Caisse Française de Financement Local

# Financial report

## Half-year 2013

Caisse Française de Financement Local

Local public sector assets - *Obligations foncières*

# Financial Report
Half-year 2013

## Contents

# 1 Management report

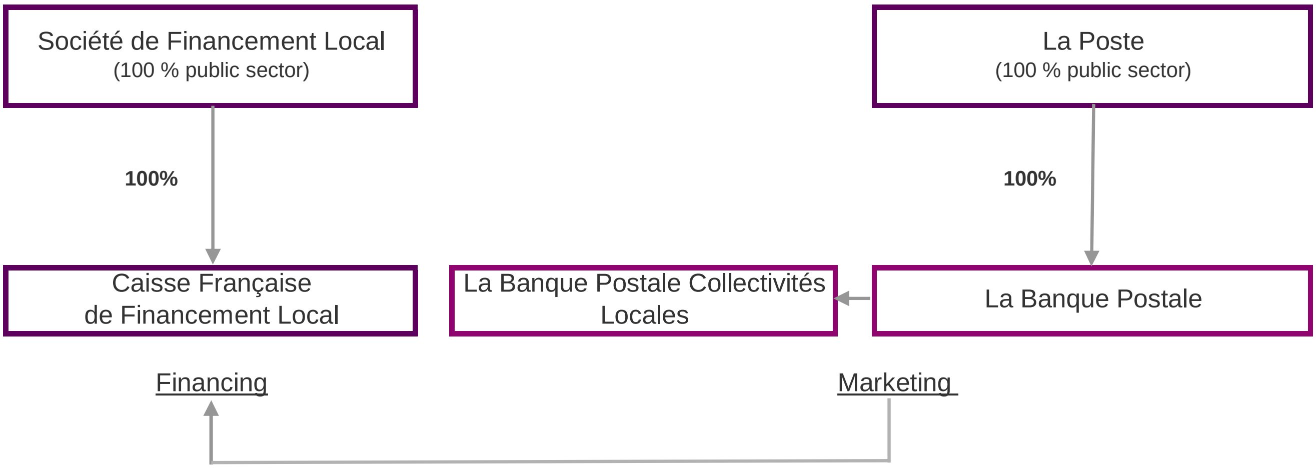
## For the period January 1 to June 30, 2013

# 1. HIGHLIGHTS OF THE FIRST SIX MONTHS OF 2013

## 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 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 reduction of the sensitivity of the sensitive 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 Local 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 between 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 hold 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.

As of June 30, 2013, Sfil's long-term ratings are respectively:

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

## 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 outlooks negative of the sovereign ratings as well as that of Société de Financement Local's.

On July 17, 2013, Fitch reviewed the rating of the *obligations foncières* of Caisse Française de Financement Local, reducing it to AA+ (outlook stable) to follow the downgrade of the French state from AAA (outlook negative) to AA+ (outlook stable).
The agency considered that the concentration of the asset pool of Caisse Française de Financement Local on French local governments (70%) did not allow the bond issues of Caisse Française de Financement Local to have a higher rating than that attributed to the French State. The rating of Caisse Française de Financement Local is therefore, at the end of August 2013, AAA at S&P, Aaa at Moody's and AA+ at Fitch.

## 1.3 THE COVERED BOND MARKET

In the first half of 2013, issues of euro-denominated benchmark covered bonds, totaling EUR 31.7 billion, contracted significantly in the primary market, compared with the same period in 2012 (- 48%), the lowest level since 2008.

With a 20% market share, French issuers were less present than usual in the first half in the primary market, but, with German (22%) and Scandinavian (18%) issuers, they remained the most active players in the market.
At the same time, issuers form Southern European countries made a marked return in the primary market, particularly Spain (17%) and to a lesser extent Italy (5%).
Average spreads for covered bonds in all countries continued to narrow progressively through the first half of 2013, as they demonstrated resistance to political and economic uncertainties in Europe.
At the end of the first half, the markets experienced a period of light turbulence following uncertainties about the future of the American central bank's quantitative easing strategy, the main pillar of its monetary policy. In this context, spreads widened slightly, but they narrowed during the summer.

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

Caisse Française de Financement Local launched no issues in the first half, given the implementation of the new structure.
Its return to the euro-denominated benchmark market was marked by the successful issue at the beginning of July of EUR 1.0 billion with a maturity of seven years. This inaugural issue was the first step in the affirmed return of Caisse Française de Financement Local to the covered bond market in which it is determined to be a major player.

## 1.4 STRUCTURED LOANS

In a press release dated June 18, 2013, the French government reaffirmed its desire to find a comprehensive, long-lasting solution to the problem of the most sensitive structured loans contracted by local governments. The disposal provided by the French government has been clarified on July 16, 2013 during the meeting concerning the pact of confidence and responsibility between the State and the local government related to local government access to financing and to the treatment of structured loans (summary of the July 16, 2013, meeting at the Prime Minister's, available in French on the Internet site www.gouvernement.fr).
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 totaled a loss of EUR - 20 million for the CVA and a profit of EUR + 161 million for the DVA, as of June 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.

## 2. CHANGES IN MAIN BALANCE SHEET ITEMS

| EUR billions - value after swaps | 12/31/2011 | 12/31/2012 | 6/30/2013 | Change June 2013 / Dec. 2012 |
|---|---|---|---|---|
| ***Cover pool*** | **76.0** | **69.2** | **63.8** | **(7.8)%** |
| Central bank | 2.2 | 2.4 | 0.0 | (99.6)% |
| Loans | 54.9 | 51.7 | 49.7 | (3.9)% |
| Securities | 18.9 | 15.1 | 14.1 | (6.5)% |
| **Assets assigned in guarantee to Banque de France** | **3.2** | **-** | **-** | **-** |
| **Privileged debt** | **65.6** | **59.7** | **53.9** | **(9.8)%** |
| *Obligations foncières* * | 63.1 | 56.2 | 51.2 | (9.0)% |
| Cash collateral received | 2.5 | 3.5 | 2.7 | (22.5)% |
| **Non-privileged debt** | **12.2** | **7.6** | **7.9** | **3.9%** |
| Parent company | 9.5 | 7.6 | 7.9 | 3.9% |
| Banque de France | 2.7 | - | - | - |
| **Equity IFRS (excluding unrealized gains and losses)** | **1.3** | **1.5** | **1.5** | **0.0%** |

**Including registered covered bonds*

The cover pool and the privileged debt continued to amortize in the first half, in the absence of new assets and new issues..

As of June 30, 2013, Caisse Française de Financement Local’s cover pool, composed of loans and debt securities, totaled EUR 63.8 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 5.4 billion (- 7.8%).

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

Outstanding debt benefiting from the legal privilege was EUR 53.9 billion, including cash collateral received, down 9.8% from December 2012.
As the amortization schedules are different for the assets and the liabilities, there was an increase in the level of over-collateralization.

Debt vis-à-vis the parent company totaled EUR 7.9 billion. This amount corresponds to the financing of over-collateralization both structural (commitment of Caisse Française de Financement Local and requirements of the rating agencies) and 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 June 2013.

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

## 3.1 NEW ASSETS

The net change in the cover pool as of June 30, 2013, was a decrease of assets of EUR 5.4 billion. The change can be analyzed as follows.

| EUR billions | First half 2013 |
|---|---|
| New assets | |
| *Loans* | 0.1 |
| *Bonds* | 0.0 |
| Amortization | -5.3 |
| Early reimbursments | -0.1 |
| Divestments | -0.1 |
| Changes in provisions | 0.0 |
| **Total** | **-5.4** |

Gross asset production and acquisitions in the period totaled EUR 75 million.
This amount corresponds to payments on contracts that have already been on Caisse Française de Financement Local's balance sheet and to new commitments for reducing sensitivity of some structured loans.

The decrease in assets mainly corresponded to the natural amortization of the portfolio of loans and securities, in particular EUR 0.5 billion in *cedulas territoriales* since January 2013 and the decrease of the Banque de France account for EUR 2.4 billion. Divestments are fully composed of the sale of all external ABS which were included in the balance sheet.

## 3.2 OUTSTANDING ASSETS AS OF JUNE 30, 2013

### a. Geographic breakdown of the cover pool (including replacement assets)

Amortizations for the period are primarily held by French assets and they contributed to a small decrease of France in the cover pool.
French assets are predominant in the cover pool, with significant geographic diversification.
The trend in the relative proportion of assets by country can be analyzed as follows.

| % | 12/31/2012 | 6/30/2013 |
|---|---|---|
| France | 69.9% | 69.4% |
| Belgium | 7.5% | 7.7% |
| Italy | 10.5% | 11.2% |
| Switzerland | 4.1% | 4.1% |
| Spain | 1.5% | 0.8% |
| United Kingdom | 3.6% | 3.8% |
| Luxembourg | 0.0% | 0.0% |
| **Subtotal** | **97.1%** | **97.0%** |
| Other countries | 2.9% | 3.0% |
| **TOTAL** | **100.0%** | **100.0%** |

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

| **Other countries** (%) | **12/31/2012** | **6/30/2013** |
|---|---|---|
| Germany | 1.2% | 1.3% |
| Austria | 0.4% | 0.4% |
| Sweden/Finland | 0.3% | 0.3% |
| United States | 0.3% | 0.3% |
| Canada | 0.5% | 0.5% |
| Portugal | 0.1% | 0.1% |
| Japan | 0.1% | 0.1% |
| **TOTAL** | **2.9%** | **3.0%** |

American exposures in the cover pool of Caisse Française de Financement Local are exclusively composed of securities issued by the states of Connecticut and Illinois. Caisse Française de Financement Local has no other public sector commitment in the United States.

### b. Assets removed from the cover pool

As of June 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 June 30, 2013, the 20 largest exposures (excluding replacement assets and cash accounts) represented 16.4% of the cover pool. The largest exposure accounted for only 1.9% of the cover pool and the twentieth exposure less than 0.4%.

### d. Replacement assets

As of June 30, 2013, replacement assets are solely composed of the balance of bank current accounts which represented a total of EUR 12 million. This major decrease from December 31, 2012, was due to the arrival at maturity of *cedulas territoriales* for EUR 0.5 billion in January 2013.
Current legislation limits the amount of replacement assets, excluding bank current accounts, to 15% of outstanding *obligations foncières* and registered covered bonds.

| **Replacement assets** | **Country** | **Issuer** | EUR millions | |
|---|---|---|---|---|
| | | | **12/31/2012** | **6/30/2013** |
| Step 2 credit rating | | | | |
| Bank account balances | | | 23 | 12 |
| Other assets | | | | |
| *Cedulas territoriales* | Spain | Dexia Sabadell | 500 | - |
| **TOTAL** | | | **523** | **12** |

## 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*.

Non-performing and litigious loans as of June 30, 2013, amounted to EUR 118.6 million, i.e. less than 0.19% of the total cover pool (EUR 63.7 billion).

They can be broken down into:
- EUR 83.9 million of non-performing loans, which for the most part can be divided between municipalities and groups of municipalities for small unit amounts
- EUR 34.6 million of unpaid amounts related to structured loans subject to litigation.

| **Non-performing loans & litigious loans** EUR millions | **12/31/2012** | | **6/30/2013** | |
|---|---|---|---|---|
| | Non-performing loans | Litigious loans | Non-performing loans | Litigious loans |
| **FRANCE** | | | | |
| Municipalities | 40 | 9 | 34 | 12 |
| Group of municipalities | 45 | 6 | 49 | 9 |
| Departments | - | 13 | - | 13 |
| Public sector entities | 6 | 0 | 0 | 1 |
| **Total** | **92** | **29** | **84** | **35** |

The small amount of non-performing loans observed indicates the low risk profile and the portfolio's overall high quality.
Non-performing loans are carried by a limited number of counterparties and turnover is frequent. Since the beginning of 2013, eight files were resolved and seven new cases were identified.

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** | | **6/30/2013** | |
|---|---|---|---|---|
| | Non-performing loans | Litigious loans | Non-performing loans | Litigious loans |
| Beginning of the year | 25 | - | 33 | 25 |
| New | 17 | 25 | 7 | 8 |
| Outgoing | 9 | - | 8 | - |
| **End of the year** | **33** | **25** | **32** | **33** |

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 June 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 | 6/30/2013 |
|---|---|---|
| Specific impairment | 8 | 11 |
| Collective impairment | 44 | 216 |
| **Total** | **52** | **227** |

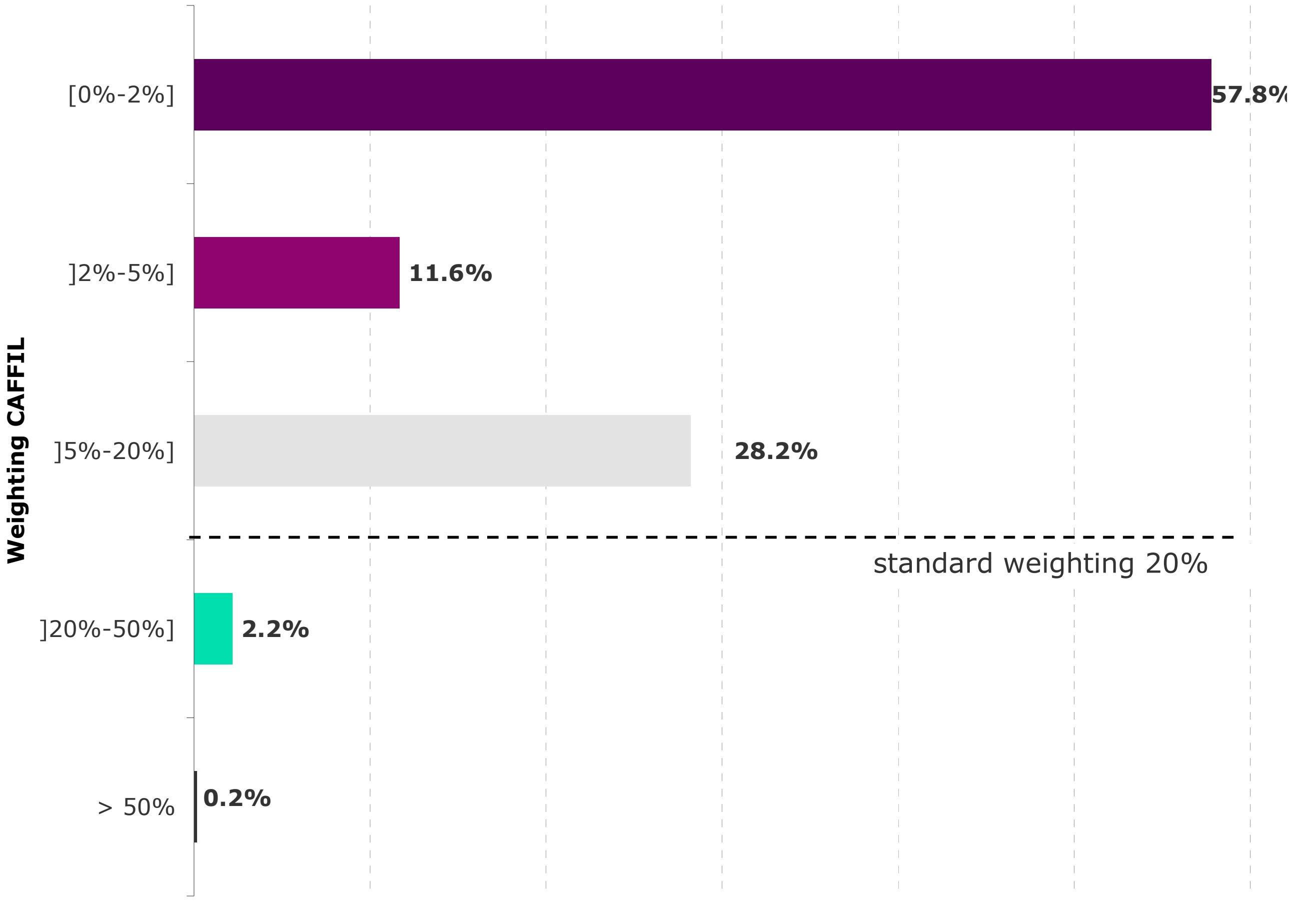
**AFS securities.** Because of their liquidity, in particular, certain securities, issued by states or banks guaranteed by local governments, remain classified for accounting purposes as available for sale according to IFRS and are valued for accounting purposes on the basis of their fair value.
To determine 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 June 30, 2013, the overall AFS reserve, before taxes, was stable at EUR -255 million, versus EUR -291 million as of December 31, 2012. For the most part, this reserve corresponded to the decrease in value of Italian sovereign issues, EUR -150 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 June 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 June 30, 2013**




This analysis confirms the excellent quality of the assets in the portfolio of Caisse Française de Financement Local, of which only 2.4% 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 5.5% versus 20% in the standard Basel II model.

Caisse Française de Financement Local has a solvency ratio of more than 30% as of June 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 end of June 2013, Caisse Française de Financement Local had a limited number of exposures in the form of amortizable securitization units, totaling EUR 7.8 billion, down 5.5% from December 31, 2012. The amount of theses exposures before provisions is listed below.

| EUR millions | ISIN code | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| **Internal securitizations*** | | | |
| Dexia Secured Funding Belgium SIC (DSFB 2) | BE0934330268 | 1,303.3 | 1,239.4 |
| Dexia Secured Funding Belgium SIC (DSFB 4) | BE6000495752 | 3,527.8 | 3,306.2 |
| Dexia Crediop per la Cartolarizzazione SRL (DCC 1) | IT0003674691 | 690.7 | 662.0 |
| Dexia Crediop per la Cartolarizzazione SRL (DCC 2) | IT0003941124 | 614.5 | 575.7 |
| Dexia Crediop per la Cartolarizzazione SRL (DCC 3) | IT0004349665 | 2,054.5 | 2,025.6 |
| **Subtotal** | | **8,190.7** | **7,808.9** |
| **External securitizations** | | | |
| Blue Danube Loan Funding GmbH | XS0140097873 | 74.0 | - |
| Colombo SRL | IT0003156939 | 3.2 | - |
| Societa veicolo Astrea SRL | IT0003331292 | 0.1 | - |
| **Subtotal** | | **77.3** | - |
| **TOTAL** | | **8,268.0** | **7,808.9** |

* *The seller of the securitized exposures and Caisse Française de Financement Local were integrated in the same scope of consolidation at the acquisition date of the securitization units.*

All of the external securitization units were sold in April and May 2013.
As a reminder, the external ABS had the following characteristics:
• Blue Danube Loan Funding GmbH, an Austrian company rated AA+ by S&P, whose debt is unconditionally and irrevocably guaranteed by the Land of Lower Austria;
• Colombo SRL, an Italian company, whose assets are exclusively composed of Italian pubic sector loans (regions, municipalities, etc.).

Most of these exposures are asset-backed securities especially designed to transfer to Dexia Municipal Agency, when it was part of the Dexia Group, exposures on Italian and Belgian local governments originated by Dexia subsidiaries.
Caisse Française de Financement Local thus holds almost all of the debt issued by DCC and DSFB, with the remainder held by the entity that originated the assets – Dexia Crediop or Belfius Banque et Assurances.

DCC securities benefit from the guarantee of Dexia Crediop, and were therefore rated BBB+ / outlook negative by Fitch, B+ / outlook negative by S&P, and Ba2 by Moody's as of June 30, 2013.

The securities issued by DSFB 2 benefit from the guarantee of by Belfius Banque et Assurances and are therefore rated A- / outlook stable by Fitch, A– by S&P and Baa1 by Moody's. The securities issued by DSFB 4 are not guaranteed by Belfius Banque et Assurances but the quality of its portfolio and its over-collateralization ratio allowed it to be rated AA- / outlook stable by Fitch.
The composition of the DCC and DSFB portfolios is presented at the end of this report.

At the beginning of July 2013, Caisse Française de Financement Local sold all its securitization notes to its parent company Société de Financement Local. The ABS sold were replaced by a loan to its parent company that perfectly matches the amortization profile of the securitizations sold. In this context, the new financing set up is registered as a replacement asset, in accordance with the regulations.

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.

### Exposure to banks

Caisse Française de Financement Local held two types of exposure to banks as of June 30, 2013:
• 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 June 30, 2013, Caisse Française de Financement Local was exposed (positive fair value of the swaps) to 14 banking counterparties. Twelve of these paid collateral for EUR 2.7 billion, offsetting total exposure, and three paid no collateral because of their very good short-term ratings. These counterparties represented an exposure of EUR 46 million. All long-term derivative exposures as of June 30, 2013, are listed below.

| EUR billions | Notional amounts | % | Mark to Market | | Collateral received | Number of counterparties |
|---|---|---|---|---|---|---|
| | | | - | + | | |
| SFIL | 18.1 | 18.3% | (3.2) | - | - | 1 |
| Other counterparties | 80.7 | 81.7% | (3.4) | 2.7 | 2.7 | 28 |
| **Total** | **98.9** | **100.0%** | **(6.6)** | **2.7** | **2.7** | **29** |

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 81.7% of outstanding long-term swaps and those signed with Société de Financement Local 18.3%. Short-term swaps (Eonia) were negotiated with external counterparties. Those contracted with the five largest external counterparties represented a total of 34.3% of the notional amounts.

### 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 June 30, 2013.
No additional exposure on sovereign has been acquired in 2012 and 2013.

| EUR millions | Ratings ** | 12/31/2012 | 6/30/2013 | in % of the *cover pool* |
|---|---|---|---|---|
| France* | AA+/Aa1/AA+ | 171 | 172 | 0.3% |
| United Kingdom | AA+/Aa1/AAA | 608 | 576 | 0.9% |
| Germany | AAA/Aaa/AAA | 12 | 12 | 0.0% |
| Italy | BBB+/Baa2/BBB | 560 | 568 | 0.9% |
| **TOTAL** | | **1,351** | **1,328** | **2.1%** |

**Excluding the Banque de France sight account*
*** Fitch, Moody's, S&P 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 June 2013 represented EUR 14.8 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 8.2 billion at the end of June 2013 compared with EUR 8.5 billion at the end of 2012.

| EUR billions | Amount | % | Number of clients |
|---|---|---|---|
| **Total cover pool** | **63.8** | | |
| **French public sector loans** | **43.7** | **68.5%** | **18,630** |
| Sensitive loans not in the charter | *4.0* | *6.2%* | *408* |
| Sensitive loans (3E/4E/5E) | *4.2* | *6.6%* | *462* |
| Other structured loans | *6.6* | *10.3%* | *1,373* |
| Vanilla loans | *28.7* | *44.9%* | *16,387* |

The most sensitive loans (not in the charter) represented 6.2% 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 | 1.0 | 28 |
| Other clients | 0.7 | 69 |
| **TOTAL** | **4.0** | **408** |

Caisse Française de Financement Local recorded an additional impairment in the first half 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 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 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 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 its press releases dated June 18 and July 16, 2013, the French government reaffirmed its desire to find 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.

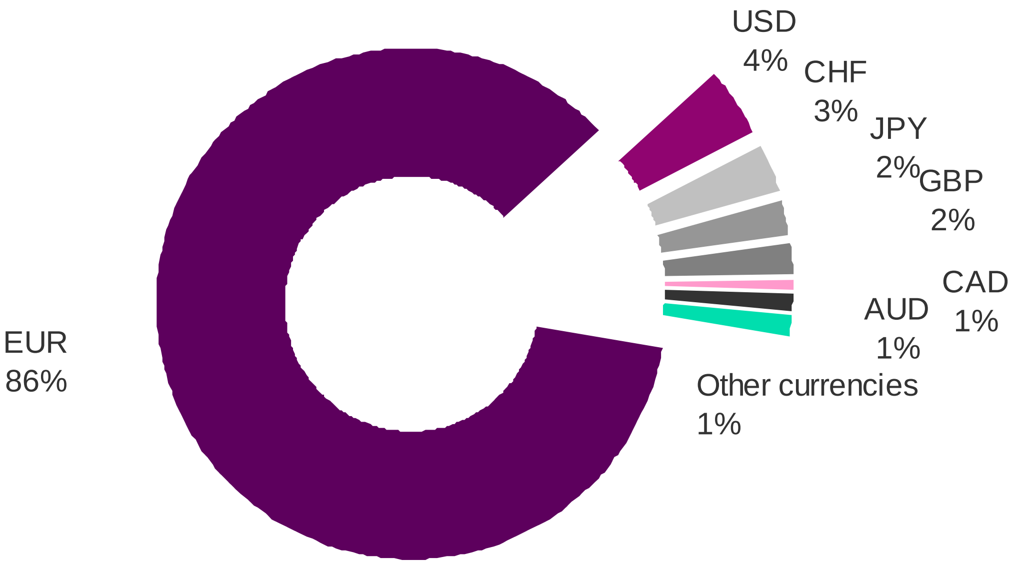
# 4. CHANGE IN DEBT BENEFITING FROM THE LEGAL PRIVILEGE DURING THE FIRST SIX MONTHS OF 2013

The issue policy of Caisse Française de Financement Local will be 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.
Caisse Française de Financement Local issued no bonds during the first half of 2013. Its return to the euro-denominated benchmark market, at the beginning of July 2013, was marked by a successful issue, in the amount of EUR 1.0 billion with a maturity of seven years. Caisse Française de Financement Local was also very present in the private placements market during the summer.

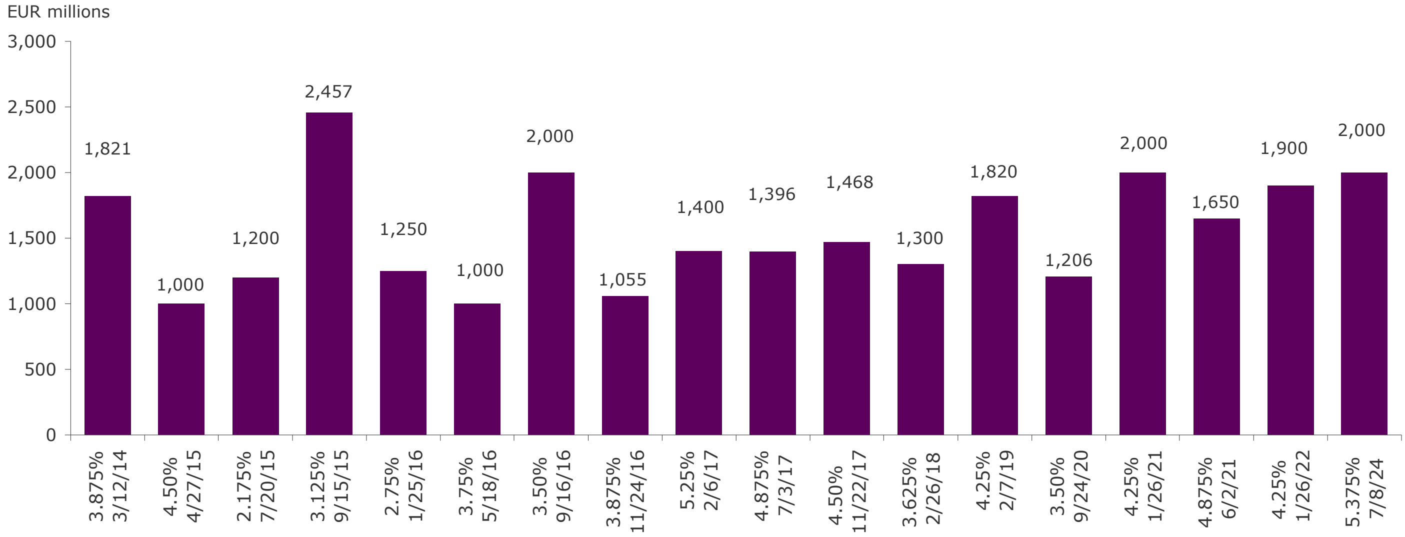
Outstanding *obligations foncières* and registered covered bonds totaled EUR 51.2 billion in swapped value at the end of June 2013, after the amortization of issues in the amount of EUR 5.0 billion,.

| EUR millions | 12/31/2012 | 6/30/2013 |
|---|---|---|
| Beginning of the year | 63,152 | 56,216 |
| Issues | 0 | - |
| Amortizations | (5,693) | (5,034) |
| Buyback | | (20) |
| **TOTAL** | **56,216** | **51,162** |

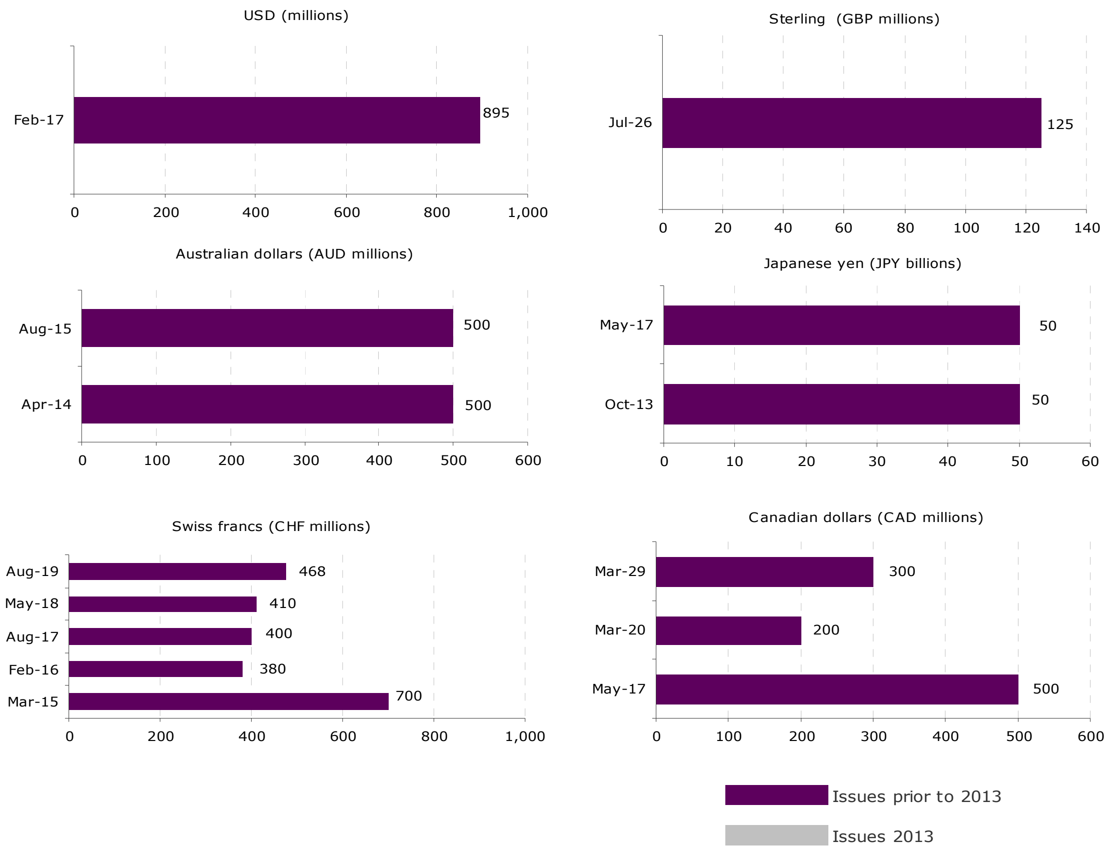
The breakdown of outstanding debt by currency as of June 30, 2013, can be analyzed as follows.



## Analysis of benchmarks in EUR




## Main curves in non-euro currencies



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

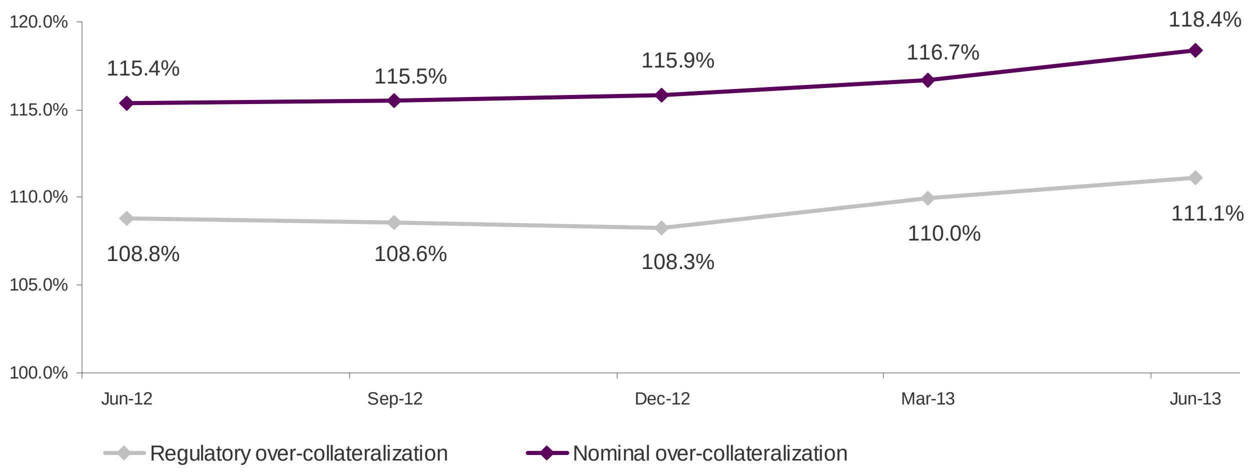
Caisse Française de Financement Local decided to maintain a minimum regulatory over-collateralization ratio of 105%, which is considered a safe margin. In practice, the over-collateralization ratio is regularly higher than 105%. To maintain an adequate level of credit rating, a level of over-collateralization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

**Quaterly over-collateralization**



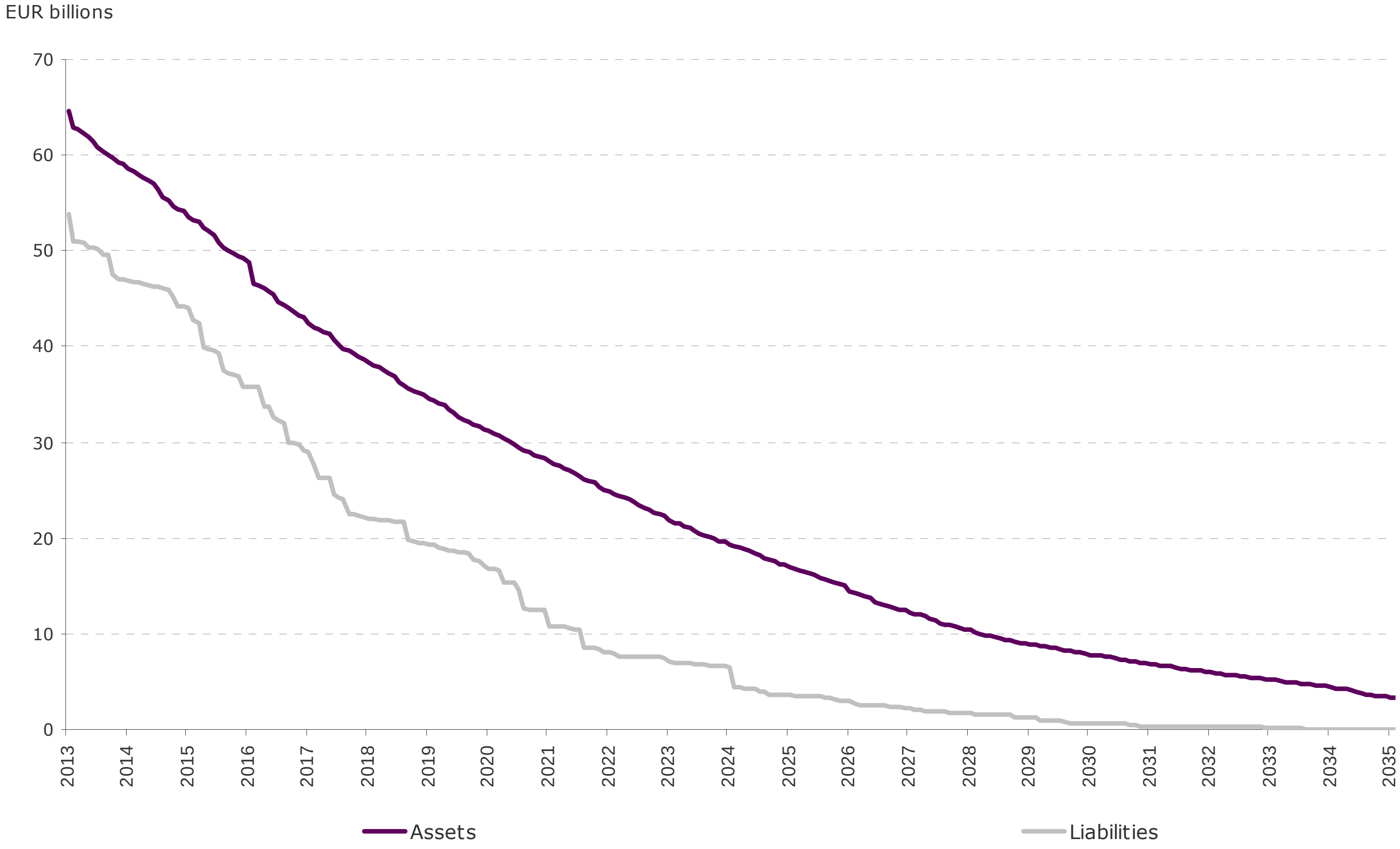

The over-collateralization ratio, which is calculated on the basis of regulatory standards governing *sociétés de crédit foncier*, is the ratio between the assets and the resources benefiting from the legal privilege.

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 units of securitization vehicles, benefiting from a rating that is below Step 1.

These particular weightings are the primary reason for the gap that exists between regulatory over-collateralization and nominal over-collateralization.

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

**Amortization of assets and liabilities as of June 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 June 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 | **6/30/2013** |
|---|---|---|---|
| Parent company | 9.5 | 7.6 | **7.9** |
| Banque de France | 2.7 | - | **-** |
| **Total** | **12.2** | **7.6** | **7.9** |

## 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 June 30, 2013.

| **Breakdown of outstanding swaps** | **Notional *** (EUR billions) | **SFIL (%)** | **Other counterparties (%)** |
|---|---|---|---|
| **Euribor against Eonia** | | | |
| Macro-hedges | 69.1 | 0.0% | 100.0% |
| **Total short-term swaps** | **69.1** | **0.0%** | **100.0%** |
| **Fixed rate swaps against Euribor** | | | |
| Micro-hedges on *obligations foncières* | 43.9 | 3.8% | 96.2% |
| Micro-hedges on loans and debt securities | 24.6 | 10.6% | 89.4% |
| Macro-hedges on loans | 18.6 | 43.8% | 56.2% |
| **Subtotal** | **87.1** | **14.2%** | **85.8%** |
| **Currency swaps** | | | |
| Micro-hedges on *obligations foncières* | 7.5 | 44.1% | 55.9% |
| Micro-hedges on loans | 3.1 | 55.3% | 44.7% |
| Micro-hedges on debt securities | 1.2 | 59.7% | 40.3% |
| **Subtotal** | **11.8** | **48.6%** | **51.4%** |
| **Total long-term swaps** | **98.9** | **18.3%** | **81.7%** |

** 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.

## 7.1 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 June 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 |
|---|---|---|---|---|---|
| Fixed Rate | **3Q 2012** | 15.2 | 16.6 | 13.2 | **31.0** |
| | **4Q 2012** | 13.3 | 16.0 | 10.9 | **31.0** |
| | **1Q 2013** | 16.4 | 18.1 | 15.7 | **31.0** |
| | **2Q 2013** | 15.6 | 16.5 | 14.4 | **31.0** |
| Monetary | **3Q 2012** | 0.9 | 1.2 | 0.6 | **9.0** |
| | **4Q 2012** | 0.4 | 1.8 | (1.3) | **9.0** |
| | **1Q 2013** | (0.3) | 0.5 | (0.7) | **9.0** |
| | **2Q 2013** | (0.1) | 1.4 | (1.1) | **9.0** |
| Total | **3Q 2012** | 16.1 | 17.2 | 14.1 | **40.0** |
| | **4Q 2012** | 13.7 | 16.4 | 11.7 | **40.0** |
| | **1Q 2013** | 16.1 | 18.6 | 15.1 | **40.0** |
| | **2Q 2013** | 15.5 | 16.8 | 14.2 | **40.0** |

## 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)".

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

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** | **6/30/2012** | **9/30/2012** | **12/31/2012** | **3/31/2013** | **6/30/2013** |
|---|---|---|---|---|---|
| *Cover pool* | 7.62 | 7.21 | 7.31 | 7.47 | **7.44** |
| Privileged liabilities | 5.19 | 4.99 | 4.94 | 5.00 | **4.96** |
| Gap in asset-liability duration | **2.43** | **2.22** | **2.37** | **2.47** | **2.48** |
| *Duration gap limit* | *3* | *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 that 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) | **6/30/2012** | **9/30/2012** | **12/31/2012** | **3/31/2013** | **6/30/2013** |
|---|---|---|---|---|---|
| *Cover pool* | 8.78 | 8.33 | 8.56 | 8.56 | **8.61** |
| Privileged liabilities | 5.58 | 5.34 | 5.33 | 5.33 | **5.32** |
| **Gap in asset-liability weighted average life** | **3.20** | **2.99** | **3.23** | **3.23** | **3.29** |

## 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

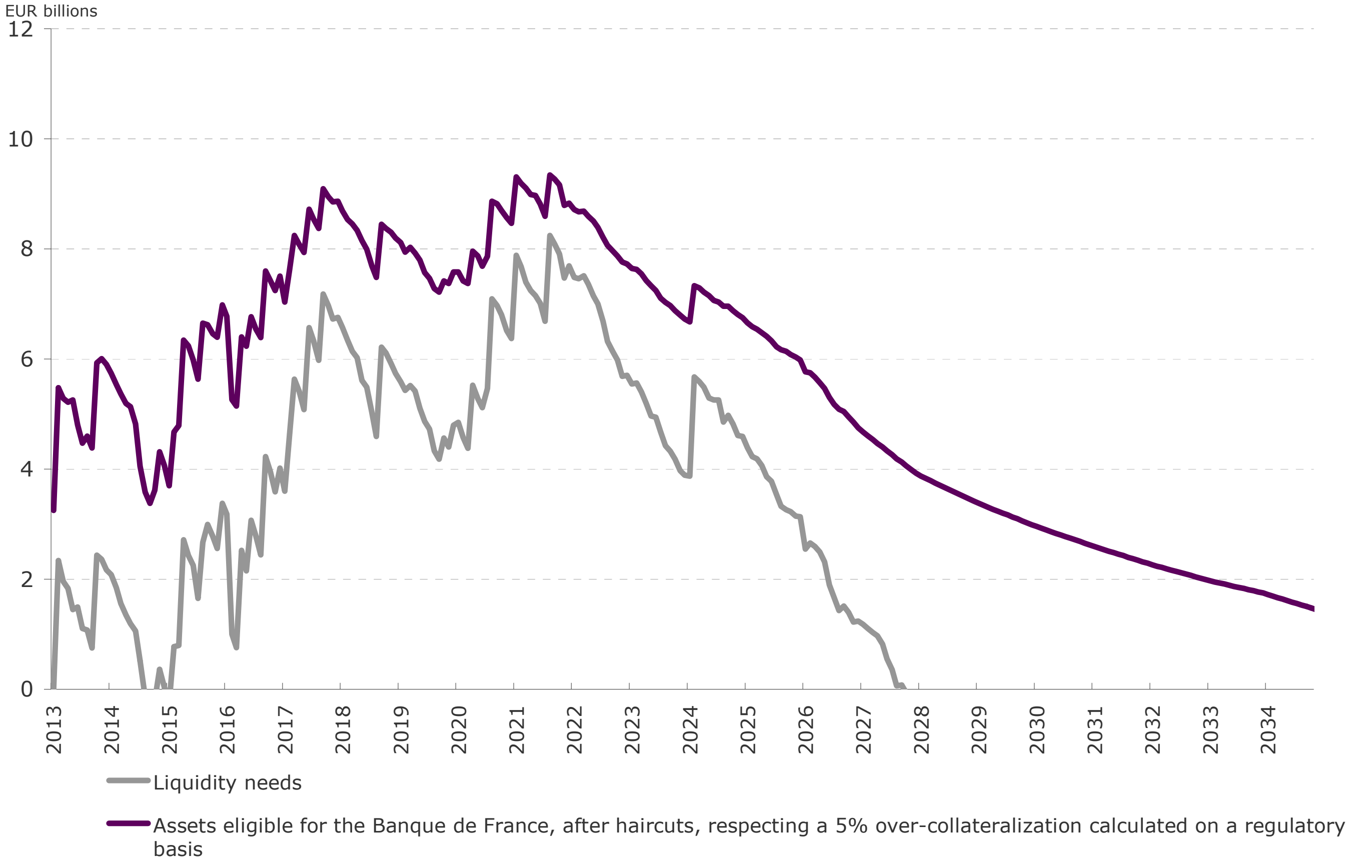
reimbursement of which creates the need for liquidity;

- 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.

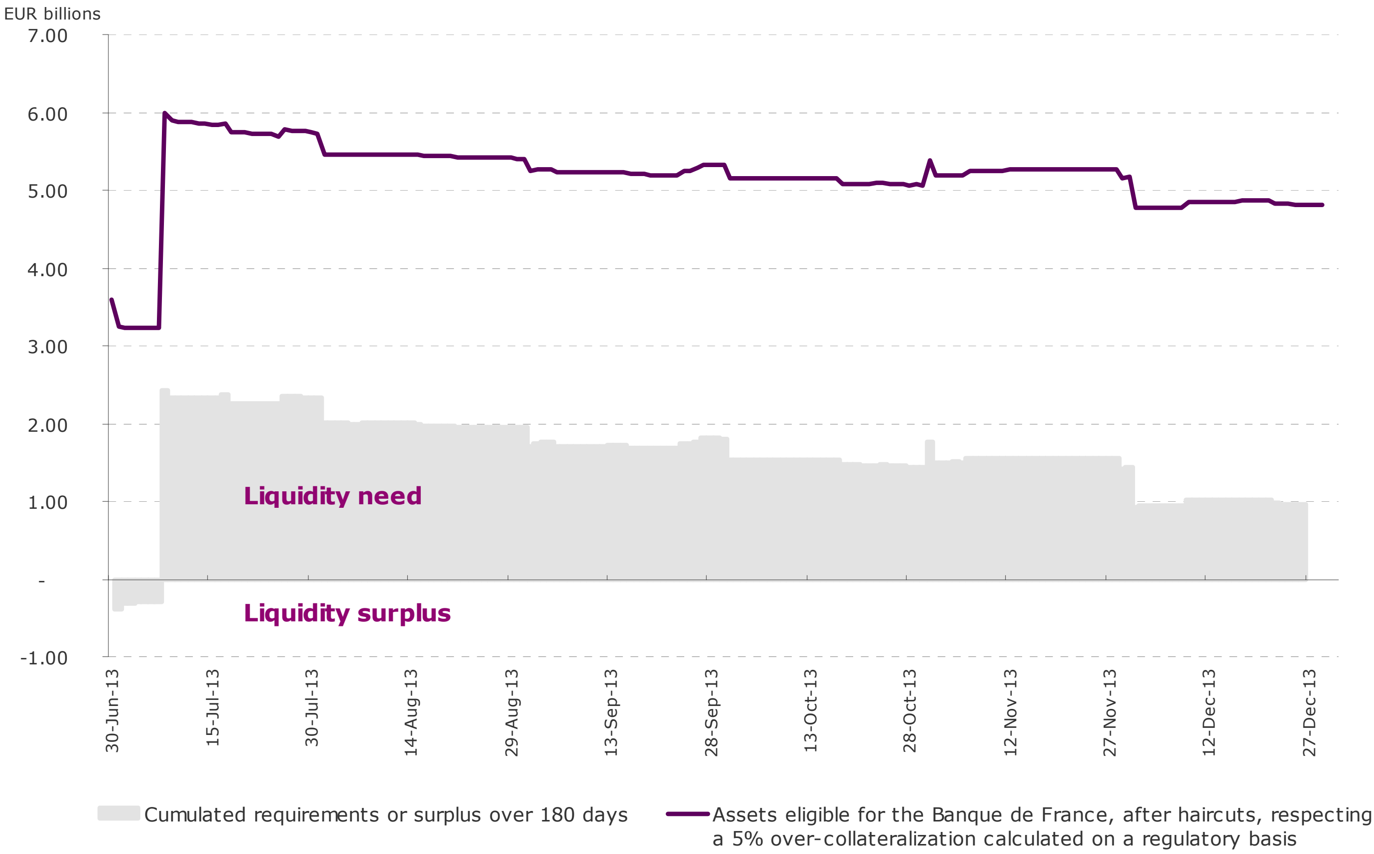
Future liquidity needs are presented below.




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 June 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.



EUR billions
7.00
6.00
5.00
4.00
3.00
2.00
1.00
-
-1.00
Liquidity need
Liquidity surplus
30-Jun-13
15-Jul-13
30-Jul-13
14-Aug-13
29-Aug-13
13-Sep-13
28-Sep-13
13-Oct-13
28-Oct-13
12-Nov-13
27-Nov-13
12-Dec-13
27-Dec-13
Cumulated requirements or surplus over 180 days
Assets eligible for the Banque de France, after haircuts, respecting a 5% over-collateralization calculated on a regulatory basis

# 8. INCOME FOR THE PERIOD

## 8.1 INCOME FOR THE PERIOD IN IFRS

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

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

| EUR millions - **IFRS** | **First half 2012** | **2012** | **First half 2013** | **Change first half 2013/ 2012** |
|---|---|---|---|---|
| Interest margin | 126 | 239 | 74 | **(41)%** |
| Net commissions | (4) | (4) | (4) | |
| Net result of assets at fair value | 1 | 1 | 145 | |
| Net result of financial assets available for sale | 51 | 21 | (1) | |
| Other income and expense | - | - | - | |
| **NET BANKING INCOME** | **174** | **257** | **215** | **23%** |
| General operating expenses | (44) | (87) | (35) | |
| Taxes | (4) | (4) | (3) | |
| **OPERATING INCOME BEFORE COST OF RISK** | **126** | **166** | **177** | **40%** |
| Cost of risk | (4) | (28) | (172) | |
| **PRE-TAX INCOME** | **122** | **138** | **5** | **(96)%** |
| Income tax | (43) | (47) | 8 | |
| **NET INCOME** | **79** | **91** | **13** | **(84)%** |

Net banking income increased by 23%, i.e. EUR 41 million, compared with the same period in 2012, and rose from EUR 174 million to EUR 215 million.
This growth mainly reflected the impact of the EUR + 143 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 – 20 million for the CVA and EUR + 161 million for the DVA.
This issue is described in paragraph 1.5 of this report.

The other components of net banking income decreased:
- the interest margin, which decreased by 41%, or EUR 52 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 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 13 million as of June 30, 2013.

## 8.2 INCOME FOR THE PERIOD IN FRENCH GAAP

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

| EUR millions - French GAAP | First half 2012 | 2012 | First half 2013 | Change first half 2013/ 2012 |
|---|---|---|---|---|
| Interest margin | 181 | 237 | 86 | **(52)%** |
| Net commissions | (4) | (4) | (4) | |
| Provisions and income on trading portfolio | - | - | 1 | |
| Provisions and income on securities | (8) | 13 | 11 | |
| Other income and expense | - | - | - | |
| **NET BANKING INCOME** | **169** | **246** | **94** | **(44)%** |
| General operating expenses | (44) | (91) | (35) | |
| Taxes | (4) | | (3) | |
| **OPERATING INCOME BEFORE COST OF RISK** | **121** | **155** | **56** | **(54)%** |
| Cost of risk | (5) | (41) | (172) | |
| **OPERATING INCOME** | **116** | **114** | **(116)** | **(200)%** |
| Income (loss) on fixed assets | - | (26) | - | |
| Income tax | (47) | (50) | (14) | |
| Regulated provision on long- and medium- term loans | 2 | (1) | (1) | |
| **NET INCOME** | **71** | **37** | **(131)** | **(285)%** |

Net banking income decreased by 44%, i.e. EUR 75 million, in comparison with the same period in 2012, down from EUR 169 million to EUR 94 million.

This trend mainly reflected the impact of the following items:
- the interest margin, which decreased by 52%, or EUR 95 million compared with the same period in 20012. 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;
- provisions and income on securities, which increased significantly at the beginning of 2013, with EUR + 11 million compared with EUR -8 million for the first semester in 2012.

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

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

Operating expenses were mainly comprised of invoicing by Société de Financement Local 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.

Net income was down EUR – 202 million as of June 30, 2013, from the end of June 2012 including EUR -170 million corresponding to sectorial impairments on structured loans.

# 9. OUTLOOK FOR THE SECOND HALF OF 2013

The change in the shareholding structure of Caisse Française de Financement Local and the new organization implemented have made it possible to reconcile the intrinsic qualities of the *obligations foncières* issued by Caisse Française de Financement Local (cover pool, safe investment protection of the French law on *sociétés de crédit foncier*, strict risk management) and the perception of these securities in the markets. The support of the French State and the straightforward economic model are factors that will bolster investor confidence in the issues of Caisse Française de Financement Local.

Beginning in the second half of 2013, Caisse Française de Financement Local plans to issue up to EUR 3 billion in *obligations foncières*. The volume of issues will mainly be composed of euro-denominated public sector issues, making it possible to complete Caisse Française de Financement Local’s euro benchmark curve. It should also include a large share of private investments in order to meet investor demand.

The acquisition of commercial loans granted by La Banque Postale to the French local authorities under the new organization will start just after the summer 2013.

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

| EUR millions | 6/30/2013 | | | | | 12/31/2012 |
|---|---|---|---|---|---|---|
| | Direct exposure | | Indirect exposure | | | |
| COUNTRY | Loans | Bonds | Loans | Bonds | Total | Total |
| **France** | | | | | | |
| State | 32 | | 140 | | 172 | 170 |
| Banque de France | 10 | | | | 10 | 2,400 |
| Regions | 1,800 | 124 | 292 | | 2,216 | 2,298 |
| Departments | 5,789 | | 315 | | 6,104 | 6,305 |
| Municipalities | 15,953 | 104 | 794 | | 16,851 | 17,582 |
| Groups of municipalities | 9,371 | 112 | 240 | | 9,723 | 10,065 |
| Public sector entities : | | | | | | |
| - health | 6,300 | | | | 6,300 | 6,511 |
| - social housing | 1,856 | | | | 1,856 | 1,934 |
| - others | 970 | | 11 | | 981 | 1,038 |
| Credits institutions | 12 | | | | 12 | 23 |
| **Subtotal** | **42,093** | **340** | **1,791** | **-** | **44,225** | **48,326** |
| **Germany** | | | | | | |
| State | | | | 12 | 12 | 12 |
| Länder | | 506 | | 342 | 848 | 847 |
| **Subtotal** | | **506** | | **354** | **860** | **859** |
| **Austria** | | | | | | |
| Länder | 200 | | | | 200 | 202 |
| ABS | | | | | | 70 |
| **Subtotal** | **200** | | | | **200** | **272** |
| **Belgium** | | | | | | |
| Regions | 155 | | 69 | | 224 | 244 |
| Communities | | 50 | | | 50 | 50 |
| Public sector entities | 75 | | | | 75 | 79 |
| Securities issued by DSFB (cf. Infra note 2.) | | 4,546 | | | 4,546 | 4,831 |
| **Subtotal** | **230** | **4,596** | **69** | | **4,895** | **5,204** |
| **Canada** | | | | | | |
| Provinces | | 22 | | | 22 | 22 |
| Communities | 202 | | | | 202 | 220 |
| Public sector entities | 129 | | | | 129 | 129 |
| **Subtotal** | **331** | **22** | | | **353** | **371** |
| **Spain** | | | | | | |
| *Cedulas territoriales* | | | | | 0 | 500 |
| Regions | | 228 | | | 228 | 228 |
| Municipalities | 273 | | | | 273 | 279 |
| **Subtotal** | **273** | **228** | | | **501** | **1,007** |
| **United States** | | | | | | |
| Federated States | | 253 | | | 253 | 253 |
| **Subtotal** | | **253** | | | **253** | **253** |
| **Finland** | | | | | | |
| Municipalities | 8 | | | | 8 | 11 |
| Public sector entities | 42 | | | | 42 | 43 |
| **Subtotal** | **50** | | | | **50** | **54** |

| EUR millions | 6/30/2013 | | | | | 12/31/2012 |
|---|---|---|---|---|---|---|
| | Direct exposure | | Indirect exposure | | | |
| PAYS | Loans | Bonds | Loans | Bonds | Total | Total |
| **Italy** | | | | | | |
| State | | 506 | | 62 | 568 | 560 |
| Regions | | 1,526 | | | 1,526 | 1,544 |
| Provinces | | 269 | | | 269 | 276 |
| Municipalities | 12 | 1,504 | | | 1,516 | 1,543 |
| ABS | | | | | 0 | 3 |
| Securities issued by DCC (cf infra note 1.) | | 3,263 | | | 3,263 | 3,360 |
| **Subtotal** | **12** | **7,068** | | **62** | **7,142** | **7,286** |
| **Japan** | | | | | | |
| Municipalities | | 25 | | | 25 | 25 |
| **Subtotal** | | **25** | | | **25** | **25** |
| **Portugal** | | | | | | |
| Regions | | | | | | - |
| Municipalities | 61 | | | | 61 | 66 |
| Public sector entities | 9 | | | | 9 | 9 |
| **Subtotal** | **70** | | | | **70** | **75** |
| **United Kingdom** | | | | | | |
| State | | | | 576 | 576 | 608 |
| Counties | | | 398 | | 398 | 398 |
| Districts | | | 28 | | 28 | 28 |
| Municipalities | | | 1,368 | | 1,368 | 1,368 |
| Public sector entities | | | 56 | | 56 | 56 |
| **Subtotal** | | | **1,850** | **576** | **2,426** | **2,458** |
| **Sweden** | | | | | | |
| Municipalities | 57 | | 27 | | 84 | 112 |
| Public sector entities | 5 | | | | 5 | 17 |
| **Subtotal** | **62** | | **27** | | **89** | **129** |
| **Switzerland** | | | | | | |
| Cantons | 1,164 | | 590 | | 1,754 | 1,907 |
| Municipalities | 784 | | | | 784 | 845 |
| Public sector entities | 91 | | | | 91 | 91 |
| **Subtotal** | **2,039** | | **590** | | **2,630** | **2,843** |
| **Supranational** | | | | | | |
| International organizations | 45 | | | | 45 | 46 |
| **Subtotal** | **45** | | | | **45** | **46** |
| **TOTAL *COVER POOL*** | **45,405** | **13,038** | **4,328** | **992** | **63,763** | **69,208** |

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.

NOTE 1 :
The DCC securities, in the amount of EUR 3,315.5 million as of June 30, 2013, were suscribed by Caisse Française de Financement Local for EUR 3,263.2 million.The purpose of this securitization vehicle created by Dexia Crediop is to allow refinancing of Italian public sector assets originated by Dexia Crediop.

DCC Securities held by Caisse Française de Financement Local benefit from the guarantee of Dexia Crediop, witch was rated, BBB+ / outlook negative by Fitch, B+ by Standard and Poor's and Ba2 / on review for downgrade by Moody's as at June 30, 2013.

As of June 30, 2013 the assets held by DCC (series 1-2-3) could be broken down as follows.

NOTE 2 :
The DSFB compartments 2 and 4, in the amount of EUR 4,783.6 million as of June 30, 20123, were suscribed by Caisse Française de Financement Local for EUR 4,545.6 million. The purpose of this securitization vehicle created by Belfius Banque et Assurances is to allow refinancing of Belgian public sector assets originated by Belfius Banque et Assurances.

The securities issued by DSFB 2 held by Caisse Française de Financement Local benefit from the guarantee of Belfius Banque et Assurances, and are rated A- / outlook stable by Fitch, A- / watch negative by Standard & Poor's and Baa1 by Moody's. The securities issued by DSFB 4 are not guaranteed by Belfius Banque et Assurances and are rated AA- / outlook stable by Fitch.

As of June 30, 2013, the assets held by DSFB (compartments 1, 2 and 4) could be broken down as follows.

| **Italian assets** | EUR millions |
|---|---|
| Regions | 1,839.8 |
| Provinces | 539.9 |
| Municipalities | 899.7 |
| DCC bank account | 36.1 |
| **TOTAL** | **3,315.5** |

| **Belgian assets** | EUR millions |
|---|---|
| Regions | 195.5 |
| Municipalities | 2,749.7 |
| Public sector entities | 1,399.8 |
| Groups of public sector entities | - |
| Loans guaranteed by local governments | 438.6 |
| **TOTAL** | **4,783.6** |

# 2 Financial Statements

## Half-year 2013 *(IFRS)*

# BALANCE SHEET

## Assets as of June 30, 2013

| EUR millions | Note | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|---|
| Central banks | *2.1* | 500 | 2,400 | 10 |
| Financial assets at fair value through profit or loss | | - | - | - |
| Derivatives | *4.1* | 8,958 | 9,748 | 6,961 |
| Financial assets available for sale | *2.2* | 1,221 | 1,125 | 1,095 |
| Loans and advances due from banks | *2.3* | 5,892 | 3,741 | 3,021 |
| Loans and advances to customers | *2.4* | 75,492 | 71,859 | 67,401 |
| Fair value revaluation of portfolio hedge | | 2,693 | 3,046 | 1,768 |
| Financial assets held to maturity | | - | - | - |
| Current tax assets | *2.5* | 0 | 1 | 2 |
| Deferred tax assets | *2.5* | 160 | 114 | 127 |
| Accruals and other assets | *2.6* | 13 | 3 | 22 |
| **TOTAL ASSETS** | | **94,929** | **92,037** | **80,407** |

## Liabilities as of June 30, 2013

| EUR millions | Note | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|---|
| Central banks | 3.1 | 1,200 | - | - |
| Financial liabilities at fair value through profit or loss | | - | - | - |
| Derivatives | 4.1 | 14,244 | 14,110 | 10,877 |
| Due to banks | 3.2 | 8,168 | 7,620 | 7,995 |
| Customer borrowings and deposits | | - | - | - |
| Debt securities | 3.3 | 64,197 | 62,659 | 55,925 |
| Fair value revaluation of portfolio hedge | | 2,646 | 2,858 | 1,560 |
| Current tax liabilities | 3.4 | 25 | 6 | 10 |
| Deferred tax liabilities | 3.4 | 17 | 0 | - |
| Accruals and other liabilities | 3.5 | 3,266 | 3,546 | 2,754 |
| Provisions | | - | - | - |
| Subordinated debt | | - | - | - |
| **Equity** | | **1,166** | **1,238** | **1,286** |
| 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 | | (304) | (244) | (209) |
| Net income | | 79 | 91 | 13 |
| **TOTAL LIABILITIES** | | **94,929** | **92,037** | **80,407** |

# Income statement

| EUR millions | Note | 2Q2012 | 2012 | 2Q2013 |
|---|---|---|---|---|
| Interest income | 5.1 | 3,096 | 5,742 | 2,790 |
| Interest expense | 5.1 | (2,970) | (5,503) | (2,716) |
| Fee and commission income | 5.2 | - | - | - |
| Fee and commission expense | 5.2 | (4) | (4) | (4) |
| Net result of financial instruments at fair value though profit or loss | 5.3 | 1 | 1 | 145 |
| Net result of financial assets available for sale | 5.4 | 51 | 21 | (1) |
| Net result of hedge accounting and fair value option | | - | - | - |
| Other income | | - | - | - |
| Other expense | | - | - | - |
| **Net banking income** | | **174** | **257** | **214** |
| Operating expense | 5.5 | (48) | (91) | (38) |
| Cost of risk | 5.6 | (4) | (28) | (172) |
| **Operating income** | | **122** | **138** | **5** |
| Net gains (losses) on other assets | | - | - | - |
| **Income before tax** | | **122** | **138** | **5** |
| Income tax | 5.7 | (43) | (47) | 8 |
| **NET INCOME** | | **79** | **91** | **13** |
| 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 | 2Q2012 | 2Q2013 |
|---|---|---|
| **Net income** | **79** | **13** |
| Translation adjustments | - | - |
| Unrealized or deferred gains and losses of financial assets available for sale | 38 | 36 |
| Unrealized or deferred gains and losses of cash flow hedges | 32 | 3 |
| Taxes | (26) | (4) |
| **Total of unrealized or deferred gains and losses through equity** | **44** | **35** |
| **NET INCOME AND UNREALIzED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY** | 123 | 47 |

# Equity

| EUR millions | Core equity | | | Unrealized or deferred gains and losses | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital, Additional paid-in capital** | **Retained earnings and net income for the period** | **Total** | **Net change in fair value of available for sale financial assets, after tax** | **Net change in fair value of hedging derivatives, after tax** | **Total** | **Equity** |
| **As of December 31, 2012, IFRS** | **1,315** | **167** | **1,482** | **(192)** | **(51)** | **(244)** | **1,238** |
| **Movements during the period** | | | | | | | |
| Share capital | - | - | - | - | - | - | - |
| Dividends | - | - | - | - | - | - | - |
| Changes in fair value of available for sale financial assets through equity | - | - | - | 25 | - | 25 | **25** |
| Changes in fair value of hedging derivatives through equity | - | - | - | - | 10 | 10 | **10** |
| 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 | - | 13 | 13 | - | - | - | **13** |
| Other movements | - | - | - | - | - | - | - |
| **As of June 30, 2013, IFRS** | **1,315** | **180** | **1,495** | **(167)** | **(41)** | **(209)** | **1,286** |

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 | 2Q2012 | 2012 | 2Q2013 |
|---|---|---|---|
| **NET INCOME BEFORE TAXES** | **122** | **138** | **5** |
| +/- Depreciation and write-downs | 4 | 70 | 174 |
| +/- Expense/income from operating activities | 376 | 245 | 111 |
| +/- Expense/income from financing activities | (296) | (124) | (246) |
| +/- Other non-cash items | (259) | (609) | (1) |
| ***= Non-monetary items included in net income*** | ***(175)*** | ***(418)*** | ***38*** |
| +/- Cash from interbank operations (Dexia Credit | (1,900) | (3,100) | 4,312 |
| +/- Cash from interbank operations (customer loans) | (23) | 93 | 146 |
| +/- Cash from customer operations (loans) | 1,841 | 3,207 | 1,835 |
| +/- Cash from financing assets | 2,911 | 6,814 | 1,077 |
| +/- Cash from hedging financial instruments | 1,336 | 1,893 | (803) |
| - Income tax paid | 20 | 5 | (9) |
| ***= Decrease/(increase) in cash from operating*** | ***4,185*** | ***8,911*** | ***6,558*** |
| **CASH FLOW FROM OPERATING ACTIVITIES (A)** | **4,132** | **8,631** | **6,601** |
| **CASH FLOW FROM INVESTING ACTIVITIES (B)** | **-** | **-** | **-** |
| ***+/- Cash from or for shareholders*** | 0 | 0 | **-** |
| ***+/- Other cash from financing activities*** | ***(4,858)*** | ***(6,934)*** | ***(5,035)*** |
| **CASH FLOW FROM FINANCING ACTIVITIES (C )** | **(4,858)** | **(6,934)** | **(5,035)** |
| **EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)** | **-** | **-** | **-** |
| **Increase/(decrease) in cash equivalents (A + B+** | **(726)** | **1,697** | **1,566** |
| Cash flow from operating activities (A) | 4,132 | 8,631 | 6,601 |
| Cash flow from investing activities (B) | - | - | - |
| Cash flow from financing activities (C) | (4,858) | (6,934) | (5,035) |
| Effect of changes in exchange rates on cash and cash | - | - | - |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD** | **(3,788)** | **(3,787)** | **(2,090)** |
| Central banks (assets & liabilities) | 2,197 | 2,198 | 2,400 |
| Interbank accounts (assets & liabilities) and | (5,985) | (5,985) | (4,490) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | **(4,513)** | **(2,090)** | **(524)** |
| Central banks (assets & liabilities) | 501 | 2,400 | 10 |
| Interbank accounts (assets & liabilities) and | (5,014) | (4,490) | (534) |
| **CHANGE IN NET CASH** | **(726)** | **1,697** | **1,566** |

# Notes to the IFRS Financial Statements as of June 30, 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 June 2013 were examined by the Executive Board on 26 August 2013.

### 1.2. FIRST HALF 2013 HIGHLIGHTS

#### A. Change in the shareholding structured 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.

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 reduction of the sensitivity of the sensitive 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 Local 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 between 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 hold 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.

As of June 30, 2013, Sfil's long-term ratings are respectively:
- Aa2 by Moody's and AA by Fitch (one notch under the French State)
- AA+ by Standard and Poor's (same rating as 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 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.

### 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 outlooks negative of the sovereign ratings as well as that of Société de Financement Local's.

On July 17, 2013, Fitch reviewed the rating of the obligations foncières of Caisse Française de Financement Local, reducing it to AA+ (outlook stable) to follow the downgrade of the French state from AAA (outlook negative) to AA+ (outlook stable).
The agency considered that the concentration of the asset pool of Caisse Française de Financement Local on French local governments (70%) did not allow the bond issues of Caisse Française de Financement Local to have a higher rating than that attributed to the French State. The rating of Caisse Française de Financement Local is therefore, at the end of August 2013, AAA at S&P, Aaa at Moody's and AA+ at Fitch.

### C. The covered bond market

In the first half of 2013, issues of euro-denominated benchmark covered bonds, totaling EUR 31.7 billion, contracted significantly in the primary market, compared with the same period in 2012 (- 48%), the lowest level since 2008.

With a 20% market share, French issuers were less present than usual in the first half in the primary market, but, with German (22%) and Scandinavian (18%) issuers, they remained the most active players in the market.
At the same time, issuers  form Southern European countries made a marked return in the primary market, particularly Spain (17%) and to a lesser extent Italy (5%).

Average spreads for covered bonds in all countries continued to narrow progressively through the first half of 2013, as they demonstrated resistance to political and economic uncertainties in Europe.
At the end of the first half, the markets experienced a period of light turbulence following uncertainties about the future of the American central bank's quantitative easing strategy, the main pillar of its monetary policy. In this context, spreads widened slightly, but they narrowed during the summer.

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

Caisse Française de Financement Local launched no issues in the first half, given the implementation of the new structure.
Its return to the euro-denominated benchmark market was marked by the successful issue at the beginning of July of EUR 1.0 billion with a maturity of seven years. This inaugural issue was the first step in the affirmed return of Caisse Française de Financement Local to the covered bond market in which it is determined to be a major player.

### D. 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 totaled a loss of EUR - 20 million for the CVA and a profit of EUR + 161 million for the DVA, as of June 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.

### E. 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 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 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 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 its press releases dated June 18 and July 16, 2013, the French government reaffirmed its desire to find 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).

## 1.3. POST-CLOSING EVENTS

On 1 July 2013, Caisse Française de Financement Local sold at par to Société de Financement Local, its parent company, asset-backed securities, with underlying exposures on Belgian and Italian local governments.

On 9 July 2013, Caisse Française de Financement Local successfully issued 7-years maturity bonds for EUR 1 billion. This inaugural issue is the first step of the return of Caisse Française de Financement Local in the covered bond market in which it aims to be a leading company.

## 1.4. 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 June 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 at closing on 30 June 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 "Levies" 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.

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

### 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 Ibor-swaps discount curves and includes a value adjustment 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.
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 off-balance sheet loan commitments.
A provision is measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money.
Provisions are recognized when:
- Caisse Française de Financement Local has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources 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. As at 30 June 2013, 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 | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Mandatory reserve deposits with central banks | - | - | - |
| Other deposits | 500 | 2,400 | 10 |
| **TOTAL** | **500** | **2,400** | **10** |

## 2-2 FINANCIAL ASSETS AVAILABLE FOR SALE

**a. Analysis by nature**

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Loans | - | - | - |
| Bonds | 1,221 | 1,125 | 1,095 |
| **TOTAL** | **1,221** | **1,125** | **1,095** |

**b. Analysis by counterparty**

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Public sector | 724 | 784 | 753 |
| Credit institutions guaranteed by the public sector | 497 | 341 | 342 |
| **Total public sector** | **1,221** | **1,125** | **1,095** |
| Replacement assets | - | - | - |
| **TOTAL** | **1,221** | **1,125** | **1,095** |
| *of which eligible for central bank refinancing* | *907* | *824* | *814* |

**c. Impairment**

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Public sector | 1,221 | 1,125 | 1,095 |
| Replacement assets | - | - | - |
| **Total performing assets** | **1,221** | **1,125** | **1,095** |
| Public sector | - | - | - |
| Replacement assets | - | - | - |
| **Total impaired assets** | **-** | **-** | - |
| Specific impairment | - | - | - |
| **TOTAL ASSETS AFTER IMPAIRMENT** | **1,221** | **1,125** | **1,095** |

**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 | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Sight accounts | 49 | 23 | 12 |
| Other loans and advances due from banks | 5,843 | 3,718 | 3,009 |
| **Performing assets** | **5,892** | **3,741** | **3,021** |
| Impaired loans and advances | - | - | - |
| **Impaired assets** | **-** | **-** | **-** |
| **Total assets before impairment** | **5,892** | **3,741** | **3,021** |
| Specific impairment | - | - | - |
| Collective impairment | - | - | (0) |
| **TOTAL** | **5,892** | **3,741** | **3,021** |

**b. Breakdown by counterparty**

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Credit institutions | 49 | - | 10 |
| Swiss cantonal banks benefiting from their cantons' legal guarantee | 1,046 | 924 | 736 |
| Banks guaranteed by a local government, c*rédits municipaux* | 192 | 169 | 143 |
| Credit institutions belonging to the Dexia Group: loans benefiting from the assignment in guarantee of refinanced public debt | 2,113 | 2,110 | 2,106 |
| Credit institutions guaranteed by the State | 15 | 15 | 14 |
| Assets assigned in guarantee to the central bank | 1,302 | 0 | - |
| Replacement assets | 1,175 | 523 | 12 |
| **TOTAL** | **5,892** | **3,741** | **3,021** |
| *of which eligible for central bank refinancing* | *2,477* | - | - |

**c. Replacement assets**

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Dexia Sabadell - *cedulas territoriales* | - | 500 | - |
| Dexia LdG Banque - *Lettres de gage publiques* | 1,175 | - | - |
| Dexia Credit Local - loans secured by public sector assets | - | - | - |
| Credit institutions - sight accounts | 49 | 23 | 12 |
| **TOTAL** | **1,224** | **523** | **12** |

**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 | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Public sector | 61,502 | 59,656 | 56,049 |
| Other - guaranteed by a State or local government | 4,033 | 3,864 | 3,640 |
| Other - ABS made up solely of public commitments | 9,946 | 8,270 | 7,817 |
| **Performing assets** | **75,481** | **71,790** | **67,506** |
| Impaired loans and advances | 35 | 122 | 122 |
| **Impaired assets** | **35** | **122** | **122** |
| **Total assets before impairment** | **75,516** | **71,912** | **67,628** |
| Specific impairment | (3) | (8) | (11) |
| Collective impairment | (21) | (44) | (216) |
| **TOTAL** | **75,492** | **71,859** | **67,401** |
| *of which eligible for central bank refinancing* | *38,018* | *38,585* | *40,901* |
| *Assets assigned in guarantee to the central bank* | 71 | *0* | - |

* The loans depreciated concern customers that represent a definite credit risk (non-performing loans: EUR 85 million) and clients with unpaid loans corresponding to disagreement on the amount due (compromised non-performing loan: EUR 37 million). Caisse Française de Financement Local strenghtened during the year its hedging on these customers by increasing collective impairments which amounted to EUR 216 million.

**b. Public sector ABS**

| EUR millions | Rating | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|---|
| Colombo | - | 4 | 3 | - |
| Astrea | - | 0 | 0 | - |
| Blue Danube | - | 76 | 70 | - |
| DCC - Dexia Crediop per la Cartolarizzazione | BBB+ Fitch, Ba2 Moody's, B+ S&P | 3,455 | 3,361 | 3,266 |
| DSFB - Dexia Secured Funding | A- Fitch, A- S&P | 2,693 | 1,303 | 1,240 |
| DSFB - Dexia Secured Funding Belgium 4 | AA- Fitch | 3,718 | 3,533 | 3,311 |
| **TOTAL** | | **9,946** | **8,270** | **7,817** |

**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 | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Current income tax | - | 1 | 2 |
| Other taxes | 0 | 0 | - |
| **Current tax assets** | **0** | **1** | **2** |
| **Deferred tax assets (see note 4.2)** | **160** | **114** | **127** |
| **TOTAL TAX ASSETS** | **160** | **115** | **129** |

## 2-6 ACCRUALS AND OTHER ASSETS

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Cash collateral paid | - | - | - |
| Other accounts receivable | - | - | - |
| Prepaid charges | - | - | - |
| Other assets | 13 | 3 | 22 |
| **TOTAL ACCRUALS AND OTHER ASSETS** | **13** | **3** | **22** |

# 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 involued 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 | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Overnight borrowing | - | - | - |
| Term borrowing | 1,200 | - | - |
| Accrued interest | - | - | - |
| **TOTAL FUNDING FROM BANQUE DE France** | **1,200** | **-** | **-** |

## 3-2 DUE TO BANKS

**a. Analysis by nature**

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Demand deposits | 5,059 | 4,510 | - |
| Term deposits | 3,109 | 3,110 | 7,995 |
| **TOTAL** | **8,168** | **7,620** | **7,995** |

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 30 June 2013, there is no current account between Caisse Française de Financement Local and Société de Financement Local.

As of 30 June 2013, the current account, except accrued interests not yet due, presents a balance of EUR 7,973 million;

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Current account | 5,055 | 4,510 | - |
| Interest accrued not yet due | 0 | 0 | - |
| Long-term borrowing | 3,100 | 3,100 | 7,973 |
| Interest accrued not yet due | 9 | 10 | 22 |
| Sight accounts | 4 | - | - |
| **TOTAL DEXIA CREDIT LOCAL** | **8,169** | **7,620** | **7,995** |

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

## 3-3 DEBT SECURITIES

**a. Analysis by nature**

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| *Obligations foncières* | 59,012 | 57,223 | 50,727 |
| Registered covered bonds | 5,185 | 5,436 | 5,198 |
| **TOTAL** | **64,197** | **62,659** | **55,925** |

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

## 3-4 TAX LIABILITIES

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Current income tax | 22 | 3 | 9 |
| Other taxes | 3 | 3 | 1 |
| **Current tax liabilities** | **25** | **6** | **10** |
| **Deferred tax liabilities (see note 4.2)** | **17** | **0** | **-** |
| **TOTAL TAX LIABILITIES** | **42** | **6** | **10** |

## 3-5 ACCRUALS AND OTHER LIABILITIES

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Cash collateral received | 3,210 | 3,518 | 2,713 |
| Other accrued charges | 28 | 25 | 41 |
| Deferred income | - | - | - |
| Other accounts payable and other liabilities | 28 | 3 | - |
| **TOTAL** | **3,266** | **3,546** | **2,754** |

# 4 OTHER NOTES ON THE BALANCE SHEET

## 4-1 DERIVATIVES

### a. Analysis by nature

| EUR millions | 6/30/2012 | | 12/31/2012 | | 6/30/2013 | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| **Derivatives at fair value through profit or loss** | **-** | **-** | **-** | **-** | **0** | **7** |
| Derivatives designated as fair value hedges | 5,194 | 10,283 | 5,770 | 9,840 | 3,881 | 7,484 |
| Derivatives designated as cash flow hedges | 9 | 221 | 8 | 184 | 9 | 113 |
| Derivatives designated as portfolio hedges | 3,755 | 3,740 | 3,970 | 4,086 | 3,071 | 3,273 |
| **Hedging derivatives** | **8,958** | **14,244** | **9,748** | **14,110** | **6,961** | **10,870** |
| **TOTAL DERIVATIVES** | **8,958** | **14,244** | **9,748** | **14,110** | **6,961** | **10,877** |

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

| EUR millions | 6/30/2012 | | | |
|---|---|---|---|---|
| | Notional amount | | Assets | Liabilities |
| | To receive | To deliver | | |
| Foreign exchange derivatives | 12,161 | 11,894 | 1,726 | 1,422 |
| Interest rate derivatives | 51,859 | 51,848 | 3,468 | 8,861 |
| **TOTAL** | **64,020** | **63,742** | **5,194** | **10,283** |

| 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 |
| **TOTAL** | **63,601** | **63,286** | **5,770** | **9,840** |

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

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

| EUR millions | 6/30/2012 | | | |
|---|---|---|---|---|
| | Notional amount | | Assets | Liabilities |
| | To receive | To deliver | | |
| Foreign exchange derivatives | 1,870 | 1,933 | 9 | 221 |
| Interest rate derivatives | - | - | - | - |
| **TOTAL** | **1,870** | **1,933** | **9** | **221** |

| 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 | - | - | - | - |
| **TOTAL** | **1,857** | **1,926** | **8** | **184** |

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

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| 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 | 6/30/2012 | | | |
|---|---|---|---|---|
| | Notional amount | | Assets | Liabilities |
| | To receive | To deliver | | |
| Interest rate derivatives | 134,199 | 134,194 | 3,755 | 3,740 |
| **Total** | **134,199** | **134,194** | **3,755** | **3,740** |

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

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

## 4-2 DEFERRED TAXES

### a. Analysis by nature

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Deferred tax assets before impairment | 160 | 114 | 127 |
| Impairment on deferred tax assets | - | - | - |
| **Deferred tax assets (1)** | **160** | **114** | **127** |
| **Deferred tax liabilities (1)** | **(17)** | - | **-** |
| **TOTAL** | **143** | **114** | **127** |

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

### b. Movements

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| **As of January 1** | **165** | **165** | **114** |
| Charge/credit recognized in the income statement | 4 | (24) | 17 |
| Effect of change in tax rates - impact on the income statement | - | - | - |
| Movements directly recognized in equity | (26) | (63) | (4) |
| Effect of change in tax rates - impact on equity | - | - | - |
| Translation adjustment | - | - | - |
| Other movements (1) | - | 36 | - |
| **As of March 31** | **143** | **114** | **127** |

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

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

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Loans and loan loss provisions | 1 | 23 | 461 |
| Securities | 113 | 89 | 97 |
| Derivatives | 22 | (8) | 22 |
| Accruals and other assets | 14 | 14 | 28 |
| **TOTAL** | **150** | **118** | **608** |

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

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Derivatives | - | - | (102) |
| Borrowings, deposits and issues of debt securities | 18 | 20 | (354) |
| Provisions | - | - | - |
| Regulatory provisions | (25) | (24) | (25) |
| Accruals and other liabilities | - | - | - |
| **TOTAL** | **(7)** | **(4)** | **(481)** |

### 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) | | |
|---|---|---|---|---|---|---|
| | 6/30/2012 | 12/31/2012 | 6/30/2013 | 6/30/2012 | 12/31/2012 | 6/30/2013 |
| **ASSETS** | | | | | | |
| Loans and advances | 6,868 | 5,983 | - | 1,175 | 0 | - |
| Bonds | - | - | - | - | - | - |
| **LIABILITIES** | | | | | | |
| Due to banks - sight accounts | 5,055 | 4,521 | - | - | - | - |
| Due to banks - term loans | 3,109 | 3,110 | 7,995 | - | - | - |
| **INCOME STATEMENT** | | | | | | |
| Interest income on loans and advances | 65 | 111 | - | 7 | 0 | - |
| Interest income on bonds | 0 | 0 | - | - | - | - |
| Interest expense on borrowings | (53) | (89) | (30) | - | - | - |
| Fees and commissions | (3) | (3) | - | - | - | - |
| **OFF-BALANCE SHEET** | | | | | | |
| Foreign exchange derivatives | 6,834 | 6,532 | 6,116 | - | - | - |
| Interest rate derivatives | 102,946 | 99,549 | 12,663 | - | - | - |
| Commitments and guarantees issued by the Group | 13,388 | 12,296 | 50 | - | - | - |

*(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) | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| **Unrealized gains and losses on available for sale securities** | **(233)** | **(169)** | **(144)** |
| Belgium | - | - | - |
| Canada | 2 | 1 | - |
| Germany | (4) | 0 | 1 |
| France | 2 | (1) | (1) |
| Greece | - | - | - |
| Ireland | - | - | - |
| Italy | (244) | (178) | (150) |
| United States | 11 | 9 | 6 |
| **Unrealized gains and losses on loans and receivable securities** | **(128)** | **(122)** | **(111)** |
| Austria | (5) | 0 | - |
| Belgium | 1 | (2) | (2) |
| Germany | (1) | (1) | - |
| Spain | (3) | (2) | (2) |
| France | 6 | 5 | 5 |
| United Kingdom | - | - | - |
| Greece | - | - | - |
| Iceland | - | - | - |
| Italy | (121) | (118) | (112) |
| Luxembourg | - | - | - |
| Portugal | 0 | - | - |
| United States | (5) | (4) | - |
| **Unrealized gains and losses on derivatives designated as cash-flow hedges** | **(94)** | **(66)** | **(63)** |
| **TOTAL** | **(455)** | **(357)** | **(318)** |
| Deferred taxes on gains and losses, available for sale securities | 79 | 58 | 50 |
| Deferred taxes on gains ans losses, loans and receivable securities | 42 | 40 | 38 |
| Deferred taxes on gains and losses, derivatives designated as cash-flow hedges | 30 | 15 | 21 |
| **TOTAL** | **(304)** | **(244)** | **(209)** |

## 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** |
| **TOTAL** | **-** | **-** | **604** | **-** | **-** | **604** |

| | 6/30/2013 | | | | | |
|---|---|---|---|---|---|---|
| | **Spain** | **Ireland** | **Italy** | **Portugal** | **Greece** | **Total** |
| Government bonds | - | - | 487 | - | - | 487 |
| Securities Guaranteed by the State | - | - | 112 | - | - | 112 |
| **TOTAL** | **-** | **-** | **599** | **-** | **-** | **599** |

| | 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** |
| **TOTAL** | **-** | **-** | **604** | **-** | **-** | **604** |
| **UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES** | **-** | **-** | **(178)** | **-** | **-** | **(178)** |
| **UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES** | **-** | **-** | **(3)** | **-** | **-** | **(3)** |

| | 6/30/2013 | | | | | |
|---|---|---|---|---|---|---|
| | **Spain** | **Ireland** | **Italy** | **Portugal** | **Greece** | **Total** |
| Financial assets available for sale | - | - | 487 | - | - | **487** |
| Financial assets held for trading | - | - | - | - | - | - |
| Held to maturity investments | - | - | - | - | - | - |
| Loans and advances | - | - | 112 | - | - | **112** |
| **TOTAL** | **-** | **-** | **599** | **-** | **-** | **599** |
| **UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES** | **-** | **-** | **(150)** | **-** | **-** | **(150)** |
| **UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES** | **-** | **-** | **(0)** | **-** | **-** | **(0)** |

# 5 NOTES TO THE INCOME STATEMENT

### 5-1 INTEREST INCOME - INTEREST EXPENSE

| EUR millions | 2Q2012 | 2Q2013 |
|---|---|---|
| **INTEREST INCOME** | **3,096** | **2,790** |
| Central banks | - | - |
| Loans ans advances due from banks | 70 | 31 |
| Loans and advances to customers | 1,053 | 871 |
| Financial assets available for sale | 23 | 20 |
| Financial assets held to maturity | - | - |
| Derivatives used for hedging | 1,950 | 1,868 |
| Impaired assets | - | - |
| Other | - | - |
| **INTEREST EXPENSE** | **(2,970)** | **(2,716)** |
| Accounts with central banks | (7) | (0) |
| Due to banks | (44) | (36) |
| Customer borrowings and deposits | - | - |
| Debt securities | (1,201) | (1,036) |
| Subordinated debt | - | - |
| Derivatives used for hedging | (1,718) | (1,644) |
| Other | - | - |
| **INTEREST MARGIN** | **126** | **74** |

### 5-2 FEES AND COMMISSIONS

| EUR millions | 2Q2012 | | | 2Q2013 | | |
|---|---|---|---|---|---|---|
| | **Income** | **Expense** | **Net** | **Income** | **Expense** | **Net** |
| Lending activity | 0 | (0) | - | 0 | (0) | 0 |
| Purchase and sale of securities | - | (1) | (1) | - | - | - |
| Financial engineering | - | - | - | - | - | - |
| Services on securities other than custodian services | - | (3) | (3) | - | (3) | (3) |
| Custodian services | - | - | - | - | - | - |
| Issuance and underwriters of securities | - | 0 | (0) | - | (0) | (0) |
| Other | - | - | - | - | - | - |
| **TOTAL** | **0** | **(4)** | **(4)** | **0** | **(4)** | **(4)** |

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

| EUR millions | 2Q2012 | 2Q2013 |
|---|---|---|
| Net trading income | - | 3 |
| Net result of hedge accounting | 1 | 142 |
| Net result of foreign exchange transactions | 0 | 0 |
| **TOTAL** | 1 | **145** |

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 trading income : EUR 3 million**

**Analysis of net result of hedge accounting : EUR 142 million**

| EUR millions | 2Q2012 | 2Q2013 |
|---|---|---|
| **Fair value hedges** | **1** | **1** |
| Fair value changes in the hedged item attributable to the hedged risk | 609 | (1,636) |
| Fair value changes in the hedging derivatives | (608) | 1,637 |
| **Cash flow hedges** | **-** | **-** |
| Fair value changes in the hedging derivatives – ineffective portion | - | - |
| Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur) | - | - |
| **Portfolio hedge** | **0** | **0** |
| Fair value changes in the hedged item | 183 | 20 |
| Fair value changes in the hedging derivatives | (183) | (20) |
| **CVA/DVA Impact** | **-** | **141** |
| **TOTAL** | **1** | **142** |

Since January 1, 2013 and in application of IFRS 13, Caisse Française de Financement Local records CVA (Credit Valuation Adjustment) and DVA (Debt Valuation Adjustment). The first time application shows an impact of EUR -20 million for CVA and EUR 161 million for DVA as of June 30, 2013. These amounts include the impact of the first time application and the variations of the year.

This new regulation allows to include in derivatives the fair value of the counterparty risk.

### 5-4- NET RESULT Of FINANCIAL ASSETS AVAILABLE FOR SALE

| EUR millions | 2Q2012 | 2Q2013 |
|---|---|---|
| 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 | 3 | 0 |
| **TOTAL** | **51** | **(1)** |

### 5-5 - OPERATING EXPENSE

| EUR millions | 2Q2012 | 2Q2013 |
|---|---|---|
| Payroll costs | - | - |
| Other general and administrative expense | (44) | (35) |
| Taxes | (4) | (3) |
| **TOTAL** | **(48)** | **(38)** |

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, conclued 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 | 2Q2012 | | | 2Q2013 | | |
|---|---|---|---|---|---|---|
| | **Collective impairment** | **Specific impairment and losses** | **Total** | **Collective impairment** | **Specific impairment and losses** | **Total** |
| Credit (loans, commitments and securities held to m | (4) | 0 | (4) | (172) | (0) | (172) |
| Fixed income securities available for sale | - | - | - | - | - | - |
| **TOTAL** | **(4)** | **0** | **(4)** | **(172)** | **(0)** | **(172)** |

**Detail of collective and specific impairments**

| **Collective impairment**<br>EUR millions | 2Q2012 | | | 2Q2013 | | |
|---|---|---|---|---|---|---|
| | **Charges** | **Recoveries and uses** | **Total** | **Charges** | **Recoveries and uses** | **Total** |
| Loans and borrowings | (4) | 0 | (4) | (174) | 2 | (172) |
| Off-balance sheet commitments | - | - | - | - | - | - |
| **TOTAL** | **(4)** | **0** | **(4)** | **(174)** | **2** | **(172)** |

| **Specific Impairment** EUR millions | **2Q2012** | | | | |
|---|---|---|---|---|---|
| | **Allocations** | **Reversals** | **Losses** | **Recoveries** | **Total** |
| Loans and advances due from banks | - | - | - | - | - |
| Loans and advances to customers | - | 0 | - | - | 0 |
| Financial assets held to maturity | - | - | - | - | - |
| Off-balance sheet commitments | - | - | - | - | - |
| Total credit | **-** | **0** | **-** | **-** | **0** |
| Fixed income securities | - | 7 | (7) | - | - |
| **TOTAL** | **-** | **7** | **(7)** | **-** | **0** |

| **EUR millions** | **2Q2013** | | | | |
|---|---|---|---|---|---|
| | **Allocations** | **Reversals** | **Losses** | **Recoveries** | **Total** |
| Loans and advances due from banks | - | - | - | - | - |
| Loans and advances to customers | (2) | 2 | - | - | (0) |
| Financial assets held to maturity | - | - | - | - | - |
| Off-balance sheet commitments | - | - | - | - | - |
| Total credit | **(2)** | **2** | **-** | **-** | **(0)** |
| Fixed income securities | - | - | - | - | - |
| **TOTAL** | **(2)** | **2** | **-** | **-** | **(0)** |

## 5-7 CORPORATE INCOME TAX

### a. Detail of tax expense

| EUR millions | **2Q2012** | **2Q2013** |
|---|---|---|
| Current taxes | (47) | (12) |
| Deferred taxes | 4 | 18 |
| Tax on prior years' income | - | 2 |
| Deffered taxes on prior years | - | - |
| Provisions for tax litigation | - | - |
| **TOTAL** | **(43)** | **8** |

### b. Effective tax expense as of June 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.
The difference between these two rates can be analysed as follows.

| EUR millions | **2Q2012** | **2Q2013** |
|---|---|---|
| **INCOME BEFORE INCOME TAXES** | **122** | **5** |
| Net income from associates | - | - |
| **TAX BASE** | **122** | **5** |
| Applicable tax rate at end of the period | 36.10% | 36.10% |
| **THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE** | **44** | **2** |
| Impact of differences between foreign tax rates and the French standard tax rate | (4) | (10) |
| Tax effect of non-deductible expenses | - | - |
| Tax effect of non-taxable income | - | - |
| Impact of items taxed at a reduced rate | - | - |
| Other additional taxes or tax savings | 3 | - |
| Liability method | - | - |
| Provisions for tax litigation | - | - |
| **CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT** | **43** | **(8)** |
| **EFFECTIVE TAX RATE** | **35.0%** | **-162.6%** |

### 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 | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Assets to be delivered | 0 | - | - |
| Liabilities to be received | 0 | - | - |

Currency swaps with a deferred start that perfectly hedge loans or bond issues.

### 6-2 - GUARANTEES

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Guarantees received from credit institutions (1) | 6,255 | 4,742 | 4,569 |
| Guarantees received from customers (2) | 7,654 | 7,358 | 7,179 |

*(1) The guarantees received from credit institutions corresponded to the guarantees provided by Dexia Crediop on securities issued by Dexia Crediop per la Cartolarizzazione for EUR 3,266 million and the guarantee provided by Belfius Banque et Assurance on DSFB2 securities in the amount of EUR 1,240 millions.*
*(2) Guarantees received from customers are generally granted by local governments.*

### 6-3 - FINANCING COMMITMENTS

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Loan commitments granted to credit institutions | 0 | 0 | 0 |
| Loan commitments granted to clients (1) | 870 | 317 | 277 |
| Loan commitments received from credit institutions (2) | 7,078 | 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 June 30, 2013.*
*(2) This item concerned a firm and irrevocable commitment by Dexia Credit Local to make avalaible 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. The amount of EUR 50 million is linked with the current account agreement with Sfil.*

### 6-4 - OTHER COMMITMENTS

| EUR millions | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Commitments granted (1) | 103 | - | - |
| Commitments received | 288 | 286 | - |

*(1)it corresponds to loans granted to the Banque de France*

# 7 NOTES ON RISK EXPOSURE

## 7.1 - FAIR VALUE

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

| (En EUR millions) | 12/31/2012 | | | 6/30/2013 | | |
|---|---|---|---|---|---|---|
| | Book value | Fair Value | Unrecognized fair value adjustment | Book value | Fair Value | Unrecognized fair value adjustment |
| Central banks | 2,400 | 2,400 | - | 10 | 10 | - |
| Loans and advances due from banks | 3,741 | 3,741 | - | 3,021 | 3,021 | - |
| Loans and advances to clients | 71,859 | 71,589 | (270) | 67,401 | 67,186 | (215) |
| Available for sale financial assets | 1,125 | 1,125 | | 1,095 | 1,095 | - |
| Hedging Derivatives | 9,748 | 9,748 | | 6,961 | 6,961 | - |
| **TOTAL** | **88,873** | **88,603** | **(270)** | **78,488** | **78,273** | **(215)** |

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

| (En EUR millions) | 12/31/2012 | | | 6/30/2013 | | |
|---|---|---|---|---|---|---|
| | Book value | Fair Value | Unrecognized fair value adjustment | Book value | Fair Value | Unrecognized fair value adjustment |
| Due to banks | 7,620 | 7,620 | - | 7,995 | 8,045 | 50 |
| Hedging Derivatives | 14,110 | 14,110 | - | 10,877 | 10,877 | - |
| Debt securities | 62,659 | 60,219 | (2440) | 55,925 | 53,775 | (2,150) |
| **TOTAL** | **84,389** | **81,949** | **(2,440)** | **74,798** | **72,698** | **(2,100)** |

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

| **Fair value of financial assets** | 6/30/2013 | | | |
|---|---|---|---|---|
| EUR millions | Level 1 (1) | Level 2 (2) | Level 3 (3) | Total |
| Hedging Derivatives | - | 5,895 | 1,066 | 6,961 |
| Available for sale financial assets | 573 | 43 | 479 | 1,095 |
| **TOTAL** | **573** | **5,938** | **1,545** | **8,056** |

| **Fair value of financial liabilities** | 6/30/2013 | | | |
|---|---|---|---|---|
| (En EUR millions) | Level 1 (1) | Level 2 (2) | Level 3 (3) | Total |
| Hedging Derivatives | - | 6,910 | 3,967 | 10,877 |
| **TOTAL** | **-** | **6,910** | **3,967** | **10,877** |

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

(2)Price quoted on an active market for a similar (but not exactly the same) instrument or use of a valuation technique

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

**d. Level 3: analysis of flows**

| EUR millions | 12/31/2012 | Gains and losses through profit and loss | Unrealized or deferred gains and losses through profit and loss | Unrealized or deferred gains and losses through OCI | Purchase | Sale | Direct Origination | Settlement | Transfers in disposal groups held for sale | Transfert in Level 3 | Transfert out Level 3 | Other variations | 30/06/2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Available for sale financial assets | 493 | (1) | - | (8) | - | - | - | (4) | | - | - | (1) | 479 |
| Hedging Derivatives | 1,381 | (298) | - | - | 7 | - | - | - | | - | (24) | (0) | 1,066 |
| **TOTAL FINANCIAL ASSETS** | **1,874** | **(299)** | **-** | **(8)** | **7** | **-** | **-** | **(4)** | | **-** | **(24)** | **(1)** | **1,545** |
| Hedging Derivatives | 4,863 | (1480) | - | - | 632 | - | - | - | | 4 | (49) | (3) | 3,967 |
| **TOTAL FINANCIAL LIABILITIE** | **4,863** | **(1480)** | **-** | **-** | **632** | **-** | **-** | **-** | | **4** | **(49)** | **(3)** | **3,967** |

**Sensitivity of level 3 valuations to alternative assumptions**

Financial instruments measured at fair value for which no reliable quoted market prices are available and for which valuations are obtained by means of valuation techniques
Financial instruments for which no quoted market prices are available in an active market are valued by means of valuation techniques. The models that CAFFIL uses range from standard market models (discount models) to in-house developed valuation models.

In order for a fair value to qualify for level 2 inclusion, observable market data should be used. The market data that CAFFIL incorporates in its valuation models are either directly observable data (prices), indirectly observable data (spreads) or own assumptions about unobservable market data. Fair value measurements that rely significantly on own assumptions qualify for level 3 disclosure.

For bonds for which no active market exists, CAFFIL uses a Mark to Model approach. The valuation price is composed of a market price component and a model price component. The weight granted to the model price component reflects an assessment of the activity level of the market.
For its Mark to Model price, CAFFIL uses a discount cash-flow model, based on a discounted spread that incorporates both CDS/credit spread and cash/CDS basis. The credit spread is estimated from the security specific cha
CDS indices. A cash/CDS component is added to the credit component to obtain the bond’s spread.

## 7-2 - EXPOSURE TO CREDIT RISK

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

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

**Analysis of exposure by geographic region**

| EUR millions | Amount as of 6/30/2013 |
|---|---|
| France | 47,386 |
| Belgium | 4,913 |
| Italy | 7,206 |
| Spain | 487 |
| Luxembourg | 3 |
| Germany | 924 |
| United Kingdom | 2,384 |
| Switzerland | 3,446 |
| Other European Union countries | 468 |
| United States and Canada | 655 |
| Japan | 26 |
| Other | 6 |
| **TOTAL EXPOSURE** | **67,903** |

**Analysis of exposure by category of counterparty**

| EUR millions | Amount as of 6/30/2013 |
|---|---|
| States | 2,045 |
| Local public sector | 56,461 |
| ABS | 7,597 |
| Financial institutions | 1,800 |
| **TOTAL EXPOSURE** | **67,903** |

Exposure on financial institutions is primarily comprised of counterparties in hedging derivatives and the covered bonds classified as replacement assets.
Exposures on ABS correspond to the five ABS that are 100% guaranteed by a public sector entity or have a pool of 100% public sector assets: DSFB 2 and 4, Blue Danube Loan Funding GmbH, Colombo SrL, DCC.

**Analysis of exposure by category of instrument**

| EUR millions | Amount as of 6/30/2013 |
|---|---|
| Debt securities | 1,095 |
| Loans and advances | 66,382 |
| Financing commitments on loans | 276 |
| Hedging derivatives | 150 |
| **TOTAL EXPOSURE** | **67,903** |

**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 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%.

| | **Risk weighting (Basel II)** | | | | |
|---|---|---|---|---|---|
| EUR millions | **from 0 to 5%** | **from 5% to 20%** | **from 20% to 50%** | **more than 50%** | **Total** |
| Debt securities | 548 | 547 | - | - | 1,095 |
| Loans and advances | 46,330 | 18,575 | 1,378 | 90 | 66,373 |
| Financing commitments on loans | 276 | 0 | - | 1 | 277 |
| Hedging derivatives | 3 | 35 | 107 | 13 | 158 |
| **TOTAL EXPOSURE** | **47,157** | **19,157** | **1,485** | **104** | **67,903** |
| **SHARE** | **69.4%** | **28.2%** | **2.2%** | **0.2%** | **100.0%** |

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

### 7-3 LIQUIDITY RISK : ANALYSIS BY TERM TO MATURITY

**a. Analysis of assets**

| EUR millions | 6/30/2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | 10 | - | - | - | - | - | 10 |
| Hedging derivatives | - | - | - | - | - | - | - |
| Financial assets available for sale | - | - | - | 407 | 571 | - | 979 |
| Loans and advances due from banks | 12 | 51 | 151 | 2,533 | 255 | - | 3,003 |
| Loans and advances to customers | - | 1,176 | 3,457 | 17,701 | 40,143 | - | 62,476 |
| Fair value revaluation of portfolio hedge | - | - | - | - | - | - | - |
| Financial assets held to maturity | - | - | - | - | - | - | - |
| Tax assets | - | - | - | - | - | 129 | 129 |
| Accruals and other assets | - | 22 | - | - | - | - | 22 |
| **TOTAL** | **22** | **1,249** | **3,608** | **20,641** | **40,969** | **129** | **66,618** |

| EUR millions | 6/30/2013 | | | | |
|---|---|---|---|---|---|
| | Total broken down | Accrued interest | Fair value adjustment | Impairment | Total |
| Central banks | 10 | - | - | - | **10** |
| Hedging derivatives | - | 396 | 6,565 | - | **6,961** |
| Financial assets available for sale | 979 | 7 | 109 | - | **1,095** |
| Loans and advances due from banks | 3,003 | 19 | (1) | (0) | **3,021** |
| Loans and advances to customers | 62,476 | 793 | 4,359 | (226) | **67,401** |
| Fair value revaluation of portfolio hedge | - | - | 1,768 | - | **1,768** |
| Financial assets held to maturity | - | - | - | - | **-** |
| Tax assets | 129 | - | - | - | **129** |
| Accruals and other assets | 22 | - | - | - | **22** |
| **TOTAL** | **66,618** | **1,215** | **12,800** | **(226)** | **80,408** |

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

| EUR millions | 6/30/2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | - | - | - | - | - | - | - |
| Hedging derivatives | - | - | - | - | - | - | - |
| Due to banks | - | 858 | 547 | 4,926 | 1,642 | - | 7,973 |
| Customer borrowings and deposits | - | - | - | - | - | - | - |
| Debt securities | - | 264 | 4,136 | 24,515 | 22,644 | - | 51,559 |
| Fair value revaluation of portfolio hedge | - | - | - | - | - | - | - |
| Tax liabilities | - | - | - | - | - | 10 | 10 |
| Accruals and other liabilities | - | 2,754 | - | - | - | - | 2,754 |
| Provisions | - | - | - | - | - | - | |
| Subordinated debt | - | - | - | - | - | - | - |
| **TOTAL** | **0** | **3,876** | **4,683** | **29,441** | **24,286** | **10** | **62,296** |

| EUR millions | 6/30/2013 | | | |
|---|---|---|---|---|
| | Total broken down | Accrued interest | Fair value adjustment | Total |
| Central banks | - | - | - | **-** |
| Hedging derivatives | - | 794 | 10,083 | **10,877** |
| Due to banks | 7,973 | 22 | - | **7,995** |
| Customer borrowings and deposits | - | - | - | **-** |
| Debt securities | 51,559 | 914 | 3,452 | **55,925** |
| Fair value revaluation of portfolio hedge | - | - | 1,560 | **1,560** |
| Tax liabilities | 10 | - | - | **10** |
| Accruals and other liabilities | 2,754 | - | - | **2,754** |
| Provisions | - | - | - | **-** |
| Subordinated debt | - | - | - | **-** |
| **TOTAL** | **62,296** | **1,730** | **15,095** | **79,123** |

**c. Net liquidity gap**

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 |
|---|---|---|---|---|---|---|---|---|
| **Amount** | 22 | (2,627) | (1,076) | (8,800) | 16,683 | 119 | (3,037) | **1,286** |

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.

## 7-4 - CURRENCY RISK

| **Classification by original currency** | **6/30/2013** | | | | |
|---|---|---|---|---|---|
| EUR millions | **EUR** | **Other EU currencies** | **U.S. dollars** | **Other currencies** | **Total** |
| Total assets | 83,954 | 4,257 | 3,160 | 3,558 | 94,929 |
| Total liabilities | 83,954 | 4,257 | 3,160 | 3,558 | 94,929 |
| **NET BALANCE SHEET POSITION** | **0** | **0** | **0** | **0** | **0** |

| **Classification by original currency** | **12/31/2012** | | | | |
|---|---|---|---|---|---|
| EUR millions | **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 |
| **NET BALANCE SHEET POSITION** | **0** | **0** | **0** | **0** | **0** |

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

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.

## 7-5 - 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** | **Q3 2012** | 15.2 | 16.6 | 13.2 | 31.0 |
| | **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 |
| **Monetary** | **Q3 2012** | 0.9 | 1.2 | 0.6 | 9.0 |
| | **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 |
| **Total** | **Q3 2012** | 16.1 | 17.2 | 14.1 | 40.0 |
| | **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 |

3

# Statutory auditor's report

## Half-year 2013 *(IFRS)*

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

**Period from January 1st to June 30th, 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 six-month period ended June 30th, 2013.

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

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

Based on our review, we did not identify any material misstatements that would cause us to believe that the accompanying intermediate financial statements do not present fairly, in all material respects, the results of operations for the six-month period ended June 30th, 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.D. and the paragraph of Note 1.4.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, August 29th, 2013

The statutory auditors

*French original signed by*

| MAZARS | DELOITTE & ASSOCIÉS |
|---|---|
| Virginie CHAUVIN - Anne VEAUTE | Charlotte VANDEPUTTE - José-Luis GARCIA |

# 4

# Financial Statements
## Half-year 2013 *(French Gaap)*

# BALANCE SHEET

## Assets as of June 30, 2013

| (Eur millions) | Notes | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|---|
| Central banks | 2.1 | 500 | 2,400 | 10 |
| Government and public securities, eligible for central bank financing | 2.2 | 3,206 | 3,278 | 3,232 |
| Loans ans advances due from banks | 2.3 | 3,375 | 3,223 | 3,056 |
| Loans and advances to customers | 2.4 | 51,730 | 50,241 | 48,230 |
| Bonds and other fixed income securities | 2.5 | 15,838 | 11,879 | 10,807 |
| Equities and other variable income securities | | - | - | - |
| Investments in non-consolidated companies and other long-term investments | | - | - | - |
| Investments in consolidated companies | | - | - | - |
| Intangible assets | | - | - | - |
| Property and equipment | | - | - | - |
| Unpaid capital | | - | - | - |
| Treasury stock | | - | - | - |
| Other assets | 2.6 | 18 | 1 | - |
| Accruals and other assets | 2.7 | 4,728 | 4,575 | 3,543 |
| **TOTAL ASSETS** | **2.8** | **79,395** | **75,597** | **68,878** |

## Liabilities as of June 30, 2013

| (Eur millions) | Notes | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|---|
| Central banks | 3.1 | 1,200 | - | - |
| Due to banks | 3.2 | 8,172 | 7,623 | 7,995 |
| Customer borrowings and deposits | | - | - | - |
| Debt securities | 3.3 | 60,386 | 58,156 | 52,493 |
| Other liabilities | 3.4 | 3,252 | 3,524 | 2,726 |
| Accruals and other liabilities | 3.5 | 4,789 | 4,702 | 4,042 |
| Provisions for risks and charges | 3.6 | 52 | 94 | 253 |
| Deferred tax liabilities | 3.6 | 38 | 29 | 29 |
| Regulated provisions | 3.6 | 73 | 70 | 72 |
| General banking risks reserve | | - | - | - |
| Subordinated debt | | - | - | - |
| **Equity** | | **1,433** | **1,399** | **1,268** |
| Share capital | 3.7 | 1,315 | 1,315 | 1,315 |
| Additional paid-in capital | 3.7 | - | - | - |
| Reserves and retained earnings | 3.7 | 47 | 47 | 84 |
| Net income | 3.7 | 71 | 37 | (131) |
| **TOTAL LIABILITIES** | **3.8** | **79,395** | **75,597** | **68,878** |

## Off-balance sheet items as of June 30, 2013

| (Eur millions) | Notes | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|---|
| **COMMITMENTS GRANTED** | 4.1 | **973** | **317** | **277** |
| Financing commitments | | 870 | 317 | 277 |
| Guarantees granted | | - | - | - |
| Other commitments granted | | 103 | 0 | 0 |
| **COMMITMENTS RECEIVED** | **4.2** | **21,240** | **18,394** | **11,798** |
| Financing commitments | | 7,078 | 6,006 | 50 |
| Guarantees received | | 10,990 | 12,388 | 11,748 |
| Forward commitments | | - | - | - |
| Other commitments received | | 3,172 | - | - |
| Foreign currency transactions | 4.3 | 27,656 | 26,600 | 24,939 |
| Interest rate derivatives | 4.4 | 186,442 | 180,105 | 156,147 |
| Commitments related to securities transactions | 4.5 | - | - | - |

## Income statement

| (Eur millions) | Notes | 2Q2012 | 04/07/1905 | 2Q2013 |
|---|---|---|---|---|
| Interest income | 5.0 | 1,826 | 3,439 | 4,119 |
| Interest expense | 5.0 | (1,645) | (3,202) | (4,033) |
| Income from variable income securities | | - | - | - |
| Commission income | 5.1 | - | - | - |
| Commission expense | 5.1 | (4) | (4) | (4) |
| Net gains (losses) on held for trading portfolio | 5.2 | - | - | 1 |
| Net gains (losses) on *placement* portfolio transactions | 5.2 | (8) | 13 | 11 |
| Other banking income | 5.6 | - | - | - |
| Other banking expense | | - | - | - |
| **NET BANKING INCOME** | | **169** | **246** | **94** |
| General operating expense | 5.3 | (48) | (91) | (38) |
| Depreciation and amortization | | - | - | - |
| **OPERATING INCOME BEFORE COST OF RISK** | | **121** | **155** | **56** |
| Cost of risk | | (5) | (41) | (172) |
| **INCOME FROM OPERATIONS** | | **116** | **114** | **(116)** |
| Income (loss) on fixed assets | 5.4 | - | (26) | - |
| **INCOME BEFORE NON-RECURRING ITEMS AND TAXES** | | **116** | **88** | **(116)** |
| Non-recurring items | | - | - | - |
| Income tax | 5.5 | (47) | (50) | (14) |
| Net allocation to general banking risks reserve and regulated provisions | | 2 | (1) | (1) |
| **NET INCOME** | | **71** | **37** | **(131)** |
| Basic earnings per share | | 5.40 | 2.83 | (9.96) |
| Diluted earnings per share | | 5.40 | 2.83 | (9.96) |

# Cash flow statement

| (EUR millions) | 6/30/2012 | 31/12/2012 | 6/30/2013 |
|---|---|---|---|
| **NET INCOME BEFORE TAXES** | **122** | **88** | **(115)** |
| +/- Depreciation and write-downs | 4 | 44 | 173 |
| +/- Expense/income from operating activities | 376 | 233 | 251 |
| +/- Expense/income from financing activities | (296) | (124) | (246) |
| +/- Other non cash items | (259) | (521) | (20) |
| ***= Non monetary elements included in net income before tax and other adjustments*** | ***(175)*** | ***(368)*** | ***158*** |
| +/- Cash from interbank operations (Dexia Crédit Local, Banque de France and SFIL) | (1900) | (3100) | 4,312 |
| +/- Cash from interbank operations (customer loans) | (23) | 93 | 146 |
| +/- Cash from customer operations (loans) | 1,841 | 3,207 | 1,835 |
| +/- Cash from customer financing assets | 2,911 | 6,813 | 1,077 |
| +/- Cash from hedging financial instruments | 1,336 | 1,893 | (803) |
| - Income tax paid | 20 | 5 | (9) |
| ***= Decrease/(increase) in cash from operating activities*** | ***4,185*** | ***8,911*** | ***6,558*** |
| **CASH FLOW FROM OPERATING ACTIVITIES (A)** | **4,132** | **8,631** | **6,601** |
| **CASH FLOW FROM INVESTING ACTIVITIES (B)** | - | - | - |
| +/- Cash from or for shareholders | - | 0 | - |
| +/- Other cash from financing activities | (4,858) | (6,934) | (5,035) |
| **CASH FLOW FROM FINANCING ACTIVITIES (C )** | **(4,858)** | **(6,934)** | **(5,035)** |
| **EFFECT OF EXCHANGE RATES CHANGES ON CASH (D)** | - | - | - |
| | | | |
| **Increase/(decrease) in cash equivalents (A + B+ C + D)** | **(726)** | **1,697** | **1,566** |
| Cash flow from operating activities (A) | 4,132 | 8,631 | 6,601 |
| Cash flow from investing activities (B) | - | - | - |
| Cash flow from financing activities (C) | (4,858) | (6,934) | (5,035) |
| Effect of exchange rates on cash (D) | - | - | - |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD** | **(3,788)** | **(3,787)** | **(2,090)** |
| Central banks (assets & liabilities) | 2,197 | 2,198 | 2,400 |
| Interbank accounts (assets & liabilities) and loans/deposits at sight | (5,985) | (5,985) | (4,490) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | **(4,513)** | **(2,090)** | **(524)** |
| Central banks (assets & liabilities) | 501 | 2,400 | 10 |
| Interbank accounts (assets & liabilities) and loans/deposits at sight | (5,014) | (4,490) | (534) |
| **NET CASH** | **(726)** | **1,697** | **1,566** |

# Equity

| (EUR millions) | Amount |
|---|---|
| **AS OF 12/31/2012** | |
| Share capital | 1 315 |
| Additional paid-in capital (APIC) | - |
| Commitments to increase share capital and APIC | - |
| Reserves and retained earnings | 47 |
| Net income for the year | 37 |
| Interim dividends | - |
| **EQUITY AS OF 12/31/2012** | **1 399** |
| **MOVEMENTS FOR THE PERIOD** | |
| Changes in share capital | - |
| Changes in APIC | - |
| Changes in commitments to increase share capital and APIC | - |
| Changes in reserves and retained earnings | 37 |
| Dividends paid (-) | - |
| Net income for the period | ( 16) |
| Other movements | - |
| **AS OF 6/30/2013** | |
| Share capital | 1 315 |
| Additional paid-in capital (APIC) | - |
| Commitments to increase share capital and APIC | - |
| Reserves and retained earnings | 84 |
| Net income for the period | ( 131) |
| **EQUITY AS OF 6/30/2013** | **1 268** |

# Notes to the French GAAP financial statements as of 30 June, 2013

## 1. SIGNIFICANT ACCOUNTING POLICIES

### 1.1. HIGHLIGHTS OF INTERIM PERIOD

#### a. Change in the shareholding structured 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.

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 reduction of the sensitivity of the sensitive 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 Local 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 between 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 hold 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.

As of June 30, 2013, Sfil's long-term ratings are respectively:
- Aa2 by Moody's and AA by Fitch (one notch under the French State)
- AA+ by Standard and Poor's (same rating as 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 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.

### 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 outlooks negative of the sovereign ratings as well as that of Société de Financement Local's.

On July 17, 2013, Fitch reviewed the rating of the obligations foncières of Caisse Française de Financement Local, reducing it to AA+ (outlook stable) to follow the downgrade of the French state from AAA (outlook negative) to AA+ (outlook stable).
The agency considered that the concentration of the asset pool of Caisse Française de Financement Local on French local governments (70%) did not allow the bond issues of Caisse Française de Financement Local to have a higher rating than that attributed to the French State. The rating of Caisse Française de Financement Local is therefore, at the end of August 2013, AAA at S&P, Aaa at Moody's and AA+ at Fitch.

### C. The covered bond market

In the first half of 2013, issues of euro-denominated benchmark covered bonds, totaling EUR 31.7 billion, contracted significantly in the primary market, compared with the same period in 2012 (- 48%), the lowest level since 2008.

With a 20% market share, French issuers were less present than usual in the first half in the primary market, but, with German (22%) and Scandinavian (18%) issuers, they remained the most active players in the market.
At the same time, issuers  form Southern European countries made a marked return in the primary market, particularly Spain (17%) and to a lesser extent Italy (5%).
Average spreads for covered bonds in all countries continued to narrow progressively through the first half of 2013, as they demonstrated resistance to political and economic uncertainties in Europe.
At the end of the first half, the markets experienced a period of light turbulence following uncertainties about the future of the American central bank's quantitative easing strategy, the main pillar of its monetary policy. In this context, spreads widened slightly, but they narrowed during the summer.

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

Caisse Française de Financement Local launched no issues in the first half, given the implementation of the new structure.
Its return to the euro-denominated benchmark market was marked by the successful issue at the beginning of July of EUR 1.0 billion with a maturity of seven years. This inaugural issue was the first step in the affirmed return of Caisse Française de Financement Local to the covered bond market in which it is determined to be a major player.

### 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 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 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 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 its press releases dated June 18 and July 16, 2013, the French government reaffirmed its desire to find 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).

### 1.2. POST-CLOSING EVENTS

On 1 July 2013, Caisse Française de Financement Local sold at par to Société de Financement Local, its parent company, asset-backed securities, with underlying exposures on Belgian and Italian local governments. On 30 June 3013, considering their imminent disposal, these securities were reclassified from “Investment securities” to “Placement securities” (see note 2.5.f).

On 9 July 2013, Caisse Française de Financement Local successfully issued 7-years maturity bonds for EUR 1 billion. This inaugural issue is the first step of the return of Caisse Française de Financement Local on the covered bond market in which it aims to be a leading company.

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

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

The financial statements as at 30 June 2013, were prepared in accordance with the same accounting principles as those used in the financial statements as at 31 December 2012.

The financial statements have been prepared in accordance with French generally accepted accounting principles, respecting the principle of prudence, on the basis of the following assumptions:
going concern principle,
segregation of accounting periods,
consistency of methods.

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

### 1.4. ACCOUNTING PRINCIPLES

#### a. Client loans

Client loans are stated in the balance sheet net of depreciation for possible losses. The undrawn portion of signed loan agreements is recorded as an off -balance sheet item.
Interest on loans is recorded as banking income prorate temporis for accrued amounts due, as is interest on unpaid installments. Interest on doubtful loans recorded in net banking result is neutralized with a depreciation of an equivalent amount.
Caisse Française de Financement Local applies CRC standard 2002-03, modified by CRC standard 2005-03. This standard stipulates that a loan is considered as non-performing when it presents one of the following characteristics:

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

In addition, this standard introduces a new category of bad debt – compromised non-performing loans. Loans unpaid for more than one year are recorded in this category. Interest on these loans no longer contributes to the interest margin once they have been transferred to the category of compromised non-performing loans. This standard also requires the identifi cation of outstanding loans that have been restructured under non-market conditions.
Article 13 of this standard recommends recognizing in discounted value the provisions covering the losses expected on the non-performing and compromised non-performing loans.
The rate of depreciation applied to bad debt is proportional to the risk involved. The amount of interest is depreciated for 100% in compliance with current banking practice.
Because of the low risk of loss in the local government sector, the depreciation allotted covers 3% of the capital.
Commissions received and transaction costs related to the granting or the acquisition of a loan, if they are significant, are spread over the life of the loan. Other commission income is recorded in the income statement on a cash basis.
Early loan reimbursement penalties recorded up to 31 December 2004, continue to be amortized, on a tax and accounting basis, over the residual life of the repaid loans, in function of the amount of interest that would have been paid on these loans. The remaining penalties to be spread over time are recorded in accruals and other liabilities.
Since 1 January 2005, early loan reimbursement penalties have been recorded in the income statement at the date they occur.

### b. Securities transactions

The securities held by Caisse Française de Financement Local are recorded in the assets as:
- government and public entity securities eligible for Central Bank refinancing;
- bonds and other fixed income securities.

The item "Government and public entity securities eligible for Central Bank refinancing" includes debt securities issued by public sector entities that may be refinanced through the European system of central banks.
The item "Bonds and other fixed income securities" includes the following categories of securities:
- debt securities issued by public sector entities that are not eligible for refinancing by central banks;
- debt securities guaranteed by public sector entities;
- debt securities issued by securitization structures;
- debt securities issued by subsidiaries of the Dexia Group.

They are recognized for accounting purposes as:
- investment securities (held to maturity);
- securities available for sale.

**Investment securities (held to maturity)**
Securities considered as investment securities are recorded on the date of purchase at acquisition clean
price excluding fees. Interest accrued at the date of acquisition is recorded in a separate account. The positive or negative difference between the redemption value and the market clean price (discount or premium) is amortized according to a quasi- actuarial method over the residual life of the security.

At the end of the accounting period, unrealized gains are not recorded and no depreciation is recorded except in the following cases:
- a doubt about the issuer's ability to meet his obligations;
- the probability that the company will not hold these securities until maturity owing to new circumstances.

***Placement* securities**
Placement securities are recorded on the date of purchase at acquisition clean cost excluding fees. Interest accrued at the date of acquisition is recorded in a separate account. The positive or negative difference between the redemption value and the acquisition clean cost (discount or premium) is amortized according to a quasi-actuarial method over the residual life of the security.
At closing, in application of the principle of prudence, placement securities are recorded on the balance sheet at their acquisition cost or selling price at closing, whichever is lower, after accounting, when relevant, for the value of the micro-hedge swap.
If the market for a financial instrument is not active, valuation techniques are used to calculate the selling price (or market value as defined in the notes to the financial statements). The valuation model should take into account all the factors that market players would consider to valuate the asset. Within
this framework, Caisse Française de Financement Local relies on its own valuation models, making every eff ort to take into account the market conditions at the date of the valuation as well as any changes in the credit risk quality of these financial instruments and market liquidity.
When the decrease in the value of the security exceeds the unrealized gain on the micro-hedge, the decrease in net value is recorded as asset impairment.
Placement securities transferred to investment securities are recorded at their acquisition cost and previously recognized impairment is reversed over the residual life of the securities concerned (in conformity with article 8 of CRC standard 2005-01).

### c. Debt securities

This chapter includes *obligations foncières* and other resources benefiting from the privilege defined in article L.515-19 of the Monetary and Financial Code. It is subdivided into two categories.

**Debt securities, for *obligations foncières***
These debt securities are recorded at face value.
From the first year, redemption and issue premiums are amortized on a straight-line basis over the life of the securities prorata temporis. They are recorded on the balance sheet under the same headings as the corresponding outstanding debt.

Amortization of these premiums is recorded in the income statement as "Interest expense on bonds and other fixed income securities". In the event bonds are issued above par, amortization of issue premiums is deducted from interest expense on bonds and other fixed income securities.
Interest on bonds is recorded as a banking expense for accrued amounts paid and not yet due calculated *prorate temporis* on the basis of contractual rates.
Bond issuance costs and commissions are amortized in equal parts on a straight-line basis over the life of the related loans.
Bonds denominated in foreign currencies are accounted for by the same method as foreign currency transactions (see below).

**Other debt securities, for registered covered bonds**
These private placements are recorded at their face value. Issue premiums are treated the same way as *obligations foncières* (see above).

### d. Provisions for risks and charges

Provisions are recognized based on their discounted value when the three following conditions are met:
- Caisse Française de Financement Local has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate of the amount of the obligation can be made.

### e. Derivative transactions

Caisse Française de Financement Local engages in derivative transactions to hedge the interest rate and foreign exchange risks to which it is exposed in its activity.
Depending on their purpose, these transactions are assigned to micro-hedge or macro-hedge portfolios as defined by CRB standards 90-15 and 92-04. Evaluation and accounting principles are determined according to the portfolio to which they are assigned.
Pursuant to article L.515-18 of the Monetary and Financial Code, these transactions benefit from the privilege defined in article L.515-19 of the Monetary and Financial Code provided that their purpose is to hedge the assets or debt benefiting from the privilege and the overall risk on the assets, liabilities and off -balance sheet items.
The law stipulates that derivative transactions do not benefit from the privilege when related to sources of financing that do not themselves benefit from the privilege. For Caisse Française de Financement Local, the only resources that do not benefit from the privilege comprise the debt with Société de Financement Local, which is not hedged.
The notional amount of these hedging transactions is recorded as an off -balance sheet item over the life of the contract, i.e. from the date the contract is signed (including forward contracts) up to maturity. The amount recorded is adjusted to reflect any changes in notional amounts so as to represent the maximum current or future commitment.
Equalization payments at the inception of hedging derivatives are spread over their maturity for the time remaining according to a quasi-actuarial method.

**Micro-hedge transactions**

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

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

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

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

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

**Macro-hedge transactions**

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

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

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

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

Micro-hedges and macro-hedges correspond to the use of derivative instruments that benefit from the privilege defined in article L.515-19 of the Monetary and Financial Code, pursuant to article L.515-18 of the Monetary and Financial Code.

**Monitoring market risks**

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

Market risks in trading portfolios are not compatible with the activity of Caisse Française de Financement Local. The Company cannot have a derivative instrument in an isolated open position. All derivatives used by Caisse Française de Financement Local are part of a hedging strategy, either micro- or macro-hedges.
The policy of Caisse Française de Financement Local is to avoid any foreign exchange risk. Market risks related to foreign exchange transactions are eliminated from the start by currency swaps when an asset or liability that is not denominated in euros is recorded on the balance sheet.
General accounting checks that at each closing there is no foreign exchange risk.
The market back office and market accounting units regularly control the symmetry of micro-hedge swaps.

### f. Foreign currency transactions

Pursuant to CRB standard 89-01, amended by standard 90-01 of 23 February 1990, Caisse Française de Financement Local records foreign currency transactions in accounts opened and denominated in each of the currencies used.
Specific foreign exchange position accounts and foreign exchange position equivalent accounts are opened in each currency.
At the end of each accounting period, the differences between the amounts resulting from a market price valuation of the foreign exchange position accounts at the date of closing and the amounts recorded in the foreign exchange position equivalent accounts are recorded in the income statement.

### g. Foreign exchange transactions

In the course of systematic hedging of its foreign exchange risk, Caisse Française de Financement Local enters into currency swaps. These currency swaps are initiated to eliminate the risk of foreign exchange rate fluctuations that might affect an asset or liability as soon as such a risk is recognized. They are mainly used to hedge certain bond issues and, in the assets, certain debt securities and customer loans.
Results of foreign exchange hedging transactions are accounted for by recording the difference between the hedging rate and the spot rate – contango or backwardation – *prorata temporis* in the income statement.

### h. Non-recurring income and expense

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

### i. Tax consolidation

Caisse Française de Financement Local no longer belongs to the tax group of Dexia S.A. since 31 January 2013. This change has no impact on recorded tax liabilities.

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

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

**Identity of the parent company consolidating the accounts of Caisse Française de Financement Local as at 30 June 2013.**

**Société de Financement Local**
1, passerelle des Reflets
La Défense 2
92 913 La Défense cedex

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

### 2.1 - CENTRAL BANKS

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Mandatory reserves | - | - | - |
| Other deposits | 500 | 2,400 | 10 |
| **TOTAL** | 500 | **2,400** | **10** |

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

**a. Accrued interest included in this item: 30**

**b. Analysis by residual maturity excluding accrued interest**

| Less than 3 months | 3 months to 1 year | 1 year to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| - | - | 590 | 2,612 | **3,202** |

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

| | Amount as of 6/30/2012 | Amount as of 12/31/2012 | Amount as of 6/30/2013 | Unrealised capital loss as of 6/30/2013 |
|---|---|---|---|---|
| Listed securities (1) | 3,174 | 3,214 | 3,202 | (5) |
| Other securities | - | - | - | - |
| **TOTAL** | **3,174** | **3,214** | **3,202** | **(5)** |

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

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

| PORTFOLIO | Gross amount as of 6/30/2012 | Gross amount as of 12/31/2012 | Increases | Decreases | Other changes | Impairment as of 6/30/2013 | Net amount as of 6/30/2013 |
|---|---|---|---|---|---|---|---|
| Trading | - | - | - | - | - | - | - |
| *Placement* | 730 | 729 | - | (1) | - | (5) | 723 |
| Investment | 2,448 | 2,489 | - | (11) | 1 | - | 2,479 |
| **TOTAL** | **3,178** | **3,218** | **-** | **(12)** | **1** | **(5)** | **3,202** |

**e. Impairment breakdown by country**

See note 2.9

### 2.3 - LOANS AND ADVANCES DUE FROM BANKS

**a. Sight loans and advances due from banks**

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Sight accounts | 49 | 23 | 12 |
| Unallocated sums | 11 | 2 | 17 |
| **TOTAL** | **60** | **25** | **29** |

**b. Time loans and advances due from banks**

This item is essentially composed by loan benefiting from the assignment in guarantee of refinanced public debt to Dexia Credit local
This item have also loans to Swiss cantonal banks, which benefit from a legal guarantee of their cantons for an amount of 729 millions (excluding accrued interest)
The rest concerns loans guaranteed by local governments (loans to *crédits municipaux*) or by the assignment in guarantee of refinanced public debt.

**b.a. Accrued interest included in this item: 19**

**b.b. Analysis by residual maturity excluding accrued interest**

| Less than 3 months | 3 months to 1 year | 1 year to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| 51 | 137 | 2,533 | 287 | **3,008** |

**b.c. Analysis by initial maturity excluding accrued interest**

| | Net amount as of 6/30/2012 | Net amount as of 12/31/2012 | Gross amount as of 6/30/2013 | Decrease in value as of 6/30/2013 | Net amount as of 6/30/2013 |
|---|---|---|---|---|---|
| Loans of less than 1 year (1) | - | - | - | - | - |
| Loans of more than 1 year | 3,289 | 3,176 | 3,008 | - | 3,008 |
| **TOTAL** | **3,289** | **3,176** | **3,008** | - | **3,008** |

*(1) It is mainly a question of a repurchase transaction for a period of three months.*

**b.d. Breakdown by counterparty**

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Swiss cantonal banks benefiting from their cantons' legal guarantee | 949 | 867 | 729 |
| Banks guaranteed by a local government, *crédits municipaux* | 204 | 175 | 149 |
| Credit institutions in the Dexia Group: loans benefiting from the assignment in guarantee of refinanced public deb | 2136 | 2134 | 2,130 |
| **TOTAL** | **3,289** | **3,176** | **3,008** |

**a. Accrued interest included in this item: 745**

**b. Analysis by residual maturity excluding accrued interest**

| Less than 3 months | 3 months to 1 year | 1 year to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| 953 | 2,857 | 14,103 | 29,572 | **47,485** |

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

| ECONOMIC SECTOR | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Public sector | 47,191 | 45,895 | 44,082 |
| Other sectors (1) | 3,735 | 3,579 | 3,403 |
| **TOTAL** | **50,926** | **49,474** | **47,485** |

*(1) Social Housing : OPHLM et S.A. d'HLM and other loans guaranteed by local governments.*

**d. Analysis by initial maturity excluding accrued interest**

| | Net amount as of 6/30/2012 | Net amount as of 12/31/2012 | Gross amount as of 6/30/2013 | Impairment as of 6/30/2013 | Net amount as of 6/30/2013 |
|---|---|---|---|---|---|
| Loans of less than 1 year | 3 | 2 | 2 | - | 2 |
| Loans of more than 1 year | 50,923 | 49,472 | 47,493 | (10) | 47,483 |
| **TOTAL** | **50,926** | **49,474** | **47,495** | **(10)** | **47,485** |

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

| | Net amount as of 6/30/2012 | Net amount as of 12/31/2012 | Gross amount as of 6/30/2013 | Impairment as of 6/30/2013 | Net amount as of 6/30/2013 |
|---|---|---|---|---|---|
| Performing commitments | 50,894 | 49,361 | 47,377 | - | 47,377 |
| Restructured commitments | - | - | - | - | - |
| Non-performing loans | 26 | 107 | 111 | (9) | 102 |
| Compromised non-performing loans | 6 | 6 | 7 | (1) | 6 |
| **TOTAL** | **50,926** | **49,474** | **47,495** | **(10)** | **47,485** |

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

| | 6/30/2012 | 12/31/2012 | Allocations | Reversals | Transfers | 6/30/2013 |
|---|---|---|---|---|---|---|
| **For non-performing loans** | | | | | | |
| On loans | (1) | (3) | (2) | 2 | - | (3) |
| On interest | (1) | (4) | (4) | 2 | - | (6) |
| **For compromised non-performing loans** | | | | | | |
| On loans | 0 | 0 | - | 0 | - | 0 |
| On interest | (1) | (1) | - | 0 | - | (1) |
| **TOTAL** | **(3)** | **(8)** | **(6)** | **4** | - | **(10)** |

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

**g. Impairment breakdown by country**
See note 2.9

2.5 - BONDS AND OTHER FIXED INCOME SECURITIES

**a. Accrued interest included in this item: 25**

**b. Analysis by residual maturity excluding accrued interest**

| Less than 3 months | 3 months to 1 year | 1 year to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| 1 | 15 | 628 | 10,138 | **10,782** |

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

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Public sector | 2,024 | 1,882 | 2,068 |
| Other sectors (guaranteed by a State or by a local government) | 1,371 | 1,201 | 905 |
| Other sectors (ABS) (1) | 80 | 73 | - |
| DCC – Dexia Crediop per la | 3,446 | 3,360 | 3,263 |
| DSFB – Dexia Secured Funding Belgium | 6,399 | 4,831 | 4,546 |
| *Cedulas territoriales* issued by Dexia | 1,300 | 500 | - |
| Lettres de gage publiques issued by | 1,175 | - | - |
| **TOTAL** | **15,795** | **11,847** | **10,782** |
| *- of which eligible for Central bank refinancing* | *1,843* | *628* | *622* |
| *- assets assigned in guarantee to the central bank and removed from the coover pool* | - | - | - |
| *- of which replacement assets* | *1,175* | *500* | - |

*(1)Asset-backed securities (ABS)*

**d. Replacement assets**

| Rating | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Dexia Sabadell | - | 500 | - |
| Dexia LdG Banque | 1,175 | - | - |
| Dexia Crédit Local - certificates of deposit | - | - | - |
| **TOTAL** | **1,175** | **500** | - |

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

| | 6/30/2012 | 12/31/2012 | 6/30/2013 | Unrealized capital loss as of 6/30/2013 |
|---|---|---|---|---|
| Listed securities | 4,356 | 2,136 | 1,501 | (32) |
| Other securities | 11,439 | 9,711 | 9,281 | 0 |
| **TOTAL** | **15,795** | **11,847** | **10,782** | **(32)** |

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

| PORTFOLIO | Net amount as of 6/30/2012 | Net amount as of 12/31/2012 | Gross amount as of 12/31/2012 | Transferts | Decreases or sales (1) | Other changes | Impairment as of 6/30/2013 | Net amount as of 6/30/2013 |
|---|---|---|---|---|---|---|---|---|
| Trading | - | - | - | - | - | - | - | - |
| Placement | 1,681 | 1,564 | 1,601 | 7,809 | (115) | (25) | (32) | 9,238 |
| Investment | 14,114 | 10,283 | 10,283 | (7809) | (922) | (8) | 0 | 1,544 |
| | **15,795** | **11,847** | **11,884** | - | **(1,037)** | **(33)** | **(32)** | 10,782 |

*(1) Following the change in the eligibility criterias for covered bonds in repo transactions within the Eurosytem, Caisse Française de Financement Local could not hold any ABS in its balance sheet. Thus, the securitization notes that Caisse Française de Financement Local hold, which are especially designed to transfer to the cover pool, exposures on Italian and Belgian local governments originated by Dexia subsidiaries, have been declassified for its accounting net carrying amount as of June 30, 2013, to placement securities for a transfer, the 1st of July 2013 to Sfil, its parent company. The amount of the sale is EUR 7,809 millions. After this declassification, Caisse Française de Financement Local hold in its balance sheet,*
*with the aim to hold to maturity, a portfolio of investment assets of EUR 4,033 million (public effects for EUR 2,479 millions and others for EUR 1,544 million) as of June 30, 2013 and an unrealised capital loss for EUR -230 million.*

**g. Impairment breakdown by country**
See note 2.9

## 2.6 - OTHER ASSETS

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Other receivables | 18 | 1 | 0 |
| **TOTAL** | **18** | **1** | **0** |

## 2.7 - ACCRUALS AND OTHER ASSETS

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Deferred losses on hedging transactions | 2,136 | 2,254 | 2,201 |
| Deferred charges on bond issues | 54 | 49 | 44 |
| Deferred charges on hedging transactions | 195 | 179 | 164 |
| Premiums on acquisition of loans | 125 | 111 | 101 |
| Other prepaid charges | - | - | - |
| Accrued interest not yet due on hedging transactions | 1,293 | 1,302 | 1,029 |
| Translation adjustments | 920 | 677 | - |
| Other deferred income | - | - | - |
| Other accruals | 5 | 3 | 4 |
| **TOTAL** | **4,728** | **4,575** | **3,543** |

## 2.8 - TOTAL ASSETS

| Analysis by original currency | Amount in original currency as of 6/30/2012 | Amount in euros as of 6/30/2012 | Amount in original currency as of 12/31/2012 | Amount in euros as of 12/31/2012 | Amount in original currency as of 6/30/2013 | Amount in euros as of 6/30/2013 |
|---|---|---|---|---|---|---|
| EUR | 69,993 | 69,993 | 66,639 | 66,639 | 60,650 | 60,650 |
| AUD | 1,080 | 871 | 1,079 | 848 | 1,079 | 760 |
| CAD | 1,023 | 791 | 1,022 | 776 | 1,022 | 747 |
| CHF | 2,767 | 2,303 | 2,760 | 2,286 | 2,659 | 2,161 |
| DKK | 0 | 0 | - | - | 0 | 0 |
| GBP | 679 | 841 | 637 | 783 | 656 | 766 |
| HKD | 206 | 21 | 201 | 20 | 206 | 20 |
| JPY | 157,869 | 1,562 | 156,881 | 1,374 | 156,759 | 1,213 |
| NOK | 1,012 | 134 | 1,039 | 141 | 1,012 | 128 |
| PLN | 33 | 8 | 34 | 8 | 35 | 8 |
| SEK | 1,349 | 154 | 1,342 | 156 | 1,340 | 153 |
| USD | 3,447 | 2,717 | 3,392 | 2,566 | 2,957 | 2,272 |
| **TOTAL** | | **79,395** | | **75,597** | | **68,878** |

## 2.9 - IMPAIRMENT BREAKDOWN BY COUNTRY

| | Amount as of 6/30/2012 | Amount as of 12/31/2012 | Amount as of 6/30/2013 |
|---|---|---|---|
| **Government and public entity securities eligible for central** | **(4)** | **(5)** | **(5)** |
| Spain | 0 | - | - |
| Italy | (4) | (5) | (5) |
| **Bonds and other fixed income securities - *placement*** | **(62)** | **(37)** | **(32)** |
| Spain | (3) | (3) | (3) |
| France | 0 | - | - |
| Germany | (4) | 0 | - |
| Austria | 0 | (4) | - |
| Italy | (36) | (16) | (14) |
| United Kingdom | (19) | (14) | (15) |
| United States | - | - | - |
| **Bonds and other fixed income securities - investment securities** | **-** | **-** | **-** |
| Greece | - | - | - |
| **Loans and advances to customers** | **(3)** | **(8)** | **(10)** |
| France | (3) | (8) | (10) |

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

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

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

| | 12/31/2012 | | | | | |
|---|---|---|---|---|---|---|
| | **Spain** | **Ireland** | **Italy** | **Portugal** | **Greece** | **Total** |
| Government bonds | - | - | 492 | - | - | 492 |
| Securities guaranteed by State | - | - | 112 | - | - | 112 |
| **TOTAL** | - | - | **604** | - | - | **604** |

| | 6/30/2013 | | | | | |
|---|---|---|---|---|---|---|
| | **Spain** | **Ireland** | **Italy** | **Portugal** | **Greece** | **Total** |
| Government bonds | | - | 487 | - | - | 487 |
| Securities guaranteed by State | - | - | 112 | - | | 112 |
| **TOTAL** | - | - | **599** | - | - | **599** |

| | 12/31/2012 | | | | | |
|---|---|---|---|---|---|---|
| | **Spain** | **Ireland** | **Italy** | **Portugal** | **Greece** | **Total** |
| Investment securities | - | - | 492 | - | - | 492 |
| Placement securities | - | - | 112 | - | - | 112 |
| **TOTAL** | - | - | **604** | - | - | **604** |
| **IMPAIRMENT** | - | - | (14) | - | - | (14) |

| | 6/30/2013 | | | | | |
|---|---|---|---|---|---|---|
| | **Spain** | **Ireland** | **Italy** | **Portugal** | **Greece** | **Total** |
| Investment securities | - | - | 487 | - | - | 487 |
| Placement securities | - | - | 112 | - | - | 112 |
| **TOTAL** | - | - | **599** | - | - | **599** |
| **IMPAIRMENT** | - | - | **(14)** | - | - | **(14)** |

## 3. NOTES TO THE LIABILITIES (EUR millions) :

### 3.1 CENTRAL BANKS

This item includes refinancing obtained through Banque de France tenders. The use of such financing organized by tenders involved the pledging of eligible assets within the framework of a general guarantee management agreement (3G). This source of financing does not benefit from the privilege defined in article L.515-19 of the Monetary and Financial Code.

Caisse Française de Financement Local has used Banque de France financing :
- from September 2008 to July 2009 in order to finance the commercial production when the covered bonds market was closed
- since October 2011, for the *cedulas territoriales* securities financing further the rating downgrading.

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Overnight borrowing | - | - | - |
| Time borrowing | 1,200 | - | - |
| Accrued interest | 0 | - | - |
| **TOTAL BANQUE DE FRANCE** | 1,200 | - | - |

### 3.2 DUE FROM BANKS

This item includes the balance of the account opened with Dexia Crédit 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 the issue of obligations foncières.

Since January 31, 2013, Caisse Française de Financement Local's financing comes from Societe de Financement Local. As of 30 June 2013, there is no current account between Caisse Française de Financement Local and Société de Financement Local.

As of 30 June 2013, the current account, except accrued interests not yet due, presents a balance of EUR 7 973 million.

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Sight accounts | 4 | 0 | - |
| Current account | 5,055 | 4,510 | - |
| Interest accrued not yet due | - | 0 | - |
| Long-term borrowing | 3,100 | 3,100 | 7,973 |
| Interest accrued not yet due | 9 | 10 | 22 |
| Unallocated sums | 4 | 3 | - |
| **TOTAL** | **8,172** | **7,623** | **7,995** |

**Analysis by residual maturity excluding accrued interest**

| | Less than 3 months | 3 months to 1 year | 1 year to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| Sight | | - | - | - | - |
| Time | 858 | 547 | 4,926 | 1,642 | 7,973 |
| **TOTAL** | **858** | **547** | **4,926** | **1,642** | **7,973** |

### 3.3 - DEBT SECURITIES

**a. Debt securities (*obligations foncières*) :**

a. Accrued interest included in this item: 813

b. Analysis by residual maturity excluding accrued interest

| Type of securities | Less than 3 months | 3 months to 1 year | 1 year to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| Obligations foncières | 265 | 4,137 | 24,380 | 18,551 | 47,333 |
| of which issue premiums (1) | - | (3) | (25) | (62) | (90) |

*(1) The gross amount of issue premiums totaled EUR 213 million.*

c. Changes during the year excluding accrued interest

| 12/31/2012 | Increases | Decreases | Translation adjustments | 6/30/2013 |
|---|---|---|---|---|
| 52,738 | 2 | (5,082) | (325) | 47,333 |

**b. Other bonds (registered covered bonds)**

a. Accrued interest included in this item: 101

b. Analysis by residual maturity excluding accrued interest

| Type of securities | Less than 3 months | 3 months to 1 year | 1 year to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| *Registered covered bonds* | - | (0) | 151 | 4,095 | 4,246 |
| of which issue premiums (1) | - | - | (0) | (5) | (5) |

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

c. Analysis by residual maturity excluding accrued interest

| 12/31/2012 | Increases | Decreases | Translation adjustments | 6/30/2013 |
|---|---|---|---|---|
| 4,245 | 1 | 0 | - | 4,246 |

### 3.4 - OTHER LIABILITIES

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| *Cash collateral received* | 3,209 | 3,518 | 2,713 |
| Accrued interest not yet due on cash collateral received | 0 | 0 | - |
| Taxes | 43 | 6 | 13 |
| Balances to pay on unwound hedging contracts | - | - | - |
| **TOTAL** | **3,252** | **3,524** | **2,726** |

### 3.5 - ACCRUALS AND OTHER LIABILITIES

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Deferred gains on hedging transactions | - | - | - |
| Deferred income on hedging transactions | 2,529 | 2,675 | 2,571 |
| Deferred income on loans | 221 | 204 | 192 |
| Accrued interest not yet due on hedging transactions | 1,265 | 1,120 | 1,045 |
| Other accrued charges | 28 | 25 | 41 |
| Translation adjustments | 717 | 678 | 193 |
| Other accruals | 28 | 0 | - |
| **TOTAL** | **4,789** | **4,702** | **4,042** |

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

**a. Provision for risks on financial instruments**

| | Amount as of 6/30/2012 | Amount as of 12/31/2012 | Increases | Decreases | Translation adjustments | Amount as of 6/30/2013 |
|---|---|---|---|---|---|---|
| Loan commitments (1) | 0 | 39 | 170 | - | 0 | 209 |
| Financial instruments | 52 | 55 | 0 | (11) | 0 | 44 |

*(1) Caisse Française de Financement Local increased provisions on structured loans to EUR 209 million in 2013.*

**b. Deferred tax liabilities**

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Deferred taxes | 38 | 29 | 29 |
| **TOTAL** | **38** | **29** | **29** |

**c. Regulated provision for risks on medium- and long-term loans**

| Amount as of 6/30/2012 | Amount as of 12/31/2012 | Increases | Decreases | Translation adjustments | Amount as of 6/30/2013 |
|---|---|---|---|---|---|
| 73 | 70 | 2 | - | - | 72 |

### 3.7 EQUITY

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Share capital | 1,315 | 1,315 | 1,315 |
| Legal reserve | 44 | 44 | 46 |
| Retained earnings (+/-) | 3 | 3 | 38 |
| Net income (+/-) | 71 | 37 | (131) |
| **TOTAL** | **1,433** | **1,399** | **1,268** |

On May 24, 2013, the Ordinary and Extraordinary Shareholders' Meeting decided to allocate the 2012 net income of EUR 37 million to retained earnings, constituing income for distribution of EUR 38 million, after allocation to the legal reserve

Caisse Française de Financement Local's share capital totaled EUR 1,315 million, comprising 13,150,000 shares with a face value of EUR 100

### 3.8 - TOTAL LIABILITIES

| Analysis by original currency | Amount in original currency as of 6/30/2012 | Amount in euros as of 6/30/2012 | Amount in original currency as of 12/31/2012 | Amount in euros as of 12/31/2012 | Amount in original currency as of 6/30/2013 | Amount in euros as of 6/30/2013 |
|---|---|---|---|---|---|---|
| EUR | 69,993 | 69,993 | 66,639 | 66,639 | 60,650 | 60,650 |
| AUD | 1,080 | 871 | 1,079 | 848 | 1,079 | 760 |
| CAD | 1,023 | 791 | 1,022 | 776 | 1,022 | 747 |
| CHF | 2,767 | 2,303 | 2,760 | 2,286 | 2,659 | 2,161 |
| DKK | 0 | 0 | - | - | 0 | 0 |
| GBP | 679 | 841 | 637 | 783 | 656 | 766 |
| HKD | 206 | 21 | 201 | 20 | 206 | 20 |
| JPY | 157,869 | 1,562 | 156,881 | 1,374 | 156,759 | 1,213 |
| NOK | 1,012 | 134 | 1,039 | 141 | 1,012 | 128 |
| PLN | 33 | 8 | 34 | 8 | 35 | 8 |
| SEK | 1,349 | 154 | 1,342 | 156 | 1,340 | 153 |
| USD | 3,447 | 2,717 | 3,392 | 2,566 | 2,957 | 2,272 |
| **TOTAL** | | **79,395** | | **75,597** | | **68,878** |

### 3.9 - TRANSACTIONS WITH RELATED PARTIES

| Analysis by nature | Parent company and entities consolidated by Dexia Credit Local (1) | | | Other related parties(2) | | |
|---|---|---|---|---|---|---|
| | 6/30/2012 | 12/31/2012 | 6/30/2013 | 6/30/2012 | 12/31/2012 | 6/30/2013 |
| **ASSETS** | | | | | | |
| Loans and advances due from banks - sight | - | - | - | - | - | - |
| Loans and advances due from banks - time | 2,146 | 2,142 | - | - | - | - |
| Bonds and other fixed income securities | 4,757 | 3,864 | - | 1,175 | - | - |
| **LIABILITIES** | | | | | | |
| Due to banks - sight | 5,055 | 4,510 | - | - | - | - |
| Due to banks - time | 3,109 | 3,110 | 7,995 | - | - | - |
| **INCOME STATEMENT** | | | | | | |
| Interest income on loans and advances | 37 | 56 | - | - | - | - |
| Interest income on debt securities | 39 | 65 | - | 7 | - | - |
| Interest expense on borrowings | (39) | (87) | (30) | - | - | - |
| Net commissions | (3) | (3) | - | - | - | - |
| **OFF-BALANCE SHEET** | | | | | | |
| Interest rate derivatives | 102,948 | 102,507 | 12,664 | 0 | - | - |

*(1) This item includes until 2012 transactions with companies of Dexia Credit Local. For 2013, it includes transactions with Sfil, CAFFIL's parent company.*
*(2) This item includes transactions with companies of the Belgian and Luxembourg sub-groups consolidated by Dexia SA, the parent company of Dexia Credit Local.*

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

### 4.1 - COMMITMENTS GRANTED

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Financing commitments granted to credit institutions | 0 | 0 | 0 |
| Financing commitments granted to customers (1) | 870 | 317 | 277 |
| Other commitments given, assets assigned in guarantee | 103 | - | - |
| **TOTAL** | **973** | **317** | **277** |

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

### 4.2 - COMMITMENTS RECEIVED

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Financing commitments received from credit institutions (1) | 7,078 | 6,006 | 50 |
| Currencies borrowed | - | - | - |
| Guarantees received from credit institutions | 6,221 | 4,742 | 4,569 |
| Guarantees received from local governments and asset transfers as guarantees of commitments on local | 7,941 | 7,646 | 7,179 |
| **TOTAL** | **21,240** | **18,394** | **11,798** |

*(1) This concerns the refinancing agreement within the framework of the current account agreement between Dexia Credit Local and Caisse Française de Financement Local. 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.*
*The amount of EUR 50 million is linked with the current account agreement with Sfil.*

### 4.3 - FOREIGN CURRENCY TRANSACTIONS

Cash and forward foreign exchange transactions are recorded at their value in foreign currencies translated at the exchange rate at the end of the period.
The items "Currencies to receive" and "Currencies to deliver" are composed of long currency swaps with intermediate payment flows corresponding to hedging

| | Amount as of 6/30/2012 | Amount as of 12/31/2012 | Amount as of 6/30/2013 | Fair value as of 6/30/2013 |
|---|---|---|---|---|
| Currencies to receive | 14,031 | 13,299 | 12,276 | 533 |
| Currencies to deliver | 13,828 | 13,300 | 12,470 | (529) |
| **TOTAL** | **27,859** | **26,599** | **24,746** | **4** |

### 4.4 - COMMITMENTS ON INTEREST RATE DERIVATIVES

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

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

| Type of transaction | Amount as of 12/31/2012 | Less than 1 year | 1 year to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| Unconditional transactions | 180,105 | 73,899 | 26,304 | 55,944 | 156,147 |
| of which deferred start | 10,234 | 6,950 | 0 | 779 | 7,729 |

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

**b. Analysis of interest rate transactions by product type**

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Interest rate swaps | 186,442 | 180,105 | 156,147 |
| Term contracts | - | - | - |
| Interest rate options | - | - | - |
| **TOTAL** | **186,442** | **180,105** | **156,147** |

**c. Analysis of interest rate swap transactions**

| | 6/30/2012 | 12/31/2012 | 6/30/2013 | Fair value as of 6/30/2013 |
|---|---|---|---|---|
| Micro-hedge | 76,765 | 73,913 | 68,517 | 1,269 |
| Macro-hedge | 109,677 | 106,192 | 87,630 | (2,573) |
| **TOTAL** | **186,442** | **180,105** | **156,147** | **(1,304)** |

**d. Analysis of interest rate transactions by counterparty**

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Parent and other Dexia Group companies | 102,948 | 99,550 | 12,664 |
| Counterparties with equity interests | - | - | - |
| Other counterparties | 83,494 | 80,555 | 143,483 |
| **TOTAL** | **186,442** | **180,105** | **156,147** |

### 4.5 - COMMITMENTS RELATED TO SECURITIES TRANSACTIONS

| | 6/30/2012 | 12/31/2012 | 6/30/2013 |
|---|---|---|---|
| Securities purchased: | | | |
| Spot | - | - | - |
| Forward | - | - | - |
| **TOTAL** | **-** | **-** | **-** |

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

## 5.0. - INTEREST AND RELATED INCOME / EXPENSE

| | 2Q2012 | 2Q2013 |
|---|---|---|
| **INTEREST AND RELATED INCOME** | **1,826** | **4,119** |
| Due from banks | 56 | 31 |
| Due from customers | 1,123 | 2,097 |
| Bonds and other fixed income securities | 182 | 39 |
| Macro-hedge transactions | 465 | 1,952 |
| Other commitments | - | - |
| **INTEREST AND RELATED EXPENSE** | **(1,645)** | **(4,033)** |
| Due to banks | (52) | (36) |
| Due to customers | (454) | (1,584) |
| Bonds and other fixed income securities | (410) | (165) |
| Macro-hedge transactions | (729) | (2,247) |
| Other commitments | - | - |
| **INTEREST MARGIN** | **181** | **86** |

## 5.1 - ANALYSIS OF COMMISSIONS PAID

| | 2Q2012 | 2Q2013 |
|---|---|---|
| Commission for business brokerage and securities portfolio management billed by Dexia Crediop | (3) | (4) |
| Commission paid on securities transactions | (1) | (0) |
| **TOTAL** | **(4)** | **(4)** |

## 5.2 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS

| | 2Q2012 | 2Q2013 |
|---|---|---|
| Transactions on *placement* securities (1) | (8) | 11 |
| Transactions on investments securities | - | (0) |
| Transactions on interest rate derivatives | - | - |
| Foreign exchange transactions | - | 1 |
| **TOTAL** | **(8)** | **12** |

(1) This item regroups capital gains

## 5.3 - GENERAL EXPENSES

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, conclued 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 until January 31, 2013. 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 of the Dexia Group the management of loans and securities in their respective countries (Kommunalkredit Austria and Dexia Bank Belgium, former subsidiaries of Dexia, as well as Dexia Crediop).
General operating expense can be broken down as follows.

| | 2Q2012 | 2Q2013 |
|---|---|---|
| Taxes | (4) | (3) |
| Other general operating expense* | (44) | (35) |
| **TOTAL** | **(48)** | **(38)** |

## 5.4 - CORPORATE INCOME TAX

| | 2Q2012 | 2Q2013 |
|---|---|---|
| Income tax for the year | (47) | (14) |
| Deffered tax | 2 | - |
| **TOTAL** | **(45)** | **(14)** |

The corporate tax rate in France for 2013 is 36.10%.
The corporate tax rate of the Dublin branch is 12.50%

# 5 Statutory auditor’s report

## Half-year 2013 *(French Gaap)*

**Statutory auditors' review report on the first half-year financial information**
Period from January 1st, 2013 to June 30th, 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 includes information relating to the specific verification of information presented in the interim management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

To the shareholders,

In our capacity as statutory auditors and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (*"Code monétaire et financier"*), we completed:
- the review of the accompanying half-year financial statements of Caisse Française de Financement Local, for the period from January 1st, 2013 to June 30th, 2013;
- the verification of the information contained in the interim management report.

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

**1. Conclusion on the financial statements**

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.
Based on our review, we did not identify any material misstatements that would cause us to believe that the interim financial statements do not present fairly, in all material aspects, the results of operations for the six-month period ended June 30th, 2013 and the financial position of Caisse Française de Financement Local and its assets at that date, in accordance with accounting rules and principles applicable in France.
Without qualifying our conclusion, we draw your attention to Note 2.5.f. that outlines the transfer of the asset-backed securities held by Caisse Française de Financement Local to the "*Placement* securities" portfolio.

**2. Specific verification**

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

Courbevoie and Neuilly-sur-Seine, August 29th, 2013

The Statutory Auditors

*French original signed by*

MAZARS — DELOITTE & ASSOCIES

Virginie CHAUVIN — Anne VEAUTE — Charlotte VANDEPUTTE — José-Luis GARCIA

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

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

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

La Défense – August 29, 2013

Gilles GALLERNE
Chairman of the executive board

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