those contracted with the five largest external counterparties represented a total of 33.9% of the notional amounts.

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

### Exposure on sovereign countries

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 September 30, 2013.

No additional exposure on sovereign has been acquired in 2012 and 2013.

EUR millions	Ratings **	12/31/2012	9/30/2013	in % of the cover pool
France*	AA/Aa1/AA+	171	171	0.3%
United Kingdom	AAA/Aa1/AA+	608	559	0.9%
Germany	AAA/Aaa/AAA	12	12	0.0%
Italy	BBB/Baa2/BBB+	560	571	0.9%
<b>TOTAL</b>		<b>1,351</b>	<b>1,313</b>	<b>2.0%</b>

\*Excluding the Banque de France sight account

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

## d. Structured loans

### Definition

Certain loans to French public sector entities in the cover pool of Caisse Française de Financement Local are 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 government (the Gissler charter), which can be consulted on the Internet site of the French Ministry of the Interior. This document was signed on December 7, 2009, by several organizations that are representative of 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 by 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 a fixed rate or a simple variable rate definitively.

According to this definition, outstanding structured loans on the balance sheet of Caisse Française de Financement Local at the end of September 2013 represented EUR 14.3 billion (versus EUR 15.4 billion at the end of 2012).

### Sensitive loans

The most structured loans according to the Gissler categories 3E, 4E and 5E and the loans the marketing of which is excluded by the charter may be qualified as "sensitive". They are specially monitored and specific measures are taken to reduce their sensitivity. These loans represented a total of EUR 8.0 billion at the end of September 2013 compared with EUR 8.5 billion at the end of 2012.

EUR billions	Amount	%	Number of clients
<b>Total cover pool</b>	<b>64.4</b>		
<b>French public sector loans</b>	<b>43.3</b>	<b>67.2%</b>	<b>18,601</b>
Sensitive loans not in the charter	3.9	6.0%	408
Sensitive loans (3E/4E/5E)	4.1	6.4%	460
Other structured loans	6.3	9.8%	1,360
Vanilla loans	29.0	45.0%	16,373

The most sensitive loans (not in the charter) represented 6.0% of the cover pool and 408 clients, as described above.

These loans concern the following client categories:

Sensitive loans not in the charter	Amounts EUR billions	Number of clients
Municipalities with fewer than 10,000 inhabitants	0.3	79
Municipalities with more than 10,000 inhabitants and groups of municipalities	2.0	232
Regions and departments	0.9	28
Other clients	0.7	69
<b>TOTAL</b>	<b>3.9</b>	<b>408</b>

Caisse Française de Financement Local recorded an additional impairment in the first quarter of 2013 to cover the risk on this portfolio (cf. 3.3.a - Quality of the assets in the portfolio).

## Litigation

Certain clients sued Dexia Credit Local, Caisse Française de Financement Local and/or Société de Financement Local over the sensitive loans they had been granted, which had been recorded on the balance sheet of Caisse Française de Financement Local. The number of clients who sued Dexia Credit Local for loans on the balance sheet of Caisse Française de Financement Local stood at 177 at the end of June 2013, compared with 57 at the end of 2012.

Three legal decisions on the suits 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. They concerned three structured loans with 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 for the cancelation of the three contested loan agreements and for any type of 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 Éffectif Global – TEG) implied the application of the legal interest rate.

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

In line with the French government commitments announced on June 18 and July 16, 2013, the finance bill for 2014 includes provisions for a comprehensive, long-lasting solution to the problem of the most sensitive structured loans contracted by local governments. The French government's plan comprises two main elements:

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

The multi-year support fund will be endowed with EUR 1.5 billion and a maximum maturity of 15 years (EUR 100 million per year). It will work as follow:

- eligible clients : local authorities and groups of municipalities with the most structured loans,
- use the fund : refinancing a part of the indemnity of early reimbursement (preferred option) or, in an initial phase and for a limited time, to finance a part of interest of the structured loan;
- Beneficiaries of the fund have to give up present or future litigations;
- management of the fund by the French state and a steering committee including representatives of the French state, local authorities, and qualified people;
- this fund will be financed half by the state and half by the banks. Caisse Française de Financement Local has committed to contribute EUR 10 million per year to the fund over a period of 15 years once it becomes operational.

## 4. CHANGE IN DEBT BENEFITING FROM THE LEGAL PRIVILEGE DURING THE FIRST NINE MONTHS OF 2013

The issue policy of Caisse Française de Financement Local is consisted in a strong presence in the euro market, by building a coherent curve and ensuring the good performance of its benchmarks in the secondary market and by active diversification in several selected markets.

The first issue in the euro benchmark market of Caisse Française de Financement Local, at the beginning of July 2013, proved successful with an issue of EUR 1.0 billion with maturity of 7 years after a month's absence of transactions in the covered bond market.

This inaugural issue was followed by a second public issue at the end of September of EUR 500 million with maturity of 15 years. It was the first issue with this maturity in the *obligation foncière* market for three years.

These two issued were accompanied by private placements with long maturities, the number of which has been significant this year.

This year's private placements partially took the form of registered covered bonds, a type of private placement designed for German investors. This type of issue makes it possible to meet the specific needs of certain investors in a reactive and flexible manner.

The breakdown of new production between public issues and private placements is presented below.

EUR millions	2012	2013 YTD
Public issues	-	1,500
Private placements	-	1,559
including: RCB	-	459
<b>TOTAL</b>	<b>-</b>	<b>3,059</b>

Caisse Française de Financement Local thus accomplished its full annual issuance program of EUR 3.1 billion in less than three months.

Issues in 2013 were exclusively in euros.

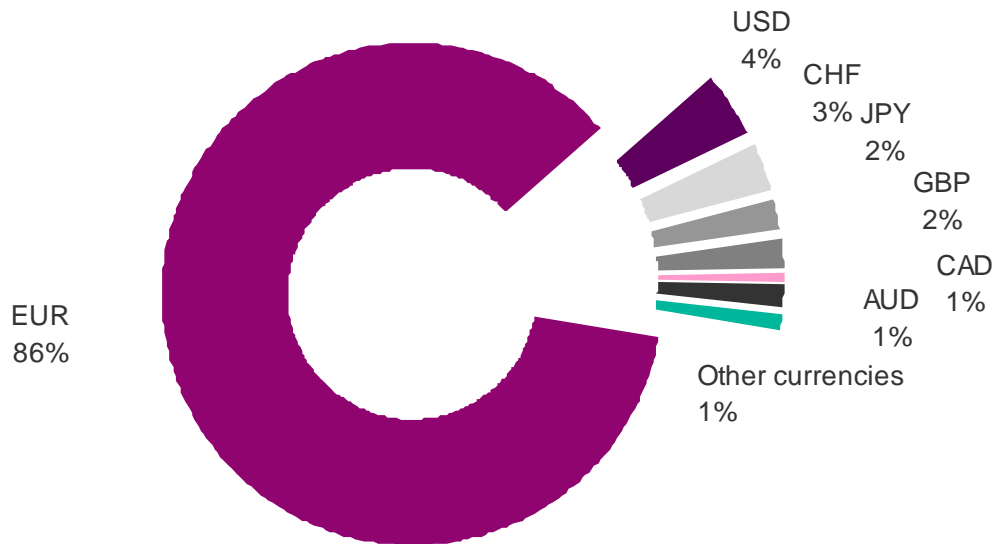
Outstanding *obligations foncières* and registered covered bonds totaled EUR 53.3 billion in swapped value at the end of September 2013, including new *obligations foncières* for EUR 2.5 billion and after the amortization of issues in the amount of EUR 5.3 billion,.

EUR millions	12/31/2012	9/30/2013
<b>Beginning of the year</b>	<b>63,152</b>	<b>56,216</b>
Issues	-	3,059
Issues settled after 9/30		(620)
Amortizations	(5,693)	(5,300)
Buyback		(34)
<b>TOTAL</b>	<b>56,216</b>	<b>53,321</b>

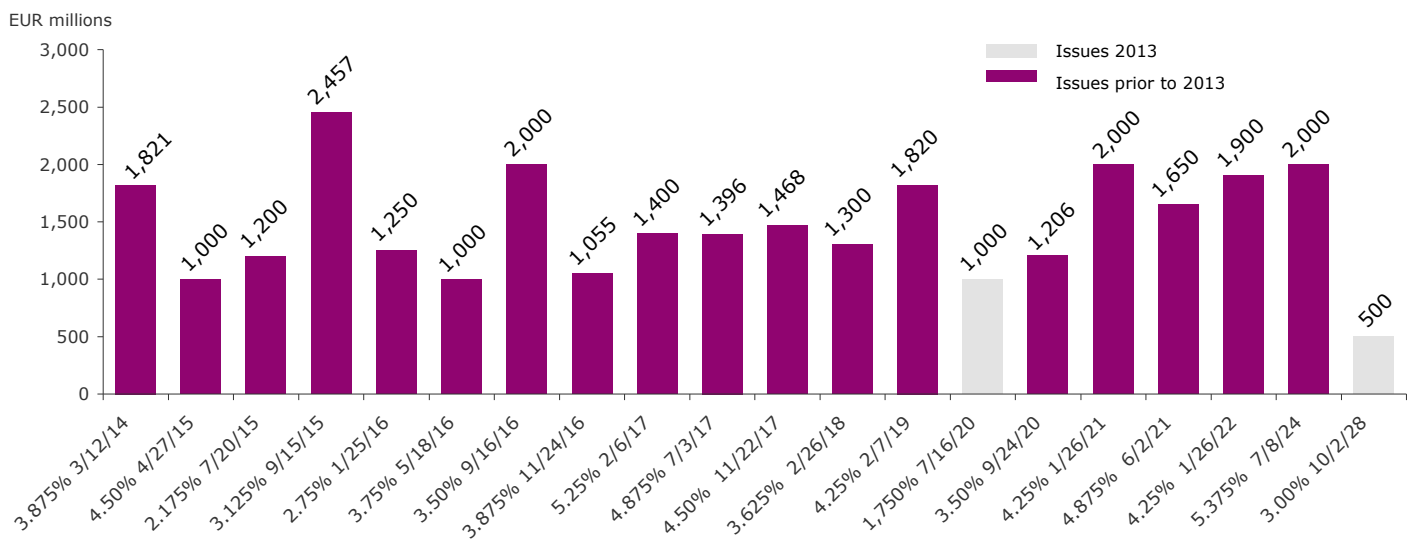
Swapped value



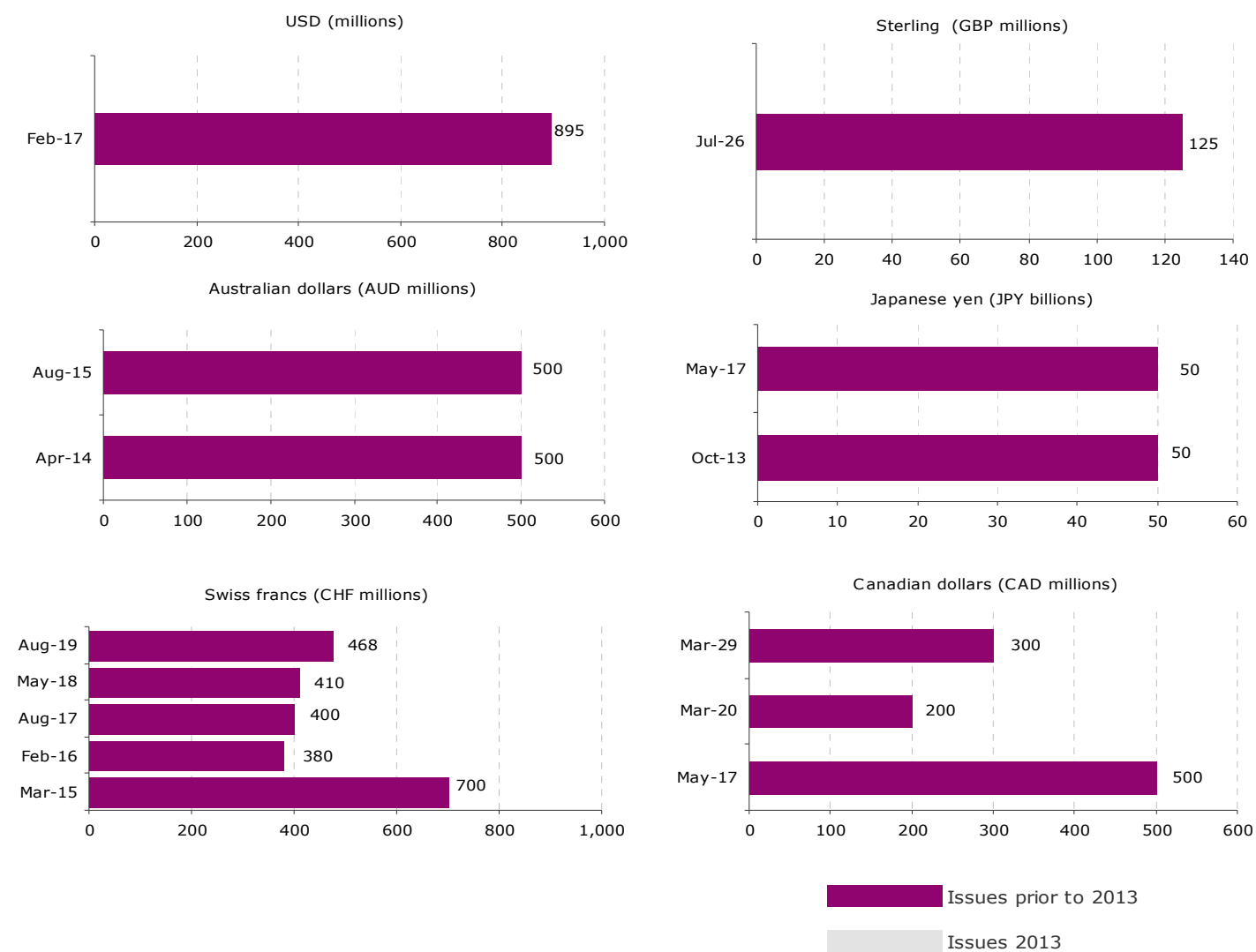
The breakdown of outstanding debt by currency as of September 30, 2013, can be analyzed as follows.



### Analysis of benchmarks in EUR



## Main curves in non-euro currencies



## 5. CHANGE IN THE OVER-COLLATERALIZATION RATIO IN THE FIRST NINE MONTHS OF 2013

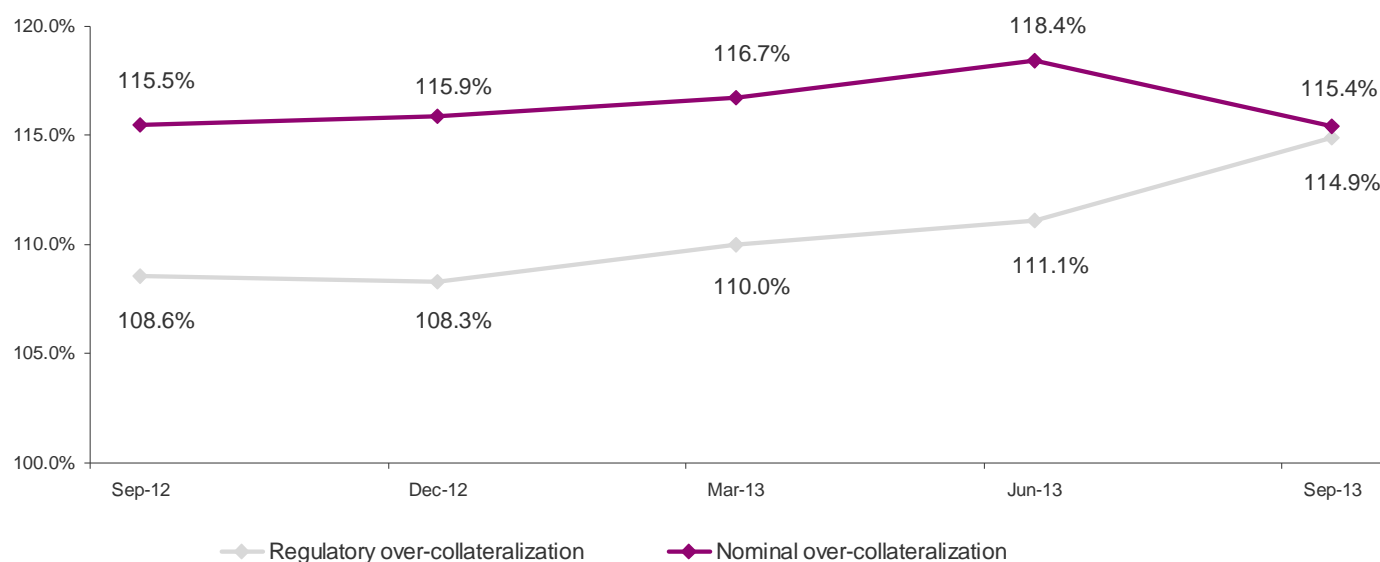
Caisse Française de Financement Local decided to maintain a minimum regulatory over-collateralization ratio of 105%, which is considered a safe margin. In practice, the over-collateralization ratio is regularly higher than 105%. To maintain an adequate level of credit rating, a level of over-collateralization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

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

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

The following graph analyzes the trend in over-collateralization at the end of each quarter.

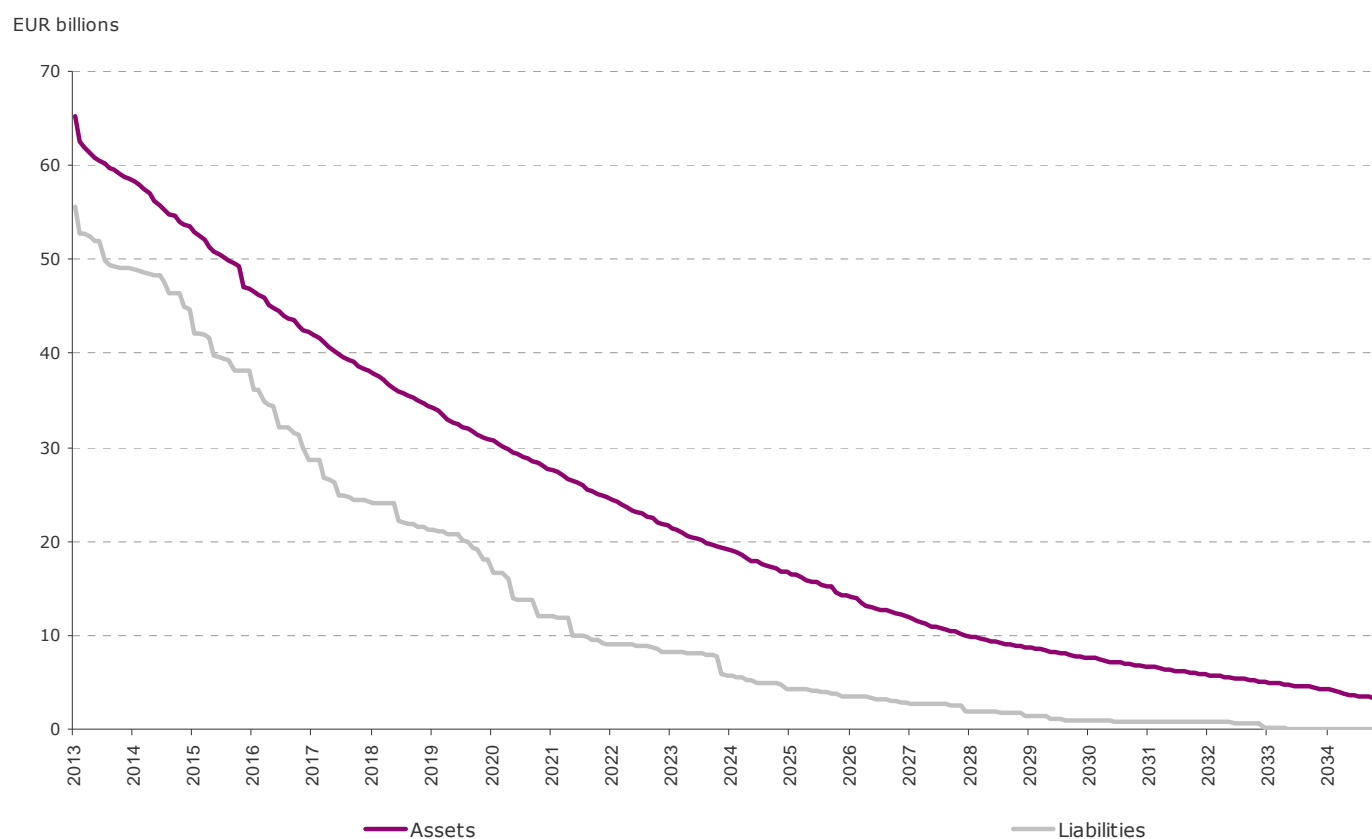
### Quarterly over-collateralization



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.

Regulatory over-collateralization is less than nominal over-collateralization because it is calculated on the basis of the rules determined by the Autorité de contrôle prudentiel (ACP). 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 securitization units which were present in Caisse Française de Financement Local's cover pool until July 1, 2013. These particular weightings explain the greatest part of the gap between the regulatory over-collateralization and the nominal over-collateralization up to the sale of the securitization vehicles on July 1, 2013.

The following graph on over-collateralization presents amortization curves of the assets and the issues benefiting from the legal privilege as of September 30, 2013.

**Amortization of assets and liabilities as of September 30, 2013**

## 6. 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*.

Since the acquisition of Caisse Française de Financement Local at the end of January 2013, by its new parent company Société de Financement Local, all commitments received from Dexia Credit Local came to an end, and a new financing agreement was signed by Sfil and its subsidiary.

As of June 30, 2013, the funds borrowed from Sfil, within the framework of the financing agreement, were comprised of different loans with maturities initially from one day to 7 years, borrowed with a Euribor or Eonia index.

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

As of September 30, 2013, Caisse Française de Financement Local had not borrowed any funds from the Banque de France. The change in financing that does not benefit from the legal privilege, excluding accrued interest not yet due, can be presented as follows.

EUR billions	12/31/2011	12/31/2012	9/30/2013
Parent company	9.5	7.6	<b>6.8</b>
Banque de France	2.7	-	-
<b>Total</b>	<b>12.2</b>	<b>7.6</b>	<b>6.8</b>

The decrease in debt that does not benefit from the legal privilege was due to the contraction of the balance sheet and the cover pool compared with the situation as of December 31, 2012, while maintaining a comparable level of nominal over-collateralization.

## 7. MANAGEMENT OF BALANCE SHEET RISKS

The strategies implemented to hedge interest rate and foreign exchange risks are reflected in the outstanding swaps notional analyzed in the table below between external and Dexia Group counterparties as of September 30, 2013.

Breakdown of outstanding swaps	Notional * (EUR billions)	Sfil (%)	Other counterparties (%)
<b>Euribor against Eonia</b>			
Macro-hedges	69.1	0.0%	100.0%
<b>Total short-term swaps</b>	<b>69.1</b>	<b>0.0%</b>	<b>100.0%</b>
<b>Fixed rate swaps against Euribor</b>			
Micro-hedges on <i>obligations foncières</i>	46.7	7.2%	92.8%
Micro-hedges on loans and debt securities	24.1	10.8%	89.2%
Macro-hedges on loans	18.3	42.6%	57.4%
<b>Subtotal</b>	<b>89.1</b>	<b>15.4%</b>	<b>84.6%</b>
<b>Currency swaps</b>			
Micro-hedges on <i>obligations foncières</i>	7.5	44.1%	55.9%
Micro-hedges on loans	3.0	56.6%	43.4%
Micro-hedges on debt securities	1.2	60.7%	39.3%
<b>Subtotal</b>	<b>11.7</b>	<b>48.5%</b>	<b>51.5%</b>
<b>Total long-term swaps</b>	<b>100.7</b>	<b>19.3%</b>	<b>80.7%</b>

\* Absolute value

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

## 87.1 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 swapped 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 clients). 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 eliminate the interest rate risk generated by differences in fixing dates. A residual gap remains after the first and second levels of hedging and is also monitored within strict limits.

In addition, any debt contracted by Caisse Française de Financement Local with its shareholder to finance over-collateralization is directly borrowed either with a monetary index (and it therefore does not have to be swapped) or with a Euribor index (and it is thus integrated into the Euribor/Eonia macro-hedge management). Any 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 for the fixed rate gap and the monetary gap mentioned above is 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. The amount is updated every year. As of September 30, it totaled 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 interest rate gap EUR millions**

		Average	Maximum	Minimum	Limit
<b>Fixed Rate</b>	<b>4Q 2012</b>	13.3	16.0	10.9	<b>31.0</b>
	<b>1Q 2013</b>	16.4	18.1	15.7	<b>31.0</b>
	<b>2Q 2013</b>	15.6	16.5	14.4	<b>31.0</b>
	<b>3Q 2013</b>	16.0	19.7	14.1	<b>31.0</b>
<b>Monetary</b>	<b>4Q 2012</b>	0.4	1.8	(1.3)	<b>9.0</b>
	<b>1Q 2013</b>	(0.3)	0.5	(0.7)	<b>9.0</b>
	<b>2Q 2013</b>	(0.1)	1.4	(1.1)	<b>9.0</b>
	<b>3Q 2013</b>	1.5	1.7	1.3	<b>9.0</b>
<b>Total</b>	<b>4Q 2012</b>	13.7	16.4	11.7	<b>40.0</b>
	<b>1Q 2013</b>	16.1	18.6	15.1	<b>40.0</b>
	<b>2Q 2013</b>	15.5	16.8	14.2	<b>40.0</b>
	<b>3Q 2013</b>	17.5	21.1	15.9	<b>40.0</b>

**7.2 FOREIGN EXCHANGE RISK**

Caisse Française de Financement de Local takes no foreign exchange risks. Assets and liabilities originally in currencies other than the euro are swapped against euros when they are recognized on Caisse Française de Financement Local's balance sheet and until their complete extinguishment.

**7.3 TRANSFORMATION 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)".

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

The difference in maturity between the assets and the liabilities may create a liquidity risk. Caisse Française de Financement Local's management rule involves a public commitment not to allow a duration gap of more than three years between the cover pool and the resources benefiting from the legal privilege. The actual duration gap remains under this limit, as can be seen in the table below.

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

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

The fluctuation of the cash surplus deposited on a sight account at the Banque de France and the amount of cash collateral received (short-term debt benefiting from the legal privilege), leads to significant variations in

the duration of the assets and of the privileged liabilities.

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

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

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

## 7.4 LIQUIDITY RISK

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

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

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

- first of all cash flows from the amortization of assets in the cover pool;
- issues of new *obligations foncières* to replace those that arrive at maturity and the reimbursement of which creates the need for liquidity;
- funds from its parent company, if the situation in the covered bond market does not make it possible to launch new issues. Caisse Française de Financement Local has at its disposal the support of its parent company formalized in a "declaration of support" (the full text is incorporated into the EMTN program and Caisse Française de Financement Local's annual report).

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

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

Since January 31, 2013, this debt is with Société de Financement Local and is subject to a financing agreement between Caisse Française de Financement Local and its new parent company.

- interbank repo or Central bank financing with its assets.  
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.

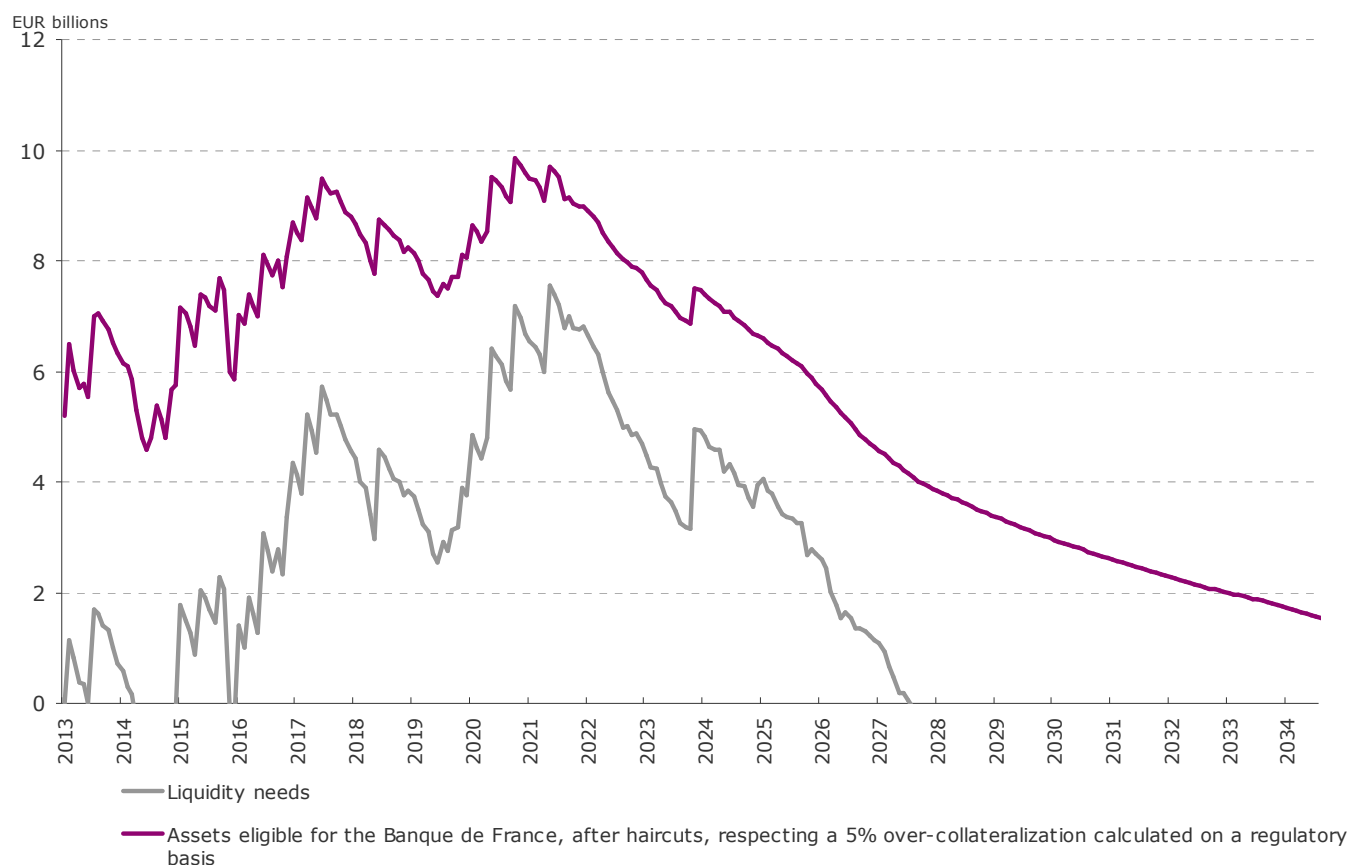
Thus Caisse Française de Financement Local has its own solid resources that enable it to cover its temporary liquidity needs, even in the event of the default of its parent company, since any legal proceedings engaged for the bankruptcy or liquidation of its parent company cannot be extended to Caisse Française de Financement Local (article L.515-21 of the Monetary and Financial Code).

The maximum cumulated liquidity that Caisse Française de Financement Local might need in the future, in



a stressed run-off situation, without issuing no new *obligations foncières*, is less than the financing already occasionally borrowed from Banque de France 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.

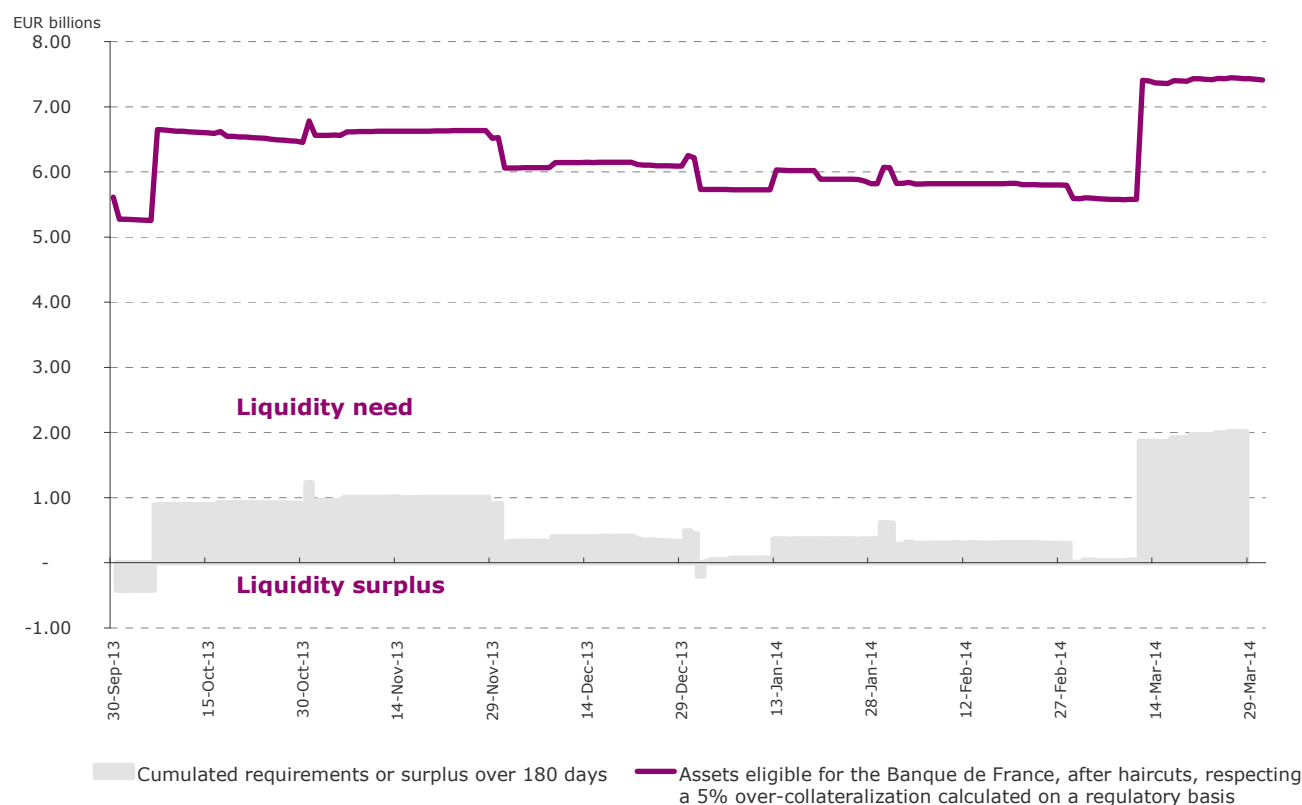
Future liquidity needs are presented below.



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

- the liquidity ratio for one month (regulatory reporting to the Autorité de contrôle prudentiel – ACP);
- the duration gap between the assets and the resources benefiting from the legal privilege (limited to three years), which is published quarterly;
- cash needs over the next 180 days: Caisse Française de Financement Local ensures that at any time, its cash needs over a period of 180 days are covered by replacement assets, assets eligible for credit operations with the Banque de France, or by refinancing agreements signed with credit institutions with the best short-term credit rating.

At the end of September 2013, Caisse Française de Financement Local's cumulated need for cash mainly corresponded to reimbursement at the end of the first week of the cash collateral received (stress scenario) as shown in the following graph.



## 8. INCOME FOR THE PERIOD IN IFRS

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

The income statement as of September 30, 2013 is presented synthetically in the following table.

EUR millions - IFRS	3Q 2012	2012	3Q 2013	ChangeYTD 2013/ 2012
Interest margin	185	239	109	(41)%
Net commissions	(5)	(4)	(5)	
Net result of assets at fair value	-	1	123	
Net result of financial assets available for sale	22	21	0	
Other income and expense	-	-	-	
<b>NET BANKING INCOME</b>	<b>202</b>	<b>257</b>	<b>227</b>	<b>12%</b>
General operating expenses	(66)	(87)	(52)	
Taxes	(3)	(4)	(4)	
<b>OPERATING INCOME BEFORE COST OF RISK</b>	<b>133</b>	<b>166</b>	<b>171</b>	<b>29%</b>
Cost of risk	(18)	(28)	(173)	
<b>PRE-TAX INCOME</b>	<b>115</b>	<b>138</b>	<b>(2)</b>	<b>(102)%</b>
Income tax	(39)	(47)	12	
<b>NET INCOME</b>	<b>76</b>	<b>91</b>	<b>10</b>	<b>(87)%</b>

Net banking income increased by 12%, i.e. EUR 25 million, compared with the same period in 2012, and rose from EUR 202 million to EUR 227 million.

This growth mainly reflected the impact of the EUR + 123 million reported as "Net result of assets at fair value", as a result of the first application of the new standard IFRS 13 on credit value adjustment/debit

value adjustment (CVA/DVA). The impact of the initial application of this standard on net banking income in the quarter totaled EUR – 19 million for the CVA and EUR + +118 million for the DVA.

This issue is described in paragraph 1.5 of this report.

Caisse Française de Financement Local also modified the method it uses to value collateralized derivatives to account for changes in market practices. It opted for a valuation against Eonia for its derivatives subject to the payment of collateral to its benefit. The derivatives for which no payment is made to the benefit of the counterparties remain valued against Euribor. Whereas the valuation of the items hedged was not modified, this change in the valuation of hedging derivatives introduced an element of inefficiency in hedging relations. The impact of this change totaled EUR +20 million.

The other components of net banking income decreased:

- the interest margin, which decreased by 13%, or EUR 17 million. The interest margin corresponds to the difference between income from the assets and the expense of the liabilities (hedged against interest rate and foreign exchange risk); the decrease in the margin reflected the amortization of the cover pool and the evolution of the financing structure of overcollateralization;
- net gains (losses) on assets available for sale, which declined significantly compared with the same period in 2012. This item particularly included net gains from the early reimbursement of loans and borrowings.

Operating expenses were mainly comprised of invoicing by the parent company of the operational management of the Company within the framework of the contract described in article L.515-22 of the Monetary and Financial Code.

The cost of risk was impacted in the first quarter of 2013 by the additional allowance for collective impairment on the structured loan portfolio in the amount of EUR 170 million (cf. 3.3.a - Quality of asset in portfolio).

Net income for the period totaled EUR 10 million as of September 30, 2013.

## 9. OUTLOOK FOR THE LAST QUARTER OF 2013

Caisse Française de Financement Local does not plan to issue any new *obligations foncières* in the fourth quarter of 2013, since it accomplished its full issuance program in the third quarter.

The second acquisition of French local government loans originated by La Banque Postale will be carried out in the last quarter of 2013. Caisse Française de Financement Local will also finalize the purchase of the assets underlying the Italian securitization vehicles sold to Société de Financement Local in July 2013.

Caisse Française de Financement Local will pursue its policy of active reduction of the portfolio of structured loans and will continue to multiply its marketing initiatives in order to inform investors of the new system in place to finance French local governments and public hospitals, organized around Caisse Française de Financement Local with La Banque Postale and Société de Financement Local.

## Bonds and public sector loans as of September 30, 2013

EUR millions	9/30/2013				12/31/2012	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
<b>France</b>						
State	31		140		171	170
Banque de France	1,181				1,181	2,400
Regions	1,785	124	291		2,200	2,298
Departments	5,905		307		6,212	6,305
Municipalities	15,926	103	773		16,802	17,582
Groups of municipalities	9,341	112	236		9,689	10,065
Public sector entities :						
- health	6,213				6,213	6,511
- social housing	1,828				1,828	1,934
- others	951		10		961	1,038
Credits institutions	7,648				7,648	23
<b>Subtotal</b>	<b>50,809</b>	<b>339</b>	<b>1,757</b>	<b>-</b>	<b>52,905</b>	<b>48,326</b>
<b>Germany</b>						
State				12	12	12
Länder		511		342	853	847
<b>Subtotal</b>		<b>511</b>		<b>354</b>	<b>865</b>	<b>859</b>
<b>Austria</b>						
Länder	200				200	202
ABS						70
<b>Subtotal</b>	<b>200</b>				<b>200</b>	<b>272</b>
<b>Belgium</b>						
Regions	55		63		118	244
Communities		50			50	50
Public sector entities	75				75	79
Securities issued by DSFB					-	4,831
<b>Subtotal</b>	<b>130</b>	<b>50</b>	<b>63</b>		<b>243</b>	<b>5,204</b>
<b>Canada</b>						
Provinces		22			22	22
Communities	202				202	220
Public sector entities	129				129	129
<b>Subtotal</b>	<b>331</b>	<b>22</b>			<b>353</b>	<b>371</b>
<b>Spain</b>						
<i>Cedulas territoriales</i>					-	500
Regions		228			228	228
Municipalities	273				273	279
<b>Subtotal</b>	<b>273</b>	<b>228</b>			<b>501</b>	<b>1,007</b>
<b>United States</b>						
Federated States		253			253	253
<b>Subtotal</b>		<b>253</b>			<b>253</b>	<b>253</b>
<b>Finland</b>						
Municipalities	8				8	11
Public sector entities	42				42	43
<b>Subtotal</b>	<b>50</b>				<b>50</b>	<b>54</b>

EUR millions	9/30/2013				12/31/2012	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
<b>Italy</b>						
State		506		65	571	560
Regions		1,525			1,525	1,544
Provinces		267			267	276
Municipalities	12	1,491			1,503	1,543
ABS					-	3
Securities issued by DCC					-	3,360
<b>Subtotal</b>	<b>12</b>	<b>3,789</b>		<b>65</b>	<b>3,866</b>	<b>7,286</b>
<b>Japan</b>						
Municipalities		25			25	25
<b>Subtotal</b>		<b>25</b>			<b>25</b>	<b>25</b>
<b>Portugal</b>						
Municipalities	61				61	66
Public sector entities	8				8	9
<b>Subtotal</b>	<b>69</b>				<b>69</b>	<b>75</b>
<b>United Kingdom</b>						
State				559	559	608
Counties			398		398	398
Districts			28		28	28
Municipalities			1,368		1,368	1,368
Public sector entities			56		56	56
<b>Subtotal</b>			<b>1,850</b>	<b>559</b>	<b>2,409</b>	<b>2,458</b>
<b>Sweden</b>						
Municipalities	34		27		61	112
Public sector entities	4				4	17
<b>Subtotal</b>	<b>38</b>		<b>27</b>		<b>65</b>	<b>129</b>
<b>Switzerland</b>						
Cantons	1,166		555		1,721	1,907
Municipalities	779				779	845
Public sector entities	91				91	91
<b>Subtotal</b>	<b>2,036</b>		<b>555</b>		<b>2,591</b>	<b>2,843</b>
<b>Supranational</b>						
International organizations	43				43	46
<b>Subtotal</b>	<b>43</b>				<b>43</b>	<b>46</b>
<b>TOTAL COVER POOL</b>	<b>53,991</b>	<b>5,217</b>	<b>5,252</b>	<b>978</b>	<b>64,438</b>	<b>69,208</b>

Loans and securities are off premium / discount.

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

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## Financial Statements as of September 30, 2013 (*IFRS*)

# BALANCE SHEET

## Assets as of September 30, 2013

EUR millions	Note	9/30/2012	12/31/2012	9/30/2013
Central banks	2.1	3,400	2,400	1,181
Financial assets at fair value through profit or loss		-	-	-
Derivatives	4.1	9,755	9,748	6,637
Financial assets available for sale	2.2	1,111	1,125	1,114
Loans and advances due from banks	2.3	3,783	3,741	10,614
Loans and advances to customers	2.4	73,155	71,859	59,290
Fair value revaluation of portfolio hedge		2,914	3,046	1,681
Financial assets held to maturity		-	-	-
Current tax assets	2.5	0	1	13
Deferred tax assets	2.5	159	114	114
Accruals and other assets	2.6	5	3	1
<b>TOTAL ASSETS</b>		<b>94,282</b>	<b>92,037</b>	<b>80,645</b>

## Liabilities as of September 30, 2013

EUR millions	Note	9/30/2012	12/31/2012	9/30/2013
Central banks	3.1	-	-	-
Financial liabilities at fair value through profit or loss		-	-	-
Derivatives	4.1	14,314	14,110	10,735
Due to banks	3.2	8,003	7,620	6,816
Customer borrowings and deposits		0	0	0
Debt securities	3.3	64,530	62,659	57,743
Fair value revaluation of portfolio hedge		2,836	2,858	1,481
Current tax liabilities	3.4	13	6	13
Deferred tax liabilities	3.4	-	0	-
Accruals and other liabilities	3.5	3,430	3,546	2,548
Provisions		-	-	-
Subordinated debt		-	-	-
<b>Equity</b>		<b>1,156</b>	<b>1,238</b>	<b>1,309</b>
Share capital and additional paid-in capital		1,315	1,315	1,315
Reserves and retained earnings		76	76	167
Unrealised or deferred gains and losses		(311)	(244)	(183)
Net income		76	91	10
<b>TOTAL LIABILITIES</b>		<b>94,282</b>	<b>92,037</b>	<b>80,645</b>

## Income statement

EUR millions	Note	3Q2012	2012	3Q2013
Interest income	5.1	4,468	5,742	3,935
Interest expense	5.1	(4,283)	(5,503)	(3,826)
Fee and commission income	5.2	0	-	0
Fee and commission expense	5.2	(5)	(4)	(5)
Net result of financial instruments at fair value through profit or loss	5.3	0	1	123
Net result of financial assets available for sale	5.4	22	21	0
Net result of hedge accounting and fair value option		-	-	-
Other income		-	-	-
Other expense		-	-	-
<b>Net banking income</b>		<b>202</b>	<b>257</b>	<b>227</b>
Operating expense	5.5	(69)	(91)	(56)
Cost of risk	5.6	(18)	(28)	(173)
<b>Operating income</b>		<b>115</b>	<b>138</b>	<b>(2)</b>
Net gains (losses) on other assets		-	-	-
<b>Income before tax</b>		<b>115</b>	<b>138</b>	<b>(2)</b>
Income tax	5.7	(39)	(47)	12
<b>NET INCOME</b>		<b>76</b>	<b>91</b>	<b>10</b>
Earnings per share (in EUR)				
- Basic		6	7	1
- Diluted		6	7	1

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

EUR millions	3Q2012	3Q2013
<b>Net income</b>	<b>76</b>	<b>10</b>
<b>Unrealized or deferred gains and losses taken to equity that will not be reclassified subsequently to profit or loss</b>	<b>36</b>	<b>61</b>
Translation adjustments	-	-
Unrealized or deferred gains and losses of financial assets available for sale	64	70
Unrealized or deferred gains and losses of cash flow hedges	(4)	9
Deferred taxes	(24)	(18)
<b>Unrealized or deferred gains and losses taken to equity that will not be reclassified subsequently to profit or loss</b>	<b>-</b>	<b>-</b>
Actuarial gains and losses on defined benefit plans	-	-
Deferred taxes	-	-
<b>Total of unrealized or deferred gains and losses through equity</b>	<b>36</b>	<b>61</b>
<b>NET INCOME AND UNREALIZED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY</b>	<b>112</b>	<b>71</b>



## Equity

EUR millions	Core equity			Unrealized or deferred gains and losses			Equity
	Share capital, Additional paid-in capital	Retained earnings and net income for the period	Total	Net change in fair value of available for sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax	Total	
<b>As of December 31, 2012, IFRS</b>	<b>1,315</b>	<b>167</b>	<b>1,482</b>	<b>(192)</b>	<b>(51)</b>	<b>(244)</b>	<b>1,238</b>
<b>Movements during the period</b>							
Share capital	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Changes in fair value of available for sale financial assets through equity	-	-	-	48	-	48	<b>48</b>
Changes in fair value of hedging derivatives through equity	-	-	-	-	13	13	<b>13</b>
Changes in fair value of available for sale financial assets through profit and loss	-	-	-	-	-	-	-
Changes in fair value of hedging derivatives through profit and loss	-	-	-	-	-	-	-
Net income for the period	-	10	10	-	-	-	<b>10</b>
Other movements	-	-	-	-	-	-	-
<b>As of September 30, 2013, IFRS</b>	<b>1,315</b>	<b>177</b>	<b>1,492</b>	<b>(144)</b>	<b>(38)</b>	<b>(183)</b>	<b>1,309</b>

Caisse Française de Financement Local has share capital of EUR 1,315 million that is made up of 13,150,000 shares with a par value of EUR 100.

## Cash flow statement

EUR millions	9/30/2012	12/31/2012	9/30/2013
<b>NET INCOME BEFORE TAXES</b>	<b>115</b>	<b>138</b>	<b>(2)</b>
+/- Depreciation and write-downs	37	70	178
+/- Expense/income from operating activities	337	245	86
+/- Expense/income from financing activities	(347)	(124)	(348)
+/- Other non-cash items	(475)	(609)	29
<b>= Non-monetary items included in net income before tax</b>	<b>(448)</b>	<b>(418)</b>	<b>(55)</b>
+/- Cash from interbank operations	(3,038)	(3,007)	(3,739)
+/- Cash from customer operations	2,462	3,207	2,080
+/- Cash from financing assets	6,646	6,814	8,914
+/- Cash from hedging financial instruments	1,627	1,893	(1,012)
- Income tax paid	16	5	(14)
<b>= Decrease/(increase) in cash from operating activities</b>	<b>7,713</b>	<b>8,911</b>	<b>6,229</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES (A)</b>	<b>7,380</b>	<b>8,631</b>	<b>6,172</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>
+/- Cash from or for shareholders	0	0	-
+/- Other cash from financing activities	(5,069)	(6,934)	(2,890)
<b>CASH FLOW FROM FINANCING ACTIVITIES (C )</b>	<b>(5,069)</b>	<b>(6,934)</b>	<b>(2,890)</b>
<b>EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Increase/(decrease) in cash equivalents (A + B+ C + D)</b>	<b>2,311</b>	<b>1,697</b>	<b>3,282</b>
Cash flow from operating activities (A)	7,380	8,631	6,172
Cash flow from investing activities (B)	-	-	-
Cash flow from financing activities (C)	(5,069)	(6,934)	(2,890)
Effect of changes in exchange rates on cash and cash	-	-	-
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>(3,787)</b>	<b>(3,787)</b>	<b>(2,090)</b>
Central banks (assets & liabilities)	2,198	2,198	2,400
Interbank accounts (assets & liabilities) and loans/deposits at	(5,985)	(5,985)	(4,490)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>(1,476)</b>	<b>(2,090)</b>	<b>1,192</b>
Central banks (assets & liabilities)	3,401	2,400	1,181
Interbank accounts (assets & liabilities) and loans/deposits at	(4,877)	(4,490)	11
<b>CHANGE IN NET CASH</b>	<b>2,311</b>	<b>1,697</b>	<b>3,282</b>

## Notes to the IFRS Financial Statements as at 30 September 2013

### 1. ACCOUNTING POLICIES AND VALUATION METHODS

#### 1.1. CONTEXT OF PUBLICATION

Caisse Française de Financement Local decided to publish a set of individual financial statements according to IFRS.

This publication is voluntary and the reference for the preparation of the financial statements is consistently, in compliance with legislation applicable in France, French generally accepted accounting principles (French GAAP).

Caisse Française de Financement Local presented its first annual financial statements prepared according to IFRS to report the fiscal year 2008. The financial statements as at 30 September 2013 were examined by the Executive Board on 2 December 2013.

#### 1.2. HIGHLIGHTS OF THE FIRST NINE MONTHS OF 2013

##### A. Change in the shareholding structure de la Caisse Française de Financement Local

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

Sfil's shareholders are the French State (75%), Caisse des Dépôts et Consignations (20%) and La Banque Postale (5%). The French State is the reference shareholder for the Autorité de contrôle prudentiel, underlining its commitment to ensure oversight and strategic decision-making, as well as its determination to ensure Sfil's ongoing financial transactions if so required.

The role of Société de Financement Local is to support the activities of Caisse Française de Financement Local as a servicer. This role is defined by the regulations that apply to sociétés de crédit foncier, in particular in the sense of article L.515-22 of the Monetary and Financial Code. Three main mission have been assigned to Sfil,

- Sfil is the servicer of Caisse Française de Financement Local, and in this role, manages the company and provides Caisse Française de Financement Local with the non-privileged funding its activity requires;
- Sfil also manages the operational reduction of the sensitivity of the sensitive structured loans 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.

Furthermore, Sfil has replaced Dexia Credit Local in all derivative transactions at the date of sale by Dexia Municipal Agency and Dexia Credit Local.

Caisse des Dépôts et Consignations (CDC) provides Sfil with the resources required to finance business existing prior to the date of transfer. It will contribute with La Banque Postale to meet the financing needs engendered by new business originated by La Banque Postale Collectivités Locales, a joint venture held by CDC for 35% and La Banque Postale for 65%, or directly by La Banque Postale. All the financing provided by Caisse des Dépôts et Consignations will be capped at EUR 12.5 billion.

On January 31, 2013, Sfil signed a declaration of support for Caisse Française de Financement Local. This declaration is reproduced in the 2012 annual report - General information.

As of September 30, 2013, Sfil's long-term ratings were respectively:

- AA+ by Standard and Poor's (same rating as the French State),
- Aa2 by Moody's and AA by Fitch (one notch below the French State).

These ratings reflect the strategic character of the role the French State has assigned to Sfil and Caisse Française de Financement Local, and the French State's long-term commitment to assure them of its support if so required. These long-term ratings include an outlook negative, reflecting the current outlook of the rating of the French State.

On November 8, 2013, S&P lowered Sfil's rating to AA outlook stable following the downgrade of France's sovereign rating.

## B. Ratings of Caisse Française de Financement Local

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

As of June 30, 2013, Caisse Française de Financement Local was rated:

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

The S&P and Fitch ratings added an outlook negative which reflected the outlook negative of the sovereign rating as well as that of Société de Financement Local.

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

In fact, the agencies consider that there is a country ceiling, i.e. a ceiling for the rating of Caisse Française de Financement Local in relation to the sovereign rating).

Therefore, at the beginning of 2013, the rating of the obligations foncières (OF) of Caisse Française de Financement Local was as follows.

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

These ratings were qualified as outlook stable.

## C. The covered bond market

In the first nine months of 2013, issues of euro-denominated benchmark covered bonds, totaling EUR 76.5 billion, contracted significantly in the primary market, compared with the same period in 2012 (-17.3%).

The third quarter was particularly active with EUR 21.5 billion in covered bond issues, representing almost 30% of total issues in the first nine months of 2013.

French issuers (20% of the market share) were less present than usual since the beginning of 2013, although they remained one of the most active market players, together with the Germans (18%) and the Scandinavians (20%).

At the same time, issuers from Southern European countries made a marked return in the primary market, particularly Spain (13%) and to a lesser extent Italy (7%).

Average spreads for covered bonds in all countries continued to narrow progressively through the first nine months of 2013, as they demonstrated resistance to political and economic uncertainties in Europe.

The spread of *the obligations foncières* of Caisse Française de Financement Local in the secondary market narrowed significantly since the change in the shareholding structure at the beginning of the year 2013, returning to the level of the best French issuers.

The return of Caisse Française de Financement Local to the euro benchmark market at the beginning of July 2013 was heralded by a successful issue of EUR 1 billion with maturity of 7 years. This inaugural issue was followed by a second public issue at the end of September in the amount of EUR 500 million with a maturity of 15 years. It was the first issue with this maturity in the *obligations foncières* market in three years.

#### D. Litigation

Certain clients sued Dexia Credit Local, Caisse Française de Financement Local and/or Société de Financement Local over the sensitive loans they had been granted, which had been recorded on the balance sheet of Caisse Française de Financement Local. The number of clients who sued Dexia Credit Local for loans on the balance sheet of Caisse Française de Financement Local stood at 177 at the end of June 2013, compared with 57 at the end of 2012.

Three legal decisions on the suits 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. They concerned three structured loans with 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 for the cancellation of the three contested loan agreements and for any type of compensation. In particular, the Tribunal considered that these loans were not of a speculative character, that the Département was competent to sign these loan agreements, and that Dexia Credit Local acted in the respect of its duty to inform and advise the Département. The Tribunal de Grande Instance de Nanterre however estimated that the faxes which had preceded the signing of the agreements could be qualified as "loan agreements", and that the lack of mention of the annual percentage rate of charge (Taux Effectif Global – TEG) implied the application of the legal interest rate.

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

In line with the French government commitments announced on June 18 and July 16, 2013, the finance bill for 2014 includes provisions for a comprehensive, long-lasting solution to the problem of the most sensitive structured loans contracted by local governments. The French government's plan comprises two main elements:

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

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

The multi-year support fund will be endowed with EUR 1.5 billion and a maximum maturity of 15 years (EUR 100 million per year). It will work as follow:

- eligible clients : local authorities and groups of municipalities with the most structured loans,
- use the fund : refinancing a part of the indemnity of early reimbursement (preferred option) or, in an initial phase and for a limited time, to finance a part of interest of the structured loan;
- Beneficiaries of the fund have to give up present or future litigations;
- management of the fund by the French state and a steering committee including representatives of the French state, local authorities, and qualified people;
- this fund will be financed half by the state and half by the banks. Caisse Française de Financement Local has committed to contribute EUR 10 million per year to the fund over a period of 15 years once it becomes operational.

#### E. First application of IFRS 13 fair value measurement

Since January 1, 2013, Caisse Française de Financement Local reports a credit value adjustment (CVA) and a debit value adjustment (DVA) in the context of the first application of IFRS 13. The impact of the initial application of the standard was a loss of EUR - 19 million for the CVA and a profit of EUR + 118 million for the DVA, as of September 30, 2013. These amounts include the overall effects of the first application of this standard and changes in the period.

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

The DVA represents an evaluation of the losses that the counterparties would assume in the event of the default of Caisse Française de Financement Local.

The absence of any payment of cash collateral by Caisse Française de Financement Local explains why the amount of DVA is high despite Caisse Française de Financement Local's very good rating. The DVA is sensitive to changes in Caisse Française de Financement Local's own credit risk.

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

Caisse Française de Financement Local also modified the method it uses to value collateralized derivatives to account for changes in market practices. It opted for a valuation against Eonia for its derivatives subject to the payment of collateral to its benefit. The derivatives for which no payment is made to the benefit of the counterparties remain valued against Euribor. Whereas the valuation of the items hedged was not modified, this change in the valuation of hedging derivatives introduced an element of inefficiency in hedging relations. The impact of this change totaled EUR +20 million.

### 1.3. APPLICABLE ACCOUNTING STANDARDS

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

On 19 July 2002, the European Commission published regulation EC 1606/2002, which obliged listed groups to apply IFRS as from 1 January 2005.

Caisse Française de Financement Local decided to apply as from 1 January 2007, all the IAS, IFRS, SIC and IFRIC adopted by the European Commission.

Since its publication in 2002, regulation EC 1606/2002 has been updated several times. Caisse Française de Financement Local's financial statements have therefore been prepared in accordance with all IFRS as adopted and endorsed by the European Commission up to the accounting closing on 30 September 2013, including the conditions for the application of an interest rate portfolio hedging and the possibility of hedging deposits.

The financial statements are prepared on a going concern basis. They are stated in millions of euros (EUR) unless otherwise noted. They are compliant with CNC recommendation 2009-R.04 published on 2 July 2009.

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 at 30 September 2013.

##### a. IASB and IFRIC texts endorsed by the European Commission and effective on 1 January 2013

- IFRS 13 "Fair Value Measurement". This standard introduces a new definition of fair value and new and enhanced disclosure requirements. It impacts the fair value measurement of Caisse Française de Financement Local's financial assets and liabilities.



The impacts of this standard are provided in notes 1.4.G and 5.3 to the financial statements of Caisse Française de Financement Local.

- Amendment to IFRS 7 "Disclosures – Offsetting financial assets and financial liabilities" requires information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32. It also requires disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32.

This amendment will impact the notes to the annual financial statements of Caisse Française de Financement Local.

- Amendment to IAS 1 "Presentation of Items of Other Comprehensive Income" requires to group items presented in OCI, including associated tax, based on whether they are potentially reclassifiable to profit or loss subsequently.

The following accounting standards do not impact Caisse Française de Financement Local :

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

**b. IASB and IFRIC texts endorsed by the European Commission during the current year but not yet effective on 1 January 2013**

- Amendments to IFRS 10, IFRS 11 et IFRS 12 : "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance". These amendments, effective on 1 January 2014, will not impact Caisse Française de Financement Local.

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

- IFRIC 21 "Leases" was issued in May 2013 by the IASB. Caisse Française de Financement Local is currently assessing its impact on its financial statements.
- Amendment to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets": published in May 2013 by the IASB, this amendment is not expected to have material impact on Caisse Française de Financement Local.
- Amendment to IAS 39 "Novation of derivatives and continuation of hedge accounting" : issued in June 2013, this amendment is not expected to have a material impact.

## 1.4. ACCOUNTING PRINCIPLES APPLIED TO THE FINANCIAL STATEMENTS

### A. Offsetting financial assets and financial liabilities

In certain circumstances, financial assets and 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 bonds available for sale which are recognized in equity. Foreign exchange differences from non-monetary assets and liabilities recognized at fair value are recorded as fair value adjustments.

#### C. Trade date and settlement date accounting

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

#### D. Financial assets

The management determines the appropriate classification of investments at their purchase. However, under certain circumstances, financial assets may be subsequently reclassified.

##### a. Loans and advances to banks and customers

IAS 39 defines loans as non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than:

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

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

The effective interest rate is the rate that updates with precision future expected cash flows over the expected life of the financial instrument or, when appropriate, over a shorter period to determine the net carrying amount of the financial asset.

##### b. Held to maturity and available for sale investments

###### *Held to maturity investments*

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

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

### ***Available for sale investments***

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 "Available for sale financial assets" (AFS). Assets recognized by Caisse Française de Financement Local as "Available for sale financial assets" are, except for certain cases, intended to be held to maturity.

Available for sale investments are initially recognized at fair value (including transaction costs). Interest is recognized based on the effective interest rate method in net interest income. Unrealized gains and losses arising from changes in the fair value of financial assets available for sale are recognized in equity. On disposal, 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 investments 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 at 30 September 2013, corresponds to the part of this reserve still to be amortized with regard to the securities restated as at 1 October 2008.

### **c. Financial assets held for trading**

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

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

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

### **e. Realized gains and losses on sales of financial assets**

For financial assets held at amortized cost, realized gains or losses on disposals are the differences between the proceeds received (net of transaction costs) and the costs or amortized costs of the assets. The cost is systematically determined based on the "first in, first out" approach (FIFO method) on a portfolio basis.

When an available for sale investment is sold, the total of gains or losses previously recognized in equity is reversed in the income statement.

### **f. Accounting for early reimbursement penalties**

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

Regarding the method of accounting for early reimbursement penalties, there are several possibilities depending on whether the early reimbursement is recognized as being an early reimbursement with refinancing or an extinguishment without refinancing.

### ***Early reimbursement with refinancing***

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

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

Early reimbursement penalties are recognized immediately in income or else amortized over the life of the new loan depending on the results of the eligibility test.

If the eligibility test is passed (i.e. the difference in net present value is less than 10%), any early reimbursement penalties are amortized over the term of the new loan, as there is continuity between the two operations. If not (i.e. the difference exceeds 10%), early reimbursement penalties are recognized immediately in income.

### ***Early reimbursement without refinancing***

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

### **g. Impairment of financial assets**

Caisse Française de Financement Local records allowances for impairment losses when there is objective evidence that a financial asset or group of financial assets is impaired, as a result of one or more events occurring since initial recognition and when that loss event has an impact on the estimated future cash flows that can be reliably estimated, in accordance with IAS 39 (§58-70). The impairment represents the management's best estimate of losses in the value of assets at each balance-sheet date.

### ***Financial assets held 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 the impairment
  - **Specific loss allowance:** 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 will be excluded from the portfolio on which a collective impairment is calculated.
  - **Collective allowance:** 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 the credit risk model based on an approach that combines default probabilities and losses in the event of default. These models are subject to regular back-testing and are based on Basel II data and risk models, consistent with the incurred loss model.

- Accounting treatment of the impairment

Changes in the amount of impairment losses are recognized in the income statement in "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 in the same heading. Subsequent recoveries are also accounted for in this heading.

### ***Reclassified financial assets***

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

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

### ***Available for sale investments***

Impairment of available for sale assets is recognized on an individual basis if there is objective evidence of impairment as a result of one or more events occurring since initial recognition of the asset. Available for sale investments are only subject to specific impairment.

- Determination of the impairment

Caisse Française de Financement Local only holds available for sale debt instruments. Their impairment is triggered based on the same criteria as those applied to financial assets valued at amortized cost (see above).

- Accounting treatment of the impairment

When available for sale investments are impaired, the total AFS reserve is recycled into profit or loss and Caisse Française de Financement Local reports these impairment losses in the income statement in "Cost of risk" (for debt instruments) or "Net result of financial assets available for sale" (for equity instruments). Any subsequent decline in fair value constitutes an additional impairment loss, recognized in the income statement.

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

### ***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.

### ***h. Sale and repurchase agreements and lending of securities***

Securities sold subject to a linked repurchase agreement (repos) 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 repos) are recorded as off-balance sheet items and the corresponding loans are recorded in "loans and advances to customers" or "loans and advances due from banks" as appropriate. The difference between the sale and repurchase price is treated as interest income or expense and is amortized over the life of the agreement using the effective interest rate method.

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

#### E. Financial liabilities

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

Caisse Française de Financement Local does not use this option.

##### b. Borrowings

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

Borrowings includes obligations foncières and other resources benefiting from the privilege defined in article L.515-19 of the Monetary and Financial Code.

Obligations foncières are recorded at nominal value. Reimbursement premiums and issue premiums are amortized according to the straight line method over the life of the securities concerned, as of the first year, prorata 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 charge on bonds and fixed income securities. In the case of bonds issued above par, the spread of issue premiums is deducted from related interest income and charge on bonds and fixed income securities.

Interest related to bonds is accounted for as banking operating charges for accrued amounts, due and not yet due, calculated prorata temporis on the basis of contractual rates.

Fees and commissions on bond issues are spread in equal fractions over the life of the loans to which they are attached.

Bonds denominated in other currencies are treated in the same way as foreign exchange transactions (see above - 1.4.B. Foreign currency transactions).

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

Pursuant to article L.515-20 of the Monetary and Financial Code and article 6 of CRBF standard 99-10 of 27 July 1999, total assets must at all times be greater than total liabilities benefiting from the privilege mentioned in article L.515-19 of the above-mentioned Monetary and Financial Code.

#### F. Derivatives

**a. Derivatives non used in a hedging relationship**

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

However, as at 30 September 2013, Caisse Française de Financement Local holds trading derivatives : it results from transactions in which hedging instruments were not settled when hedged items were transferred to doubtful loans. Gains and losses in the changes in fair value of derivatives held for trading are taken to the income statement trading income.

**b. 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 forecast transaction (cash flow hedge).

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

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

**c. 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-rates 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 bands. Hence, when they are removed from the portfolio, they must be removed from all the time bands 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 bands and the manner and the frequency of testing.

The hedging instruments are a portfolio of derivative, 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 in the principal, or in its absence, the most advantageous market to which Caisse Française de Financement Local has access to that date. The fair value of a liability reflects its non-performance-risk, which includes Caisse Française de Financement Local's own credit risk.

Market prices are used to determine fair value where an active market exists. A market is regarded as active if transactions for the asset or liability take place with 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 traded on an active market, valuation techniques are used. Valuation techniques include the use of data from recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, and valuation models.

A valuation model reflects what the transaction price would have been on the measurement date in current market conditions. The valuation model incorporates all the factors that market participants would consider when pricing a transaction. 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.

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

Financial investments classified as available for sale and derivatives are measured at fair value by reference to quoted market prices when available. When quoted market prices are not available, fair values are estimated on the basis of pricing models or discounted cash flows, using observable or non observable market data.

For financial assets classified as available for sale, when quoted prices are not available, the pricing models attempt to reflect as accurately as possible the market conditions on the valuation date as well as any changes in the credit quality of these financial instruments and the market liquidity.

To determine the fair value of its derivatives, Caisse Française de Financement Local uses different discount curves depending on whether collateral was actually exchanged. Collateralized derivatives are discounted using an OIS<sup>1</sup>-based curve. Uncollateralized transactions are discounted with an Euribor-based curve. As a reminder, Caisse Française de Financement Local does not pay any collateral to its derivative counterparties, which benefit from the privilege on assets, defined in article L.515-19 of the Monetary and Financial Code, as well as the holders of covered bonds.

In addition, a value adjustment is included in the fair value of derivatives to reflect the impact of counterparty credit risk (CVA - *Credit Value Adjustment*) or its own credit quality (DVA - *Debit Value Adjustment*). *Value adjustment* allows to switch from a fair value based on cash flows discounted at risk-free rate, i.e. , into a fair value including credit risk. Its calculation is based on the risk exposures combined with loss rates including market parameters.

**H. Interest income and expense**

For all interest-bearing instruments not valued at fair value, interest income and expense are recognized in the income statement using the effective interest rate method (including transaction costs). Transaction costs are incremental costs that are directly attributable to the acquisition of a financial asset or liability and are used for the calculation of the effective interest rate. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument.

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

**I. Commission income and expense**

Commissions are recognized in accordance with IAS 18. According 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 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.

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<sup>1</sup> OIS : Overnight Indexed Swap



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 which are charged or credited directly to equity, are also credited or charged directly to equity.

#### K. Provision for risks and charges

Provisions for risks and charges mainly include provisions for litigations, restructuring, and offbalance sheet loan commitments.

A provision is measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money.

Provisions are recognized when:

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

#### L. Dividends on ordinary shares

Dividends on ordinary shares are recognized in liabilities in the period in which they are declared (they must be authorized). Dividends for the year that are declared after the balance sheet date are disclosed in the note on subsequent events.

#### M. Earnings per share

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

#### N. Related party transactions

Two parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party when making financial or operational decisions. The parent company of Caisse Française de Financement Local is Société de Financement Local, a société anonyme incorporated in France, itself owned by the French State and by French entities Caisse des Dépôts et Consignations (CDC) and La Banque Postale (LBP). Within this framework, related party transactions are those with companies accounted for by the equity method and with members of the Company's management bodies

#### O. Segment reporting

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

Caisse Française de Financement Local conducts its business solely from Paris (or its branch in Dublin). The Company has no direct activity in other countries and is unable to present a relevant breakdown of

its results by geographic region. Geographic breakdown of assets by country of residence of the counterparty is presented quarterly at the end of the Management Report.

P. Cash and cash equivalents

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

## 2 NOTES TO THE ASSETS

## 2-1 CENTRAL BANKS

EUR millions	9/30/2012	12/31/2012	9/30/2013
Mandatory reserve deposits with central banks	-	-	-
Other deposits	3,400	2,400	1,181
<b>TOTAL</b>	<b>3,400</b>	<b>2,400</b>	<b>1,181</b>

## 2-2 FINANCIAL ASSETS AVAILABLE FOR SALE

## a. Analysis by nature

EUR millions	9/30/2012	12/31/2012	9/30/2013
Loans	-	-	-
Bonds	1,111	1,125	1,114
<b>TOTAL</b>	<b>1,111</b>	<b>1,125</b>	<b>1,114</b>

## b. Analysis by counterparty

EUR millions	9/30/2012	12/31/2012	9/30/2013
Public sector	771	784	772
Credit institutions guaranteed by the public sector	340	341	342
<b>Total public sector</b>	<b>1,111</b>	<b>1,125</b>	<b>1,114</b>
Replacement assets	-	-	-
<b>TOTAL</b>	<b>1,111</b>	<b>1,125</b>	<b>1,114</b>
<i>of which eligible for central bank refinancing</i>	<i>793</i>	<i>824</i>	<i>839</i>

## c. Impairment

EUR millions	9/30/2012	12/31/2012	9/30/2013
Public sector	1,111	1,125	1,114
Replacement assets	-	-	-
<b>Total performing assets</b>	<b>1,111</b>	<b>1,125</b>	<b>1,114</b>
Public sector	-	-	-
Replacement assets	-	-	-
<b>Total impaired assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
Specific impairment	-	-	-
<b>TOTAL ASSETS AFTER IMPAIRMENT</b>	<b>1,111</b>	<b>1,125</b>	<b>1,114</b>

## d. Analysis by residual maturity : see note 7.2

## 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	9/30/2012	12/31/2012	9/30/2013
Sight accounts	17	23	13
Other loans and advances due from banks	3,766	3,718	10,601
<b>Performing assets</b>	<b>3,783</b>	<b>3,741</b>	<b>10,614</b>
Impaired loans and advances	-	-	-
<b>Impaired assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets before impairment</b>	<b>3,783</b>	<b>3,741</b>	<b>10,614</b>
Specific impairment	-	-	-
Collective impairment	-	-	(0)
<b>TOTAL</b>	<b>3,783</b>	<b>3,741</b>	<b>10,614</b>

## b. Breakdown by counterparty

EUR millions	9/30/2012	12/31/2012	9/30/2013
Credit institutions	17	-	9
Swiss cantonal banks benefiting from their cantons' legal guarantee	949	924	740
Banks guaranteed by a local government, <i>crédits municipaux</i>	191	169	139
Credit institutions belonging to the Dexia Group: loans benefiting from the assignment in guarantee of refinanced public debt	2,111	2,110	2,058
Credit institutions guaranteed by the State	15	15	14
Assets assigned in guarantee to the central bank	0	0	-
Replacement assets	0	523	7,654
<b>TOTAL</b>	<b>3,283</b>	<b>3,741</b>	<b>10,614</b>
<i>of which eligible for central bank refinancing</i>	<i>-</i>	<i>-</i>	<i>-</i>

## c. Replacement assets

EUR millions	9/30/2012	12/31/2012	9/30/2013
Dexia Sabadell - <i>cedulas territoriales</i>	500	500	-
Dexia LdG Banque - <i>Lettres de gage publiques</i>	-	-	-
Dexia Credit Local - loans secured by public sector assets	-	-	-
Société de Financement Local	-	-	7,641
Credit institutions - sight accounts	17	23	13
<b>TOTAL</b>	<b>517</b>	<b>523</b>	<b>7,654</b>

## d. Analysis by residual maturity : see note 7.2

## 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	9/30/2012	12/31/2012	9/30/2013
Public sector	60,779	59,656	55,723
Other - guaranteed by a State or local government	3,952	3,864	3,586
Other - ABS made up solely of public commitments	8,371	8,270	-
<b>Performing assets</b>	<b>73,102</b>	<b>71,790</b>	<b>59,309</b>
Impaired loans and advances	95	122	210
<b>Impaired assets</b>	<b>95</b>	<b>122</b>	<b>210</b>
<b>Total assets before impairment</b>	<b>73,198</b>	<b>71,912</b>	<b>59,519</b>
Specific impairment	(8)	(8)	(14)
Collective impairment	(34)	(44)	(215)
<b>TOTAL</b>	<b>73,155</b>	<b>71,859</b>	<b>59,290</b>
<i>of which eligible for central bank refinancing</i>	<i>37,672</i>	<i>38,585</i>	<i>40,564</i>
<i>Assets assigned in guarantee to the central bank</i>	<i>-</i>	<i>-</i>	<i>-</i>

\* The loans depreciated concern customers that represent a definite credit risk (non-performing loans: EUR 157 million) and clients with unpaid loans corresponding to disagreement on the amount due (compromised non-performing loan: EUR 53 million). Caisse Française de Financement Local strengthened during the year its hedging on these customers by increasing collective impairments which amounted to EUR 215 million.

**b. Public sector ABS**

EUR millions	Rating	9/30/2012	12/31/2012	9/30/2013
Colombo	-	3	3	-
Astrea	-	0	0	-
Blue Danube	-	76	70	-
DCC - Dexia Crediop per la Cartolarizzazione	-	3,371	3,361	-
DSFB - Dexia Secured Funding	-	1,312	1,303	-
DSFB - Dexia Secured Funding Belgium 4	-	3,609	3,533	-
<b>TOTAL</b>		<b>8,371</b>	<b>8,270</b>	<b>-</b>

Asset backed Securities (ABS) composed by loans and advances on italian and belgian local authorities, respectively DSFB et DCC, which have been transferred to Sfil as of 7/01/2013. Other ABS have been sold during the first half of 2013.

**c. Analysis by residual maturity : see note 7.2****d. Unrealised or deferred gains and losses breakdown by country : see note 4.4****2-5 TAX ASSETS**

EUR millions	9/30/2012	12/31/2012	9/30/2013
Current income tax	-	1	13
Other taxes	0	0	0
<b>Current tax assets</b>	<b>0</b>	<b>1</b>	<b>13</b>
<b>Deferred tax assets (see note 4.2)</b>	<b>159</b>	<b>114</b>	<b>114</b>
<b>TOTAL TAX ASSETS</b>	<b>159</b>	<b>115</b>	<b>127</b>

**2-6 ACCRUALS AND OTHER ASSETS**

EUR millions	9/30/2012	12/31/2012	9/30/2013
Cash collateral paid	-	-	-
Other accounts receivable	-	-	-
Prepaid charges	-	-	0
Other assets	5	3	1
<b>TOTAL ACCRUALS AND OTHER ASSETS</b>	<b>5</b>	<b>3</b>	<b>1</b>

### 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.515-19 of the Monetary and Financial Code.

EUR millions	9/30/2012	12/31/2012	9/30/2013
Overnight borrowing	-	-	-
Term borrowing	-	-	-
Accrued interest	-	-	-
<b>TOTAL FUNDING FROM BANQUE DE FRANCE</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### 3-2 DUE TO BANKS

##### a. Analysis by nature

EUR millions	9/30/2012	12/31/2012	9/30/2013
Demand deposits	4,892	4,510	-
Term deposits	3,111	3,110	6,816
<b>TOTAL</b>	<b>8,003</b>	<b>7,620</b>	<b>6,816</b>

Up to January 31, 2013, this item includes the balance of the account opened with Dexia Credit Local. This account is intended to finance the needs of Caisse Française de Financement Local related to its activity, in particular, to finance structural over-collateralization and loans prior to issuance of *obligations foncières*.

Since January 31, 2013, Caisse Française de Financement Local's financing comes from Societe de Financement Local. As of September 30, 2013, no movement on the current account between Caisse Française de Financement Local and Société de Financement Local has been done.

As of 30 September 2013, the current account, except accrued interests not yet due, presents a balance of EUR 6,795 million.

EUR millions	9/30/2012	12/31/2012	9/30/2013
Current account	4,886	4,510	-
Interest accrued not yet due	-	-	-
Long-term borrowing	3,100	3,100	6,795
Interest accrued not yet due	11	10	21
Sight accounts	6	-	-
<b>TOTAL</b>	<b>8,003</b>	<b>7,620</b>	<b>6,816</b>

##### b. Analysis by residual maturity : see note 7.2

#### 3-3 DEBT SECURITIES

##### a. Analysis by nature

EUR millions	9/30/2012	12/31/2012	9/30/2013
<i>Obligations foncières</i>	59,223	57,223	52,246
Registered covered bonds	5,307	5,436	5,497
<b>TOTAL</b>	<b>64,530</b>	<b>62,659</b>	<b>57,743</b>

##### b. Analysis by residual maturity : see note 7.2

#### 3-4 TAX LIABILITIES

EUR millions	9/30/2012	12/31/2012	9/30/2013
Current income tax	11	3	11
Other taxes	2	3	2
<b>Current tax liabilities</b>	<b>13</b>	<b>6</b>	<b>13</b>
<b>Deferred tax liabilities (see note 4.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL TAX LIABILITIES</b>	<b>13</b>	<b>6</b>	<b>13</b>

#### 3-5 ACCRUALS AND OTHER LIABILITIES

EUR millions	9/30/2012	12/31/2012	9/30/2013
Cash collateral received	3,402	3,518	2,494
Other accrued charges	26	25	54
Deferred income	-	-	-
Other accounts payable and other liabilities	2	3	0
<b>TOTAL</b>	<b>3,430</b>	<b>3,546</b>	<b>2,548</b>

## 4 OTHER NOTES ON THE BALANCE SHEET

## 4-1 DERIVATIVES

## a. Analysis by nature

EUR millions	9/30/2012		12/31/2012		9/30/2013	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>Derivatives at fair value through profit or loss</b>	-	-	-	-	7	21
Derivatives designated as fair value hedges	5,818	10,163	5,770	9,840	3,809	7,688
Derivatives designated as cash flow hedges	9	254	8	184	7	124
Derivatives designated as portfolio hedges	3,928	3,897	3,970	4,086	2,833	3,020
<b>Hedging derivatives</b>	<b>9,755</b>	<b>14,314</b>	<b>9,748</b>	<b>14,110</b>	<b>6,649</b>	<b>10,832</b>
<b>CVA /DVA Impact</b>	-	-	-	-	(19)	(118)
<b>TOTAL DERIVATIVES</b>	<b>9,755</b>	<b>14,314</b>	<b>9,748</b>	<b>14,110</b>	<b>6,637</b>	<b>10,735</b>

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

EUR millions	9/30/2012			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	12,072	11,769	1,800	1,386
Interest rate derivatives	51,529	51,517	4,018	8,777
<b>TOTAL</b>	<b>63,601</b>	<b>63,286</b>	<b>5,818</b>	<b>10,163</b>

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

EUR millions	9/30/2013			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	10,567	10,808	508	696
Interest rate derivatives	52,522	52,508	3,301	6,992
<b>TOTAL</b>	<b>63,089</b>	<b>63,316</b>	<b>3,809</b>	<b>7,688</b>

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

EUR millions	9/30/2012			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,857	1,926	9	254
Interest rate derivatives	-	-	-	-
<b>TOTAL</b>	<b>1,857</b>	<b>1,926</b>	<b>9</b>	<b>254</b>

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

EUR millions	9/30/2013			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,508	1,569	7	124
Interest rate derivatives	-	-	-	-
<b>TOTAL</b>	<b>1,508</b>	<b>1,569</b>	<b>7</b>	<b>124</b>

EUR millions	9/30/2012	12/31/2012	9/30/2013
Amount removed from equity and included in the carrying amount of a non-financial instrument (hedging of cash flows of a highly favorable transaction)	-	-	-

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

EUR millions	9/30/2012			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	131,169	131,164	3,928	3,897
<b>Total</b>	<b>131,169</b>	<b>131,164</b>	<b>3,928</b>	<b>3,897</b>

EUR millions	12/31/2012			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	131,169	131,164	3,970	4,086
<b>Total</b>	<b>131,169</b>	<b>131,164</b>	<b>3,970</b>	<b>4,086</b>

EUR millions	9/30/2013			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	123,204	123,199	2,833	3,020
<b>Total</b>	<b>123,204</b>	<b>123,199</b>	<b>2,833</b>	<b>3,020</b>

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

EUR millions	9/30/2012	12/31/2012	9/30/2013
Deferred tax assets before impairment	159	114	114
Impairment on deferred tax assets	-	-	-
<b>Deferred tax assets (1)</b>	<b>159</b>	<b>114</b>	<b>114</b>
<b>Deferred tax liabilities (1)</b>	<b>0</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>159</b>	<b>114</b>	<b>114</b>

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

**b. Movements**

EUR millions	9/30/2012	12/31/2012	9/30/2013
<b>As of January 1</b>	<b>165</b>	<b>165</b>	<b>114</b>
Charge/credit recognized in the income statement	(18)	(24)	18
Effect of change in tax rates - impact on the income statement	-	-	-
Movements directly recognized in equity	(24)	(63)	(18)
Effect of change in tax rates - impact on equity	-	-	-
Translation adjustment	-	-	-
Other movements (1)	36	36	-
<b>As of September 30</b>	<b>159</b>	<b>114</b>	<b>114</b>

(1) This amount corresponds to the tax treatment of intragroup operations as declared in Ireland.

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

EUR millions	9/30/2012	12/31/2012	9/30/2013
Loans and loan loss provisions	30	23	453
Securities	104	89	88
Derivatives	16	(8)	(39)
Accruals and other assets	14	14	26
<b>TOTAL</b>	<b>164</b>	<b>118</b>	<b>528</b>

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

EUR millions	9/30/2012	12/31/2012	9/30/2013
Borrowings, deposits and issues of debt securities	19	20	(390)
Derivatives	-	-	-
Provisions	-	-	-
Regulatory provisions	(24)	(24)	(24)
Accruals and other liabilities	-	-	-
<b>TOTAL</b>	<b>(5)</b>	<b>(4)</b>	<b>(414)</b>

## 4-3 TRANSACTIONS WITH RELATED-PARTY

## Analysis by nature

EUR millions	Parent company and entities consolidated by Dexia Credit Local up to 2012, then Sfil since 2013 (1)			Other related parties (2)		
	9/30/2012	12/31/2012	9/30/2013	9/30/2012	12/31/2012	9/30/2013
<b>ASSETS</b>						
Loans and advances	5,981	5,983	7,641	0	-	-
Bonds	-	-	-	-	-	-
<b>LIABILITIES</b>						
Due to banks - sight accounts	4,886	4,521	-	-	-	-
Due to banks - term loans	3,111	3,110	6,816	-	-	-
<b>INCOME STATEMENT</b>						
Interest income on loans and advances	96	111	9	0	-	-
Interest income on bonds	0	0	-	-	-	-
Interest expense on borrowings	(75)	(89)	(48)	-	-	-
Fees and commissions	(4)	(3)	-	-	-	-
<b>OFF-BALANCE SHEET</b>						
Foreign exchange derivatives	6,774	6,532	6,082	-	-	-
Interest rate derivatives	100,204	99,549	13,753	-	-	-
Commitments and guarantees issued by the Group	13,400	12,296	7,691	-	-	-

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

(2) This item includes up to 2012, transactions with entities of Belgian and Luxemburg sub-groups consolidated by Dexia, the parent company of Dexia Credit Local.

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

(En EUR millions)	9/30/2012	12/31/2012	9/30/2013
<b>Unrealized gains and losses on available for sale securities</b>	<b>(205)</b>	<b>(169)</b>	<b>(114)</b>
Belgium	-	-	-
Canada	2	1	-
Germany	(1)	0	1
France	(3)	(1)	-
Greece	-	-	-
Ireland	-	-	-
Italy	(213)	(178)	(120)
United States	10	9	5
<b>Unrealized gains and losses on loans and receivable securities</b>	<b>(128)</b>	<b>(122)</b>	<b>(106)</b>
Austria	(5)	-	-
Belgium	(2)	(2)	-
Germany	(1)	(1)	-
Spain	(2)	(2)	(2)
France	6	5	5
United Kingdom	-	-	-
Greece	-	-	-
Iceland	-	-	-
Italy	(119)	(118)	(109)
Luxembourg	-	-	-
Portugal	-	-	-
United States	(5)	(4)	-
<b>Unrealized gains and losses on derivatives designated as cash-flow hedges</b>	<b>(131)</b>	<b>(66)</b>	<b>(58)</b>
<b>TOTAL</b>	<b>(464)</b>	<b>(357)</b>	<b>(278)</b>
Deferred taxes on gains and losses, available for sale securities	71	58	39
Deferred taxes on gains and losses, loans and receivable securities	42	40	36
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	40	15	20
<b>TOTAL</b>	<b>(311)</b>	<b>(244)</b>	<b>(183)</b>



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

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

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

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

	9/30/2013					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	484	-	-	484
Securities Guaranteed by the State	-	-	113	-	-	113
<b>TOTAL</b>	-	-	597	-	-	597

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

<b>UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES</b>	-	-	(178)	-	-	(178)
<b>UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES</b>	-	-	(3)	-	-	(3)

	9/30/2013					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	-	-	484	-	-	484
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	113	-	-	113
<b>TOTAL</b>	-	-	597	-	-	597

<b>UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES</b>	-	-	(120)	-	-	(120)
<b>UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES</b>	-	-	(0)	-	-	(0)

## 5 NOTES TO THE INCOME STATEMENT

### 5-1 INTEREST INCOME - INTEREST EXPENSE

EUR millions	3Q2012	3Q2013
<b>INTEREST INCOME</b>	<b>4,468</b>	<b>3,935</b>
Central banks	0	-
Loans and advances due from banks	96	55
Loans and advances to customers	1,536	1,304
Financial assets available for sale	34	30
Financial assets held to maturity	-	-
Derivatives used for hedging	2,802	2,546
Impaired assets	-	-
Other	-	-
<b>INTEREST EXPENSE</b>	<b>(4,283)</b>	<b>(3,826)</b>
Accounts with central banks	(8)	-
Due to banks	(62)	(54)
Customer borrowings and deposits	-	-
Debt securities	(1,792)	(1,545)
Subordinated debt	-	-
Derivatives used for hedging	(2,421)	(2,227)
Other	-	-
<b>INTEREST MARGIN</b>	<b>185</b>	<b>109</b>

### 5-2 FEES AND COMMISSIONS

EUR millions	3Q2012			3Q2013		
	Income	Expense	Net	Income	Expense	Net
Lending activity	0	(0)	(0)	0	(0)	-
Purchase and sale of securities	-	(1)	(1)	-	(0)	(0)
Financial engineering	-	-	-	-	-	-
Services on securities other than custodian services	-	(4)	(4)	-	(5)	(5)
Custodian services	-	-	-	-	-	-
Issuance and underwriters of securities	-	(0)	(0)	-	-	-
Other	-	-	-	-	-	-
<b>TOTAL</b>	<b>0</b>	<b>(5)</b>	<b>(5)</b>	<b>0</b>	<b>(5)</b>	<b>(5)</b>

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

EUR millions	3Q2012	3Q2013
Net trading income	-	3
Net result of hedge accounting	0	120
Net result of foreign exchange transactions	0	0
<b>TOTAL</b>	<b>0</b>	<b>123</b>

All interest received and paid on assets, liabilities and derivatives is recorded in net interest income, as required by IFRS.

Thus, net gains (losses) on trading transactions and net gains (losses) on hedging transactions include only the change in the clean value of derivatives, the revaluation of assets and liabilities qualified as hedges and the revaluation of the portfolio held for trading.

#### Analysis of net result of hedge accounting : EUR 120 million

EUR millions	3Q2012	3Q2013
<b>Fair value hedges (1)</b>	<b>0</b>	<b>13</b>
Fair value changes in the hedged item attributable to the hedged risk	588	(481)
Fair value changes in the hedging derivatives	(588)	494
<b>Cash flow hedges</b>	<b>-</b>	<b>-</b>
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
<b>Portfolio hedge (1)</b>	<b>0</b>	<b>8</b>
Fair value changes in the hedged item	215	12
Fair value changes in the hedging derivatives	(215)	(4)
<b>CVA / DVA Impact (2)</b>	<b>-</b>	<b>99</b>
<b>TOTAL</b>	<b>0</b>	<b>120</b>

(1) Caisse Française de Financement Local has adopted a valorization against EONIA for its derivatives subject to a payment of collateral for its benefit. Derivatives for which no payment is made for the benefit of counterparties are assessed against EURIBOR. This application shows an accounting ineffectiveness of EUR 20 million.

(2) As of September 30, 2013, the application of IFRS 13 shows an impact of EUR -19 million for CVA and EUR 118 million for DVA. These amounts include the impact of the first time application and the variations of the year.

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

EUR millions	3Q2012	3Q2013
Net result of disposals of loans and securities available for sale	-	(1)
Net result of disposals of debt securities	48	0
Net result of the sale or cancellation of loans and advances	(27)	1
<b>TOTAL</b>	<b>22</b>	<b>0</b>

**5-5 - OPERATING EXPENSE**

EUR millions	3Q2012	3Q2013
Payroll costs	-	-
Other general and administrative expense	(66)	(52)
Taxes	(3)	(4)
<b>TOTAL</b>	<b>(69)</b>	<b>(56)</b>

Caisse Française de Financement Local has no salaried employees in accordance with article L.515-22 of the Monetary and Financial Code. Within the framework of its management contract, concluded up to January 31, 2013 Dexia Credit Local conducts all operations, transactions and functions of all types on behalf of Caisse Française de Financement Local. A new contract was signed between Caisse Française de Financement Local and its new shareholder / servicer, Société de Financement Local.

In addition, specific management contracts grant different entities the management of loans and securities in their respective countries (Kommunalkredit Austria and Belfius Banque et Assurance, former subsidiaries of Dexia, as well as Dexia Crediop and Dexia Credit Local Canada Branch).

**5-6 - COST OF RISK**

EUR millions	3Q2012			3Q2013		
	Collective impairment	Specific impairment and losses	Total	Collective impairment	Specific impairment and losses	Total
Credit (loans, commitments and securities held to maturity)	(17)	(1)	(18)	(171)	(2)	(173)
Fixed income securities available for sale	-	-	-	-	-	-
<b>TOTAL</b>	<b>(17)</b>	<b>(1)</b>	<b>(18)</b>	<b>(171)</b>	<b>(2)</b>	<b>(173)</b>

**Detail of collective and specific impairments**

Collective impairment EUR millions	3Q2012			3Q2013		
	Charges	Recoveries and uses	Total	Charges	Recoveries and uses	Total
Loans and borrowings	(19)	2	(17)	(174)	3	(171)
Off-balance sheet commitments	-	-	-	-	-	-
<b>TOTAL</b>	<b>(19)</b>	<b>2</b>	<b>(17)</b>	<b>(174)</b>	<b>3</b>	<b>(171)</b>

Specific Impairment EUR millions	3Q2012				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(2)	1	-	-	(1)
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	(2)	1	-	-	(1)
Fixed income securities (1)	-	7	(7)	-	-
<b>TOTAL</b>	<b>(2)</b>	<b>8</b>	<b>(7)</b>	<b>-</b>	<b>(1)</b>

Specific Impairment EUR millions	3Q2013				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(6)	4	-	-	(2)
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	(6)	4	-	-	(2)
Fixed income securities	-	-	-	-	-
<b>TOTAL</b>	<b>(6)</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>(2)</b>

(1) Greek Sovereign bonds

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

EUR millions	3Q2012	3Q2013
Current taxes	(22)	(8)
Deferred taxes	(17)	18
Tax on prior years' income	-	2
Deferred taxes on prior years	-	0
Provisions for tax litigation	-	-
<b>TOTAL</b>	<b>(39)</b>	<b>12</b>

**b. Effective tax expense as of September 30, 2013**

The standard corporate tax rate applicable in France is 36.10%. The tax rate applied on the contributions of foreign subsidiaries is the rate applied locally in accordance with each individual national tax system. Further the transfert of the Irish balance sheet at the market value to Paris and therefore the subsidiary closing, we have taxed the gains realised in Ireland at the Irish standard corporate tax rate and losses generated in France at the French standard tax rate. This treatment explain the spread of 14,4 millions euros on this operation.

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

EUR millions	3Q2012	3Q2013
<b>INCOME BEFORE INCOME TAXES</b>	<b>115</b>	<b>(2)</b>
Net income from associates	-	-
<b>TAX BASE</b>	<b>115</b>	<b>(2)</b>
Applicable tax rate at end of the period	36.10%	36.10%
<b>THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE</b>	<b>42</b>	<b>(1)</b>
Impact of differences between foreign tax rates and the French standard tax rate	(5)	(15)
Tax effect of non-deductible expenses	-	-
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Other additional taxes or tax savings	2	2
Liability method	-	-
Provisions for tax litigation	-	-
<b>CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT</b>	<b>39</b>	<b>(12)</b>
<b>EFFECTIVE TAX RATE</b>	<b>33.9%</b>	<b>N/A</b>

**c. Tax consolidation**

Caisse Française de Financement Local is no longer member of ther tax group since January 1, 2013.

## 6 NOTE ON OFF-BALANCE SHEET ITEMS

### 6-1 - REGULAR WAY TRADE

EUR millions	9/30/2012	12/31/2012	9/30/2013
Assets to be delivered (1)	-	-	-
Liabilities to be received (1)	-	-	620
(1) It is the commitment of credit institutions receive newly issued funds			

### 6-2 - GUARANTEES

EUR millions	9/30/2012	12/31/2012	9/30/2013
Guarantees received from credit institutions (1)	4,757	4,742	7,705
Guarantees received from customers (2)	7,501	7,358	6,843

(1) At the end of September 2013, this amount is mainly composed by pledge of assets with benefits to Caffil, received as guarantee to loans granted to Sfil.

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

### 6-3 - FINANCING COMMITMENTS

EUR millions	9/30/2012	12/31/2012	9/30/2013
Loan commitments granted to credit institutions	(0)	0	-
Loan commitments granted to clients (1)	899	317	241
Loan commitments received from credit institutions (2)	7,047	6,006	50
Loan commitments received from clients	-	-	-

(1) The financing commitments on loans and lines of credit corresponded to contracts issued but not paid out as of September 30, 2013.

(2) This item concerned a firm and irrevocable commitment by Dexia Credit Local to make available to Caisse Française de Financement Local the funds required to reimburse the obligations foncières that will mature in the next 12 months. This commitment was broken at the end of January, 2013 as the consequence of the sale of Caisse Française de Financement Local to Société de Financement Local. Since January 31, 2013, Caisse Française de Financement Local's financing comes from Societe de Financement Local for an amount of EUR 50 millions.

### 6-4 - OTHER COMMITMENTS

EUR millions	9/30/2012	12/31/2012	9/30/2013
Commitments granted (1)	-	-	-
Commitments received	286	286	279

(1) It corresponds to loans granted to the Banque de France

## 7 NOTES ON RISK EXPOSURE

### 7-1 - 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	Amount as of 9/30/2013
France	56,058
Belgium	261
Italy	3,937
Spain	486
Luxembourg	2
Germany	972
United Kingdom	2,378
Switzerland	3,414
Other European Union countries	438
United States and Canada	639
Japan	26
Other	3
<b>TOTAL EXPOSURE</b>	<b>68,614</b>

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

EUR millions	Amount as of 9/30/2013
States	3,287
Local public sector	56,072
ABS	0
Financial institutions	9,255
<b>TOTAL EXPOSURE</b>	<b>68,614</b>

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

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

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

EUR millions	Amount as of 9/30/2013
Debt securities	1,113
Loans and advances	67,005
Financing commitments on loans	241
Hedging derivatives	255
<b>TOTAL EXPOSURE</b>	<b>68,614</b>

### Evaluation of asset credit quality

Société de Financement Local decided to use the advanced method recommended by the regulators in relation to the Basel II reforms on the capital adequacy ratio and capital requirements. This system is of paramount importance for Société de Financement Local and is under the exclusive responsibility of the Risk Management division, which has rating models covering the main client segments. Banking supervisors (the ACP 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 September 30, 2013 below 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 sixty five percent of the portfolio has a weighting of less than 5% and ninety seven 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	516	597	-	-	1,113
Loans and advances	45,579	21,189	138	96	67,002
Financing commitments on loans	239	2	0	0	241
Hedging derivatives	-	82	140	36	257
<b>TOTAL EXPOSURE</b>	<b>46,334</b>	<b>21,870</b>	<b>278</b>	<b>132</b>	<b>68,614</b>
<b>SHARE</b>	<b>67.5%</b>	<b>31.9%</b>	<b>0.4%</b>	<b>0.2%</b>	<b>100.0%</b>

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

### 7-2 LIQUIDITY RISK : ANALYSIS BY TERM TO MATURITY

#### a. Analysis of assets

EUR millions	9/30/2013						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central banks	1,181	-	-	-	-	-	1,181
Hedging derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	-	-	406	564	-	970
Loans and advances due from banks	13	113	655	4,632	5,177	-	10,590
Loans and advances to customers	-	1,291	2,686	15,738	34,618	-	54,333
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	127	127
Accruals and other assets	-	1	-	-	-	-	1
<b>TOTAL</b>	<b>1,194</b>	<b>1,405</b>	<b>3,341</b>	<b>20,776</b>	<b>40,359</b>	<b>127</b>	<b>67,202</b>

EUR millions	9/30/2013				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	1,181	-	-	-	1,181
Hedging derivatives	-	391	6,246	-	6,637
Financial assets available for sale	970	15	129	-	1,114
Loans and advances due from banks	10,590	26	(2)	(0)	10,614
Loans and advances to customers	54,333	827	4,360	(230)	59,290
Fair value revaluation of portfolio hedge	-	-	1,681	-	1,681
Financial assets held to maturity	-	-	-	-	-
Tax assets	127	-	-	-	127
Accruals and other assets	1	-	-	-	1
<b>TOTAL</b>	<b>67,202</b>	<b>1,259</b>	<b>12,414</b>	<b>(230)</b>	<b>80,645</b>

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

EUR millions	9/30/2013						Total broken down
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	
Central banks	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-
Due to banks	-	97	595	4,378	1,725	-	6,795
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	785	3,465	24,525	24,814	-	53,589
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	-	-	-	13	13
Accruals and other liabilities	-	2,548	-	-	-	-	2,548
Provisions	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-
<b>TOTAL</b>	-	<b>3,430</b>	<b>4,060</b>	<b>28,903</b>	<b>26,539</b>	<b>13</b>	<b>62,945</b>

EUR millions	9/30/2013			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Hedging derivatives	-	795	9,940	10,735
Due to banks	6,795	21	-	6,816
Customer borrowings and deposits	-	-	-	-
Debt securities	53,589	807	3,347	57,743
Fair value revaluation of portfolio hedge	-	-	1,481	1,481
Tax liabilities	13	-	-	13
Accruals and other liabilities	2,548	-	-	2,548
Provisions	-	-	-	-
Subordinated debt	-	-	-	-
<b>TOTAL</b>	<b>62,945</b>	<b>1,623</b>	<b>14,768</b>	<b>79,336</b>

**c. Net liquidity gap**

As of September 30, 2013								
EUR millions	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total not broken down	Total
<b>Amount</b>	1,194	(2,025)	(719)	(8,127)	13,820	114	(2,948)	<b>1,309</b>

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

**7-3 - CURRENCY RISK**

Classification by original currency EUR millions	9/30/2012				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	83,292	4,258	3,134	3,608	94,291
Total liabilities	83,292	4,258	3,134	3,608	94,291
<b>NET BALANCE SHEET POSITION</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Classification by original currency EUR millions	12/31/2012				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	81,596	4,177	2,969	3,295	92,037
Total liabilities	81,596	4,177	2,969	3,295	92,037
<b>NET BALANCE SHEET POSITION</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Classification by original currency EUR millions	9/30/2013				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	71,542	3,786	2,459	2,858	80,645
Total liabilities	71,542	3,786	2,459	2,858	80,645
<b>NET BALANCE SHEET POSITION</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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



## 7-4 - SENSITIVITY TO INTEREST RATE RISK

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

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

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

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

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

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

Sensitivity of the gap		Average	Maximum	Minimum	Limit
Fixed rate	Q4 2012	13.3	16.0	10.9	31.0
	Q1 2013	16.4	18.1	15.7	31.0
	Q2 2013	15.6	16.5	14.4	31.0
	Q3 2013	16.0	19.7	14.1	31.0
Monetary	Q4 2012	0.4	1.8	(1.3)	9.0
	Q1 2013	(0.3)	0.5	(0.7)	9.0
	Q2 2013	(0.1)	1.4	(1.1)	9.0
	Q3 2013	1.5	1.7	1.3	9.0
Total	Q4 2012	13.7	16.4	11.7	40.0
	Q1 2013	16.1	18.6	15.1	40.0
	Q2 2013	15.5	16.8	14.2	40.0
	Q3 2013	17.5	21.1	15.9	40.0

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## Statutory auditor's report as of September 30, 2013 (*IFRS*)

**Statutory Auditors' Review Report on the intermediate financial statements established under IFRS standards****Period from January 1<sup>st</sup> to September 30<sup>th</sup>, 2013**

*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 nine-month period ended September 30<sup>th</sup>, 2013.

These intermediate financial statements were prepared under the responsibility of the Executive Board. Our role is to express our 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 nine-month period ended September 30<sup>th</sup>, 2013 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 1.2.E. and the paragraph of Note 1.3.B. that outline the first-time application of IFRS 13 standard and its impact on derivatives fair value determination.

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, December 5<sup>th</sup>, 2013

The statutory auditors

*French original signed by*

MAZARS

DELOITTE & ASSOCIÉS

Virginie CHAUVIN - Anne VEAUTE

Charlotte VANDEPUTTE - José-Luis GARCIA