

A large, stylized graphic in shades of purple and magenta. It depicts a hand holding a pen, with the hand and pen rendered in a darker purple and the background in a lighter magenta. The hand is positioned on the left, and the pen is held vertically, pointing downwards. The overall composition is abstract and modern.

Financial Report

2013

Société de Financement Local

2013, a successful launch year

2013 was a key year for the future of local government investment activity in France.

After a period of uncertainty regarding its financing, the local public sector can now count on a new solid, long-term player: Société de Financement Local.

The creation by the French government of this new wholly publicly-owned banking institution, backed by Caisse des Dépôts et Consignations and La Banque Postale, clearly illustrates the strategic importance of financing the sector for the national economy.

One year after my appointment at the head of Société de Financement Local, I am delighted with the successful launch of our activities.

In the review of this very special year, we can point out three major strategic developments:

- the installation of our new signature on the financial markets, with Caisse Française de Financement Local. The great success of our subsidiary's bond issue program in all aspects (size, duration and financial conditions) is proof of the recognized relevance and economic strength of our scheme;
- the provision of high-quality services for La Banque Postale, which achieved a remarkable breakthrough in the local government financing market, with a medium to long-term production of EUR 3 billion and the number two position in bank financing;
- the conclusion of nearly 100 sensitivity reduction transactions for a total sum of EUR 568 million, an encouraging initial result for our strategy aimed at methodically and efficiently reducing risks related to structured loans. Taking into account amortization, we have managed to reduce structured loans by EUR 900 million in one year.

One of the highlights of the past year for me is a particularly important initiative: Société de Financement Local's willingness to meet with local officials and public-sector stakeholders across France on a regular basis to establish constructive and responsible dialogue and present them with the new scheme created for them.

Personally, I come back from my various visits across France more convinced than ever that one of the keys to our success is the understanding of our role by local officials and decision-makers, both now and in the future. And we will be pursuing this initiative in 2014.

On the occasion of this first review of 2013, I would like to express my thanks to those who have enabled the success of this launch phase, which is crucial for our future:

- to all employees who joined forces to take part in the construction of our institution and the implementation of the scheme;
- to our partners and shareholders, the French government, our reference shareholder, Caisse des Dépôts et Consignations and La Banque Postale, which provided us with guidance and support in this successful launch phase.

2014 will be a year for Société de Financement Local to extend its missions and develop its business around three priorities:

- consolidate the bond issuance strategy. The third public issue launched by Caisse Française de Financement Local at the beginning of January 2014 confirmed the very good quality of its signature and the wealth of its investor base, which is exceptional for an issuer of its category;
- intensify the commercial partnership with La Banque Postale. As 2014 is an election year, Société de Financement Local will strengthen its relationship with La Banque Postale to allow it to optimize its commercial development. To this end, we will provide it with the necessary resources to offer a range of products that are suitable for the financing needs of local governments, particularly regarding the terms of the loans offered;
- continue our sensitivity reduction strategy alongside the implementation of the local government support fund. In this context, the most sensitive structured loans should be dealt with more quickly.

All these priorities converge towards the same objective: to position Société de Financement Local as a key player serving the local public sector.

Philippe Mills
Chairman and Chief Executive Officer



2013 FINANCIAL REPORT

Société de Financement Local

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This free translation of the financial report published in French is provided solely for the convenience of English-speaking readers.

Management report

Context of the company's creation

Société de Financement Local (Sfil) was authorized as a bank by the Collège of the French Prudential Supervision and Resolution Authority (*Autorité de contrôle prudentiel et de résolution*) on January 16, 2013.

Sfil is part of a new scheme introduced by the French government to provide French local governments and public hospitals with continuous, efficient access to long-term bank financing that supplements the financing offered by French and European commercial banks and public sector institutions operating in this segment.

This scheme is a response to the difficulties faced by local governments and public hospitals in obtaining financing as a result of the 2008 financial crisis, which led to profound

changes and a sharp decrease in the financing solutions offered by banks.

It creates a close relationship between the French government, Sfil's reference shareholder and sponsor of the scheme, Caisse des Dépôts et Consignations (CDC), which provides a large portion of the financing that Sfil needs to operate properly, and La Banque Postale (LBP), which markets its new financing products to local governments and public hospitals through its network.

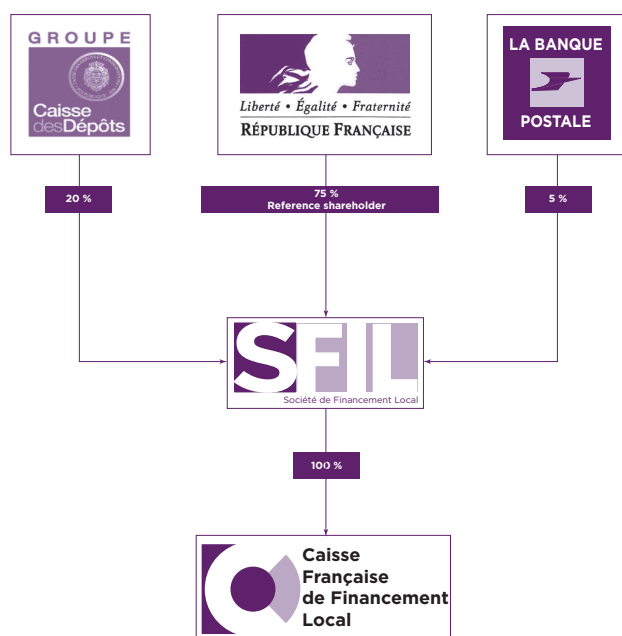
The scheme was implemented after being approved by the European Commission (EC) at the end of 2012, which authorized the acquisition by Sfil of the balance sheet and all the capital of Dexia Municipal Agency (DMA), renamed Caisse Française de Financement Local. Based on this approval, under which the scheme is considered a development bank¹, for the time being activity must be limited to the financing of local governments and French public hospitals and must offer fair competitive conditions with private sector operators.

The French government plays a key role in this scheme, having contributed 75% of Société de Financement Local's capital and having provided to the regulatory authorities, as reference shareholder, a firm commitment of financial support in line with the requirements of banking regulations.

With Caisse des Dépôts et Consignations and La Banque Postale holding 20% and 5% of Société de Financement Local's capital, respectively, Sfil's shareholders are firmly rooted in the public sphere, thereby reflecting the mission entrusted to it by the French government.

Since January 31, 2013 Sfil has held 100% of the capital of Caisse Française de Financement Local, its sole subsidiary, a *société de crédit foncier* (SCF) governed by Articles L.513-2 and following of the French Monetary and Financial Code (*Code monétaire et financier*) (see below: General Business Framework).

Capital structure of Sfil and its sole subsidiary



(1) Cf. Press release IP/12/1447 of the European Commission of December 28, 2012

Highlights of 2013

In 2013, the French government implemented the new financing scheme for local governments and public hospitals in France. Formative measures taken during the year allowed several operational and financial objectives to be met.

1. Creation of a new governance structure

Following the acquisition of the company by the French government, Caisse des Dépôts et Consignations and La Banque Postale, a new governance structure was gradually put in place at Société de Financement Local as of January 31, 2013 based in particular on the provisions of the *Loi de Démocratisation du Secteur Public* (law on the democratization of the public sector). A Board of Directors with 15 new members was appointed. It is assisted by two specialized committees - an Audit and Risks Committee and an Appointments and Compensation Committee. The Chairman of the Board of Directors is responsible for the company's management.

In addition, the governance bodies of Caisse Française de Financement Local were reorganized to reflect the changes at its parent company.

2. Société de Financement Local's functions

Under the scheme described above, Sfil has three functions, namely refinancing, via its subsidiary, loans granted by La Banque Postale to eligible local governments and public hospitals, providing specialized services to La Banque Postale and Caisse Française de Financement Local to ensure the proper operation of the scheme, and reducing the "sensitivity" of certain loans shown on the asset side of the balance sheet of Caisse Française de Financement Local.

3. Ratings of the entities

Société de Financement Local

The three rating agencies - Moody's, Standard & Poor's and Fitch - underscored the close ties that exist between Société de Financement Local and the French government, which enabled Sfil to receive a first set of ratings in early February 2013 equal to or one notch lower than that of the French government: Aa2 Moody's, AA+ Standard & Poor's and AA+ Fitch.

As a result of the downgrade of the French government's ratings in 2013, Sfil's ratings were revised accordingly. As of December 31, 2013, Sfil's ratings were therefore AA2, AA and AA for Moody's, Standard & Poor's and Fitch, respectively.

Caisse Française de Financement Local

The rating agencies reviewed the ratings of Caisse Française de Financement Local at the time of its acquisition by Société de Financement Local. Fitch confirmed the AAA rating of the covered debt instruments called *obligations foncières* issued by Caisse Française de Financement Local and Standard & Poor's and Moody's raised their rating to this same level.

With regard to the ratings assigned by Standard & Poor's and Fitch, France's downgrade resulted in a one notch decrease in the ratings of the securities issued by Caisse Française de Financement Local, in strict compliance with the methodologies in force in 2013.

As of December 31, 2013, the ratings of the *obligations foncières* issued by Caisse Française de Financement

Local were therefore Aaa, AA+ and AA+ for Moody's, Standard & Poor's and Fitch, respectively.

4. Operational launch of Sfil and dismantling of Dexia

Société de Financement Local began operations at the beginning of 2013 thanks in particular to a transfer of Dexia staff to Société de Financement Local and the resources made available by Dexia during a transition phase. Société de Financement Local gradually acquired the resources needed for its operation and that of its subsidiary, Caisse Française de Financement Local, for which it acts as servicer within the meaning of Article L. 513-15 of the French Monetary and Financial Code.

Based on the commitments made to the European Commission, services between Sfil and Dexia were discontinued on July 31, 2013, with the exception of a few IT functions that were still being duplicated.

Duplicating Dexia's information system will allow Société de Financement Local to have its own information system by no later than 30 months after February 1, 2013, in accordance with the deadline approved by the European Commission.

5. Caisse Française de Financement Local issues

Under the new local public sector financing scheme and in the wake of actions aimed at promoting the creditworthiness of Caisse Française de Financement Local among French, European and Asian investors, Caisse Française de Financement Local was able to complete its entire 2013 financing program, i.e. EUR 3.06 billion, between July and September.

6. Launch of the commercial local public sector financing activity by La Banque Postale

La Banque Postale, for which Société de Financement Local acts as servicer, began its long-term local public sector financing activity in 2013. In that first year, Caisse Française de Financement Local acquired nearly EUR 946 million in loans from La Banque Postale.

7. Structured loans to the local public sector

Several clients filed lawsuits against Dexia Crédit Local, Caisse Française de Financement Local and/or Société de Financement Local regarding sensitive structured loans marketed by Dexia Crédit Local which appear on the balance sheet of Caisse Française de Financement Local. The proceedings are pending.

Moreover, one of Société de Financement Local's functions is to pursue a policy to reduce the sensitivity of sensitive structured loans. Under this policy, which is part of a strategy defined in February 2013, some 100 transactions were completed in 2013, resulting in the permanent reduction of the sensitivity of outstanding loans totaling EUR 568 million. Sensitive structured loans totaled EUR 7.6 billion as of December 31, 2013 compared with EUR 8.5 billion as of December 31, 2012.

The sensitivity reduction process implemented by Sfil in 2013 should contribute to the objectives of the support fund approved in December 2013 under the 2014 Finance Law and the new laws designed to provide a comprehensive long-term solution to the problem of structured loans contracted by legal persons governed by public law.

Through its Caisse Française de Financement Local subsidiary, Sfil will contribute EUR 150 million to the support fund over a 15-year period. This entire amount was recorded in 2013 income in cost of risk.

8. Context for drawing up the financial statements

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

9. New accounting standards

Since January 1, 2013, Société de Financement Local has recorded the credit valuation adjustment (CVA) and debt valuation adjustment (DVA) defined by IFRS 13. On a consolidated basis, the application of this standard generated an expense of EUR 14.5 million for the CVA and income of EUR 63.0 million for the DVA as of December 31, 2013. These amounts include both the effects of the first-time application of this standard and the changes over the period.

The mandatory recognition of these adjustments, in effect since January 1, 2013, can be a source of volatility for net banking income.

Moreover, the valuation of fully collateralized derivatives against an Eonia curve (rather than Euribor) has gradually become a standard market practice.

For Société de Financement Local, the impact on the 2013 consolidated financial statements was EUR -17.8 million before tax.

10. Post-closing events

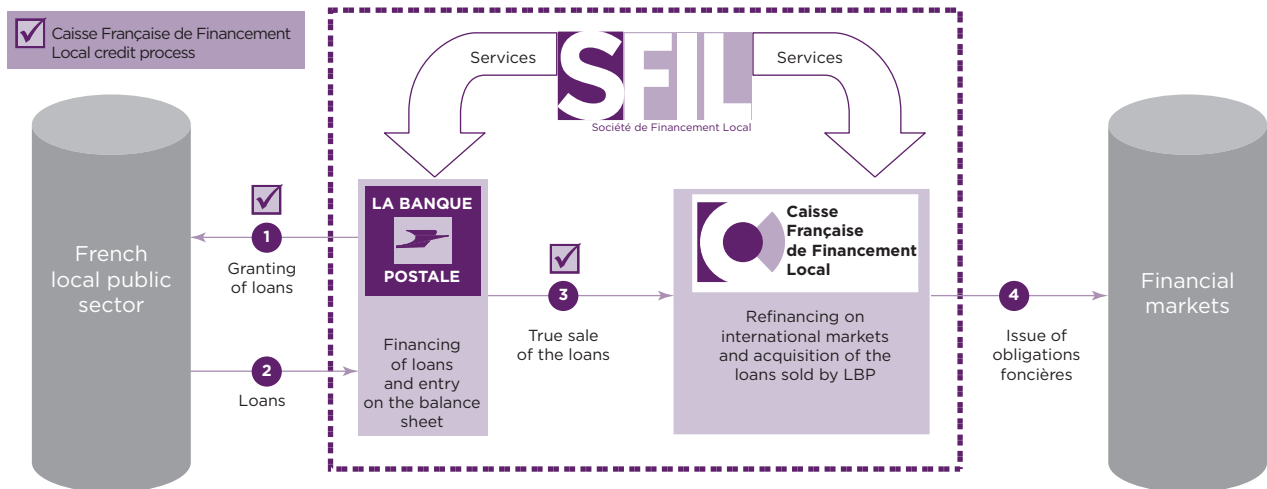
No significant event that could have a material impact on the financial position of the Group occurred after closing on December 31, 2013.

General business framework

Under the scheme described above, Sfil has three functions:

- refinancing, within a strictly defined framework, the loans originally granted by La Banque Postale to eligible local governments and public hospitals¹ through the issue by Caisse Française de Financement Local of *obligations foncières*;
- providing specialized services to La Banque Postale and Caisse Française de Financement Local to ensure the proper operation of the scheme;
- reducing the “sensitivity” of certain structured loans shown on the asset side of the balance sheet of Caisse Française de Financement Local, in accordance with the objectives defined by the French government regarding public finance management and the strategic interests of Société de Financement Local.

Operational flow diagram of the scheme



1. Refinancing by Caisse Française de Financement Local of local public sector loans initiated by La Banque Postale

The refinancing of local public sector loans initiated by La Banque Postale is entrusted to Société de Financement Local's subsidiary, Caisse Française de Financement Local.

Caisse Française de Financement Local is a credit institution authorized as a *société de crédit foncier*. The role of Société de Financement Local is to provide support for the activities of Caisse Française de Financement Local, as defined by the regulations applicable to *sociétés de crédit foncier*, particularly within the meaning of Articles L.513-15 and L.513-2 of the French Monetary and Financial Code.

As such, Société de Financement Local is the servicer of Caisse Française de Financement Local and, under the management agreement with Caisse Française de Financement Local, provides complete operational management of its subsidiary.

Caisse Française de Financement Local was therefore able to complete its 2013 financing program between July and September, raising over EUR 3 billion with maturities compatible with its local public sector loan refinancing activity. Caisse Française de Financement Local completed a public issue totaling EUR 500 million with a maturity of 15 years, in addition to its inaugural transaction in the amount of EUR 1 billion with a maturity of 7 years. Caisse Française de Financement Local also generated a great deal of interest among private placement investors wishing to invest in instruments with very long maturities. This not only helped to bring the financing program to a quick close, but also ensured a particularly long average financing maturity.

In addition, Société de Financement Local provides Caisse Française de Financement Local with the non-privileged financing its activity requires and intermediates derivative transactions carried out by Caisse Française de Financement Local to hedge its portfolio.

Finally, on January 31, 2013, Société de Financement Local signed a declaration of support for Caisse Française de Financement Local which is reproduced in the latter's annual report - Cf. General information.

(1) Eligibility within the meaning of the law on *sociétés de crédit foncier* in its definition of cover assets that may appear on the balance sheet as a guarantee of the obligations foncières issued.

2. Provision of services for La Banque Postale

Société de Financement Local provides services for La Banque Postale and for the LBP-CDC “Banque Postale Collectivités Locales” joint venture to support the commercial activity of La Banque Postale, which grants long-term financing to the local public sector (local governments and hospitals). These services, defined in a service agreement between Société de Financement Local and La Banque Postale, cover various areas (assistance with product design and loan management, back office loan management, ALM reporting, accounting, etc.).

In 2013, Société de Financement Local helped La Banque Postale to expand its product range and adapted the computer applications made available to it accordingly.

3. Reduction of sensitivity

The measures taken in 2013 to reduce the sensitivity of the sensitive loans on the balance sheet of its Caisse Française de Financement Local subsidiary were in line with the policies approved by Société de Financement Local's Board of Directors.

Sensitive loans encompass loans that are excluded from the “Gissler charter” (charter of good practices signed by banks and local governments in December 2009) and loans classified as 3E, 4E and 5E according to this same charter.

The methodology used entails reducing the sensitivity of sensitive structured loans permanently and not temporarily. To do so, Sfil may, if necessary, provide new liquidity to

borrowers in the form of additional financing or refinancing of the prepayment penalty.

Despite difficulties related to pending litigation (particularly following the decision handed down by the Nanterre District Court on February 8, 2013 in the lawsuit between Dexia and the departmental council of Seine-Saint-Denis), nearly 100 transactions were completed, resulting in the permanent reduction of the sensitivity of outstanding loans totaling EUR 568 million. Thanks to the combined effect of the active sensitivity reduction policy and loan amortization, sensitive loans amounted to EUR 7.6 billion as of December 31, 2013 compared with EUR 8.5 billion as of December 31, 2012 (a decrease of EUR 0.9 billion in 2013).

Sfil has therefore laid the foundation of an operational sensitivity reduction process that should contribute to the objectives of the support fund approved by Parliament in December 2013 under the 2014 Finance Law.

EUR 1.5 billion will be contributed to the support fund hereby created over a maximum period of 15 years. Local governments and groups of municipalities with the most sensitive structured loans may use the assistance received to refinance a portion of the prepayment penalty. The fund will be managed by the French government and a steering committee made up of representatives of the central and local governments as well as qualified individuals. Fund recipients must waive the right to all pending or future litigation related to the loans for which assistance is received. One half of the fund will be financed by banks and the other by the French government. Caisse Française de Financement Local has made a commitment to contribute EUR 10 million to the fund per year for 15 years once the fund becomes operational.

Changes in the main balance sheet items

The main items of the Sfil Group's balance sheet (management data) as of December 31, 2013 are shown in the table below:

(EUR billions, value after foreign exchange swaps)

ASSETS	LIABILITIES
83.5	83.5
The main items of which	The main items of which
67.5	67.5
Cash assets 1.9	
Securities 13.4	Obligations foncières 52.8
Loans 48.9	Refinancing by shareholders 10.5
Cash Collateral paid 3.3	Cash Collateral received 2.5
	Equity and other similar items 1.7

The assets on the Sfil Group's balance sheet mainly consist of:

- the cash assets of Société de Financement Local and Caisse Française de Financement Local;
- the loans and securities on the balance sheet of Caisse Française de Financement Local and the assets held in the form of securitization on the balance sheet of Société de Financement Local;
- the cash collateral paid by Société de Financement Local on its derivative portfolio.

The liabilities on the Sfil Group's balance sheet mainly consist of:

- the *obligations foncières* in the liabilities of Caisse Française de Financement Local;
- the financing provided by the shareholders (Caisse des Dépôts et Consignations and La Banque Postale) to the liabilities of Société de Financement Local;
- the cash collateral received by Caisse Française de Financement Local;
- equity and other resources.

1. Changes in assets

1.1 - MAIN CHANGES IN ASSETS DURING YEAR 2013

The net change in the main assets of the Sfil Group in 2013 was EUR -1.7 billion. This change can be analyzed as follows:

(EUR billions) Value after foreign exchange swap	12/31/2013
BEGINNING OF YEAR	69.2
Purchase of loans from La Banque Postale	1.0
New loans paid following sensitivity reduction	0.1
Cash collateral paid by Société de Financement Local	3.3
Amortization of loans and securities to the French public sector	(3.3)
Amortization of loans and securities outside the French public sector	(2.0)
Change in cash assets	(0.5)
Other	(0.3)
END OF YEAR	67.5

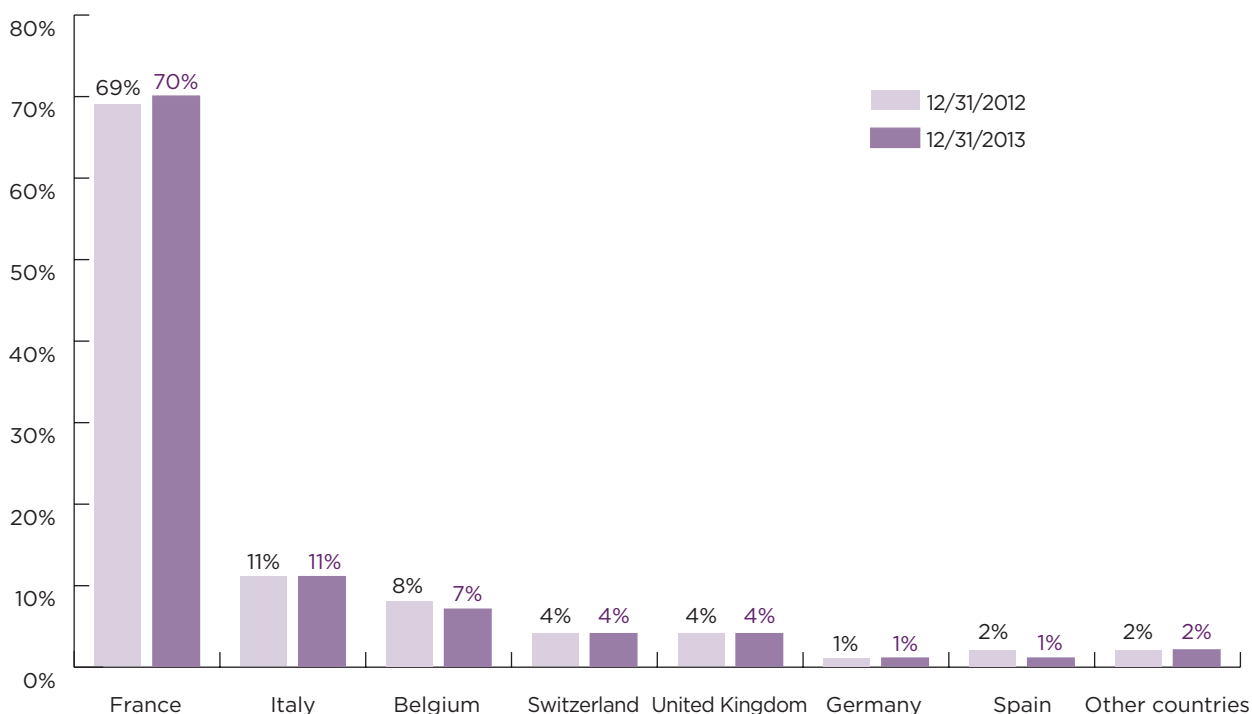
- Through its Caisse Française de Financement Local subsidiary, Société de Financement Local acquired EUR 1.0 billion in loans marketed by La Banque Postale to the French local public sector.
- The sensitivity reduction transactions resulted in EUR 0.1 billion in new payments on the balance sheet.
- At the time of implementation of the new scheme, Société de Financement Local intermediated the derivative transactions between Caisse Française de Financement Local and some of its counterparties. As intermediary, Société de Financement Local paid a total of EUR 3.3 billion in collateral in 2013.
- The other changes in assets pertain mainly to the natural amortization of the loans and securities portfolio (EUR -5.2 billion) and the reduction in the balance of the Banque de France account (EUR -0.5 billion).

1.2 - BREAKDOWN OF OUTSTANDING LOANS AND SECURITIES

The outstanding loans and securities on Sfil's balance sheet represent a total of EUR 62.3 billion. The predominant recipient is the French local public sector (LPS), with 70% of total outstandings in 2013. New loans are granted exclusively to the French local public sector.

Loans and securities with counterparties outside France represent 30% of total outstandings and correspond to granular and geographically diverse exposures to public sector entities. These exposures were originated in the past by the Dexia Group and are now in run-off.

The following graph shows the change in the relative proportion of Sfil's loans and securities on a consolidated basis by country between 2012 and 2013:



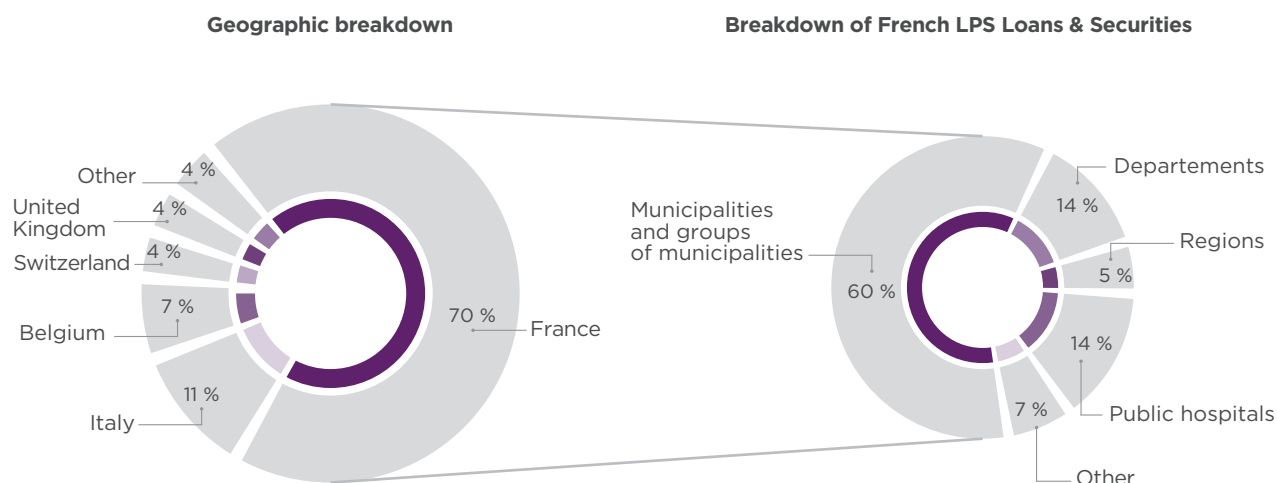
Outside France, Italian and Belgian local governments represent the two largest exposures. France’s relative portion increased by 1% between 2012 and 2013. The other exposures remained stable or decreased slightly. The French local public sector is the only area of activity that continued to develop via:

- the acquisition of the loans granted by La Banque Postale to local governments and public hospitals; in this respect, Caisse Française de Financement Local acquired EUR 1.0 billion in loans in 2013, i.e. 488 loans

for EUR 515 million in outstandings in September 2013 and 378 loans for EUR 440 million in outstandings in December 2013.

- the new loans paid under the policy to reduce the sensitivity of sensitive loans for a total of EUR 0.1 billion.

For France’s relative portion of 70% in 2013, the following graph shows the breakdown of loans and securities granted to the French local public sector by type of counterparty:



Municipalities and groups of municipalities, departments and regions account for nearly 80% of the exposures of the French local public sector portfolio.

1.3 - EXPOSURES TO BANKS (CASH ASSETS AND CASH COLLATERAL)

The exposures to banks shown on the asset side of the Sfil Group's balance sheet are of two types:

- the balance of its cash assets or those of Caisse Française de Financement Local held at other institutions;
- collateral payments made to banking counterparties to hedge counterparty risk on the derivative portfolio (swaps).

As part of the orderly resolution of the Dexia Group, the long-term derivatives that Caisse Française de Financement Local (formerly DMA) had with Dexia Group entities were intermediated by Sfil.

In 2013, Caisse Française de Financement Local also carried out derivative transactions to hedge the interest-rate risks generated by its activity: issue of *obligations foncières*, purchases of loans and reduction of the sensitivity of sensitive loans. Some of these transactions were carried out with Sfil as counterparty and Sfil has routinely hedged the interest-rate risks thus generated by simultaneously entering into derivative agreements with external counterparties.

This derivative portfolio requires Sfil to put up collateral, which creates a financing requirement on its part. The amount paid by Sfil in this respect as of December 31, 2013 was EUR 3.3 billion.

To comply with the clearing obligation established by the EMIR directive, in 2013 Sfil took steps to become an indirect member of a derivatives clearing house. Sfil's goal is to be able to clear derivatives subject to mandatory clearing prior to the effective date of this obligation, which is scheduled for the second half of 2014.

2. Changes in liabilities

2.1 - MAIN CHANGES IN LIABILITIES DURING YEAR 2013

The net change in the Sfil Group's main liabilities in 2013 was EUR -1.7 billion.

This change can be analyzed as follows:

(EUR billions, value after foreign exchange swap)	12/31/2013
BEGINNING OF YEAR	69.2
Obligations foncières	(3.4)
<i>Issues</i>	3.1
<i>Amortization</i>	(6.1)
<i>Buybacks</i>	(0.4)
Change in cash collateral received	(1.0)
Senior unsecured refinancing	2.9
Equity and other	(0.2)
END OF YEAR	67.5

- Outstanding *obligations foncières* decreased by EUR 3.4 billion as a result of the amortization of loans and the buybacks partly offset by the new 2013 program.
- At the same time, the cash collateral paid by the derivatives counterparties of Caisse Française de Financement Local decreased by EUR 1.0 billion.
- The EUR 2.9 billion increase in unsecured financing allowed Société de Financement Local to finance the EUR 3.3 billion in collateral paid by it in 2013 given the EUR 0.8 billion decrease in the financing requirement related to the overcollateralization of Caisse Française de Financement Local.

2.2 - CHANGES IN OUTSTANDING OBLIGATIONS FONCIÈRES AS OF DECEMBER 31, 2013

In 2013, Caisse Française de Financement Local raised a total of EUR 3.1 billion by the issuance of bonds benefiting from the legal privilege. All the issues were carried out as public or private issues on the euro market, Caisse Française de Financement Local's domestic market.

Caisse Française de Financement Local launched two public issues: a 7-year jumbo inaugural transaction (EUR 1 billion) in July which allowed it to meet core demand, and a 15-year benchmark transaction (EUR 500 million) in September, making Caisse Française de Financement Local the first French covered bonds issuer to complete a transaction in this long-term segment of the market during the past three years. Both these transactions firmly established Caisse Française de Financement Local as a leading issuer in the euro market and created the first points of its euro public sector curve, to which others will be added in the coming years. In addition to its public issues, Caisse Française de Financement Local wanted to implement an active private placement policy in response to investor demands not satisfied by public issues in the primary market, especially those with long maturities. Through this activity, it raised EUR 1.56 billion with an average duration of over 15 years. 71% of this amount was documented under a Euro Medium Term Note (EMTN) program, with the balance (29%) issued in the form of registered covered bonds.

Outstanding *obligations foncières* totaled EUR 52.8 billion as of December 31, 2013.

(EUR billions, value after foreign exchange swap)	12/31/2013
BEGINNING OF YEAR	56.2
Issues	3.1
Amortization	(6.1)
Buybacks	(0.4)
END OF YEAR	52.8

2.3 - SENIOR UNSECURED REFINANCING OF SOCIÉTÉ DE FINANCEMENT LOCAL IN 2013

Sfil obtains unsecured debt from Caisse des Dépôts et Consignations and La Banque Postale under credit agreements in the amount of EUR 12.5 billion and EUR 1.1 billion, respectively.

As of December 31, 2013, the financing received by Sfil from these two shareholders totaled EUR 10.5 billion. The amount of this financing decreased by EUR 689 million between January 2013 and December 2013.

This support allows Sfil to fully play its role as parent company and sponsor of Caisse Française de Financement Local by providing it with the unsecured liquid-

ity it needs to finance its overcollateralization. It also allows it to meet its own financing needs, nearly all of which are related to the cash collateral paid on its derivatives.

To broaden its sources of financing, Sfil plans to roll out a negotiable debt instruments program in 2014 aimed at institutional investors.

Risk management

1. Credit risk

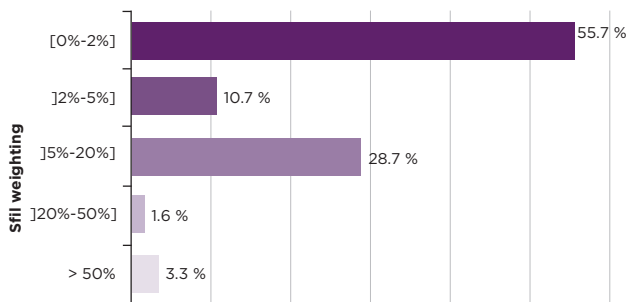
1.1 - BREAKDOWN OF EXPOSURES ACCORDING TO BASEL II RISK WEIGHTING

The quality of the portfolio of Sfil and Caisse Française de Financement Local can also be seen in the risk-weighted assets (RWA) weightings assigned to its assets to calculate the solvency ratio.

The company chose the advanced method to calculate its solvency ratio and capital adequacy. It therefore uses its advanced internal models approved by the regulator to calculate its equity requirements for credit risk.

As of December 31, 2013, the breakdown of exposures by risk weighting (calculated based on the probability of default and loss given default of the counterparty) was as follows:

Risk weighting (Basel II) of Société de Financement Local's portfolio as of December 31, 2013 (consolidated basis)



Certain counterparties for which the IRBA approach was initially used are now reclassified using the standard approach.

This analysis confirms the excellent quality of the assets in Société de Financement Local's portfolio, for which the average weighting is 6.2% and of which only 4.9% has a weighting of over 20%.

The amount of weighted exposure with respect to credit risk amounts to EUR 4,834 million. Including market and operating risks, total weighted assets comes out at EUR 5,208 million. Given a prudent level of equity of EUR 1,559 million, Société de Financement Local had a solvency ratio of more than 29% as of December 31, 2013.

1.2 - DOUBTFUL AND DISPUTED DEBTS

Doubtful and disputed debts totaled EUR 254 million at the end of December 2013, compared with EUR 122 million at the end of December 2012. This amount represents 0.4% of Caisse Française de Financement Local's cover pool (EUR 63.7 billion).

It consists of:

- EUR 188 million in doubtful debts on local governments;
- EUR 66 million in disputed debts which mainly correspond to unpaid interest on structured loans subject to litigation (cf. the point below).

Doubtful debts are carried by a small number of counterparties. The increase in doubtful debts was mainly due to clients for which the entire outstanding was downgraded to doubtful even though there were few or no overdue payments (EUR 10.4 million in unpaid loans resulting in a

downgrade of EUR 177 million due to the application of the principle of contagion).

1.3 - PROVISIONS

The loans and most of the securities held by Société de Financement Local are classified in the "Loans and advances" portfolio according to IFRS. The Sfil Group intends to hold them until maturity. They are recognized at amortized cost and, if necessary, are covered by provisions for impairment when there is the risk of non-payment. At the end of December 2013, specific provisions totaled EUR 13.5 million. These provisions include both "Cost of risk" provisions (EUR 5.7 million in provisions for capital) and provisions for "Interest and other" (EUR 7.8 million).

In addition, collective provisions are calculated on the various portfolios of "Loans and advances". They cover the risk of loss in value when there is an objective indication of the probability of loss in certain segments of the portfolio. 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.

With an aim for conservatism, the scope of these provisions was expanded and the parameters used for calculating probabilities of default and loss given default were strengthened. Collective provisions amounted to EUR 70.1 million as of December 31, 2013.

Finally, to take into account the status of the structured loans portfolio, Société de Financement Local, through Caisse Française de Financement Local, integrated in its 2013 profit or loss, via cost of risk, a contribution of EUR 150 million for the support fund (see above).

EUR millions	12/31/2013
Collective provisions	70.1
Specific provisions	13.5
Contribution to support fund	150
TOTAL	233.6

As of December 31, 2013, the allowances intended to cover the risks on the entire portfolio totaled EUR 234 million. The amount of doubtful and disputed debts and provisions remained low (0.3% of the total balance sheet), attesting to the excellent quality of the portfolio and its low risk profile.

1.4 - AFS RESERVE

As of December 31, 2013, the total amount of the AFS reserve before tax was EUR -221 million, compared with EUR -291 million as of December 31, 2012. The amount of this reserve for Italian sovereign securities was EUR -110 million, compared with EUR -178 million at the end of 2012. The tightening of spreads on sovereign exposures during the year largely explains this improvement.

2. Market and ALM risk

2.1 - MARKET RISK

a. Scope

The notion of regulatory market risk is limited to the market risk of the trading portfolio on a consolidated basis. However, the institution does not carry out transactions for trading purposes. Moreover, on a consolidated basis, all swaps are carried out for hedging purposes. The institution is not subject to market risk in the regulatory sense of the term.

Nevertheless, with an aim for conservatism, six hedging derivatives have been downgraded to “outside the scope of an IFRS hedging relationship” following client defaults on micro-hedged loans by these derivatives. These swaps are therefore deemed equivalent to market positions in the regulatory sense; French regulations use the IFRS accounting classification regardless of the management intention alone.

The positions or activities of the banking book of Sfil and Caisse Française de Financement Local which pose a risk resulting from exposure to the volatility of market parameters are monitored in terms of non-regulatory market risks. These are mainly market risks stemming from fluctuations in the AFS reserve or in the provision for investment securities in French GAAP. This risk can also materialize at the Sfil company level if the derivative transactions carried out externally by Sfil are not fully replicated with Caisse Française de Financement Local as part of its derivative intermediation activity on behalf of Caisse Française de Financement Local.

b. Risk monitoring

A number of indicators (sensitivity, value at risk, etc.) have been defined to control market risks:

- Greek exposures or sensitivities correspond to a change in fair value of instruments for a movement (or shock) in market parameters; Value at Risk (VaR) is an overall measure of risk that favors an approach based on the notion of maximum potential loss. This maximum potential loss corresponds to the measurement of the least favorable impact on income of changes in market conditions over a given period and with a specific level of probability.
- The Risks division applies market standards to calculate VaR based on a 10-day time horizon, which is the minimum time needed to close a position with a 99% confidence interval.

Given the type of market risk assumed by Sfil and Caisse Française de Financement Local, limits on the sensitivity and VaR indicators are nil except for six swaps which are no longer classified as having a hedging relationship with structured loans for clients currently in default, for which the VaR was EUR 413,000 as of December 31.

Securities classified as AFS or investment securities in French GAAP are always hedged by swaps. Residual risk is limited to credit spread risk. The Risks division calculates the sensitivity and VaR indicators by the credit spread of issuers.

2.2 - BALANCE SHEET MANAGEMENT

The ALM policy of Sfil and its subsidiary Caisse Française de Financement Local is designed to protect the value of equity and limit the volatility of income while maintaining the equilibrium of their balance sheet.

a. Foreign exchange risk

Foreign exchange risk is the verified or potential risk of volatility of income related to adverse movements in foreign exchange rates.

The policy of Société de Financement Local is to avoid all foreign exchange risk. To this end, liabilities and assets denominated in foreign currencies give rise, once entered on the balance sheet, to the conclusion of a cross-currency swap against the euro. The floating-rate exposures resulting from this management are incorporated into interest rate risk management (see next paragraph).

b. Interest rate risk

Interest rate risk is the risk incurred in the event of a change in interest rates resulting from all balance sheet and off-balance sheet transactions, with the exception of transactions subject to market risk, where applicable. Sfil defines three types of interest rate risk:

- long term interest rate risk reflects the difference in volume and maturity between fixed-rate assets and liabilities for which the initial maturity is more than one year;
- basis risk reflects the gap that may exist in the matching of variable-rate assets and liabilities indexed to indices with the same currency but different frequencies;
- fixing risk reflects, for each index, the gap between the revision dates applied to all the variable-rate balance sheet and off-balance sheet items linked to this index.

To limit the impact of these risks, Sfil has implemented a finely tuned hedging strategy:

- In the first step, balance sheet items that do not naturally have a euro floating rate are hedged as soon as they are entered on the balance sheet to limit the impact of changes in euro long rates on the interest margin. For Caisse Française de Financement Local, these transactions mainly concern the issue of *obligations foncières* and the acquisition of assets from La Banque Postale. The Sfil parent company has no exposure to long term interest rate risk: its assets and liabilities are linked exclusively to short-term euro indices.
- In the second step, Euribor lending and borrowing flows are swapped against Eonia to protect income against the basis risk, resulting in different frequencies in Euribor (1, 3, 6 or 12 months) and against the fixing risk due to refixing dates which are different for assets and liabilities.

Macro-hedging is then used for the residual fixing risk. This entails matching the fixings of assets and liabilities of the same tenor index over a one-week management horizon and swapping the balance against Eonia.

ALM is subject to limits on the sensitivity of the Net Present Value (NPV) of these interest rate positions to

a variation of +/- 100 bp in the euro yield curve. These limits are revised annually.

- For the Sfil parent company, the NPV sensitivity limit is zero since there is no interest rate position.
- For Caisse Française de Financement Local, the overall sensitivity limit is EUR 40 million. It consists of a limit of EUR 31 million for the management of long-term interest rate risk and a limit of EUR 9 million for the management of fixing risk. In practice, the sensitivity of Caisse Française de Financement Local is held well below these limits.

c. Liquidity risk

Liquidity risk can be defined as the risk that the institution may not be able to find the necessary liquidity to cover the financing needs related to its activity.

In terms of liquidity, the Sfil Group's activity is centered almost entirely on the management of its Caisse Française de Financement Local subsidiary, a *société de crédit foncier*. As a result, the Group's requirements are mainly of two types:

- financing of loans and securities (EUR 48.9 billion in loans and EUR 13.4 billion in securities) to cover the *obligations foncières* of Caisse Française de Financement Local;
- financing of the cash collateral of hedging derivatives intermediated by Sfil between Caisse Française de Financement Local and the market (EUR 3.3 billion).

The sources of financing used, other than the entity's equity and accruals (EUR 1.7 billion), are also of two types:

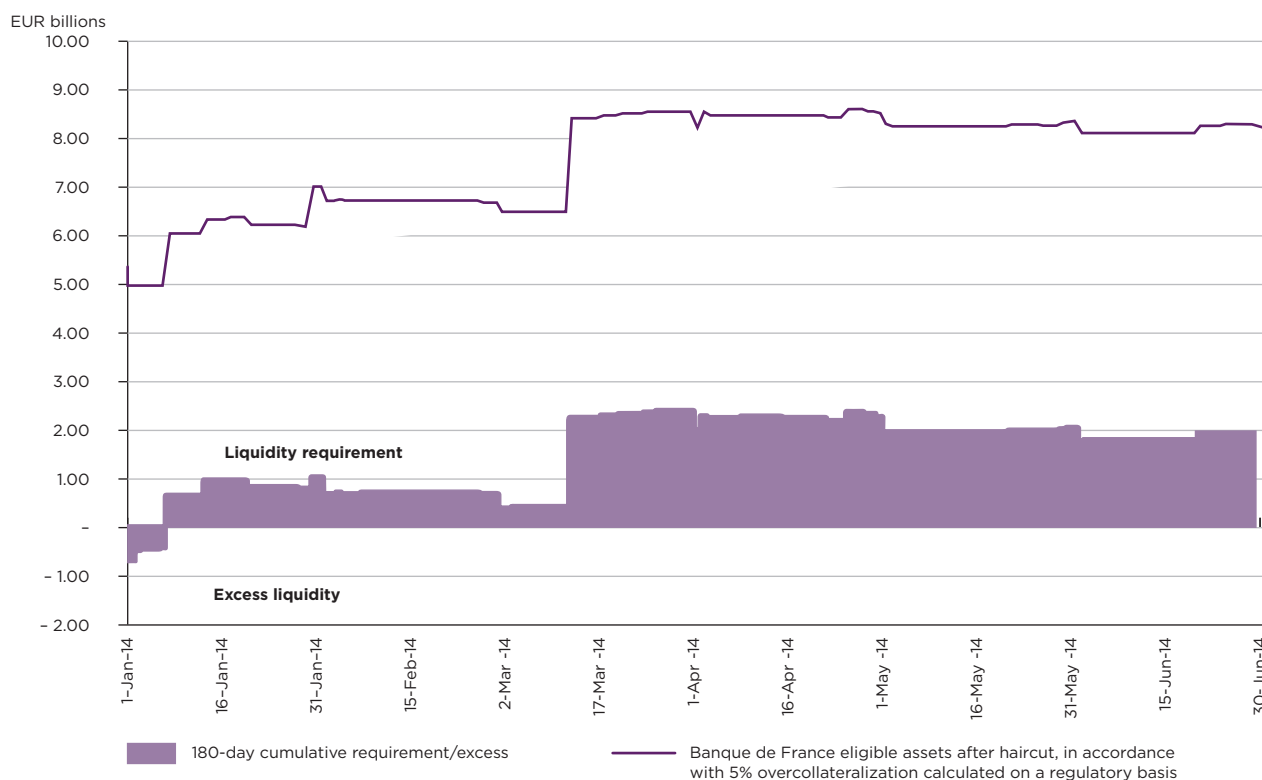
- privileged debt, i.e. the *obligations foncières* issued by Caisse Française de Financement Local (EUR 52.8 billion) and cash collateral received (EUR 2.5 billion);
- the credit agreements signed in 2013 between Société de Financement Local and its shareholders, which finance the difference between the cover pool assets and the privileged debt of Caisse Française de Financement Local (i.e. overcollateralization), and the cash collateral of intermediated derivatives. The financing provided by CDC and LBP totaled EUR 10.5 billion as of December 31, 2013;

- the credit agreement with CDC covers the requirements related to the transactions existing prior to the January 31, 2013 and 35% of the requirements related to the refinancing activity of new loans made by La Banque Postale,
- the credit agreement with LBP covers the balance, i.e. 65%, of the requirements related to the refinancing activity of new loans made by La Banque Postale.

In addition, Sfil has a large number of assets held by Caisse Française de Financement Local which are directly eligible for refinancing by the Central Bank and can be made available either through European Central Bank refinancing operations, via Banque de France, or through interbank financing in the form of repo agreements. There were no operations of this type in 2013.

Given the existence of these credit agreements with its shareholders and the respective missions of Sfil and its subsidiary Caisse Française de Financement Local subsidiary, the Sfil Group's liquidity risk comes down to the risk that Caisse Française de Financement Local may not be able to settle its privileged debt commitments by the due date because the gap between the repayment of its assets and privileged liabilities is too great. This risk is controlled by monitoring the following three indicators:

- the liquidity coverage ratio, which represents the ratio between assets and liabilities benefiting from the privilege under the law on *sociétés de crédit foncier*. It currently stands at 114%, while the regulatory minimum is 102%;
- the duration gap between assets and privileged liabilities (limited to three years), which is published quarterly. It stood at 2.08 as of December 31, 2013;
- projected cash requirements over 180 days: Caisse Française de Financement Local ensures that its 180-day cash requirements are covered at all times by replacement assets, assets eligible for credit operations with Banque de France or refinancing agreements signed with credit institutions that qualify for short-term credit quality step 1 (see graph below as of December 31, 2013).



Lastly, both Sfil and Caisse Française de Financement Local ensure that liquidity management allows them to comply with the 100% limit for the one-month regulatory liquidity ratio calculated according to the methods defined in the order of May 5, 2009.

3. Legal risk

Certain customers have sued Caisse Française de Financement Local and/or Société de Financement Local for sensitive structured loans that had been marketed to them by Dexia Crédit Local and which are on the balance sheet of Caisse Française de Financement Local.

The status of the main lawsuits summarized below is, unless otherwise indicated, valid as of December 31, 2013 and is based on the information available to Société de Financement Local and/or Caisse Française de Financement Local on that date.

At the end of December 2013, the number of customers who had undertaken legal proceedings totaled 205 versus 57 at the end of 2012.

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

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

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

Dexia Crédit Local appealed this decision on April 4, 2013. Caisse Française de Financement Local decided to intervene voluntarily in the proceedings that oppose the *Département de Seine-Saint-Denis* and Dexia Crédit Local. This voluntary intervention should enable Caisse Française de Financement Local to defend its interests by becoming a party in the proceedings.

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

It should be noted that the French government affirmed its desire to provide a comprehensive long-lasting solution

to the problem of structured loans contracted by public sector entities. Thus, Article 92 of the 2014 Finance Law provides for the creation of a “multi-year support fund” “endowed with significant resources” enabling local governments to finance the unwinding of structured loans.

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

The 2014 Finance Bill also provided for 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”.

However, on December 29, 2013, the *Conseil constitutionnel* published its decision on the 2014 Finance Bill which:

- although it validated the local government support fund as well as the principle of access to the fund, conditioned by the signing of an agreement by which the borrower renounces any claim on the assisted loans;
- it considered, however, that paragraph II of Article 92, which validated the absence of any mention of the annual rate of charge (*TEG*) in the loan agreement, was too broad since it applies to all types of legal entities and all types of loan agreements. The *Conseil constitutionnel* also considered that paragraph III regarding the annual rate of charge (*TEG*) calculation error modified the consumers’ code (*Code de consommation*) and could not be included in the Finance Law.

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

4. Operating risk and permanent control

4.1 - OPERATING RISK

In terms of operating risk management, Sfil’s policy is to identify and regularly assess the various risks and controls in place to ensure compliance with the tolerance level defined for each activity. If this is not the case, the governance scheme implemented must result in the rapid development of corrective or improvement measures to make the situation acceptable. In addition to this, a prevention policy has been implemented, particularly in terms of IT security and business continuity guarantee and, when necessary, certain risks are transferred through insurance.

The systematic collection and monitoring of operational incidents provides the necessary information to assess

exposure to operating risk and develop a policy aimed at controlling and minimizing this risk.

The collection of data on operational incidents allows Sfil to comply with regulatory requirements and, above all, obtain key information to improve the quality of its internal control system. Various collection thresholds have been defined and distributed to Sfil’s divisions. The mandatory declaration threshold was set at EUR 2,500. The Executive Committee receives regular reports on key events, including action plans defined by the managers of the operating divisions to reduce risk.

4.2 - PERMANENT CONTROL

Permanent control must provide assurance of the efficiency and reliability of the risk control system, the quality of accounting and financial information, the quality of information systems, and the existence and quality of key controls in all activities to allow coverage of major risks, regardless of their nature.

5. Security of means of payment

The means of payment managed by Société de Financement Local for its own activity or as managing institution of Caisse Française de Financement Local or service provider of La Banque Postale are as follows:

- the SWIFT and TARGET2 networks, for the execution of interbank payments related to trades negotiated by the front office operators of the Market Activities Operating Division and of requests for funds movements made by other divisions of Société de Financement Local (mainly payment of invoices in foreign currencies);
- the SCBCM network (Service contrôle budgétaire et comptable ministériel - Ministerial budget and accounting control unit), used for payments and collections of the loans of Caisse Française de Financement Local to the public and for the services provided on behalf of La Banque Postale;
- the CORE (Compensation Retail - retail clearing house) system, used for most payments to clients of Caisse Française de Financement Local with bank accounts and to pay invoices in euros;
- in addition, certain invoices can be paid by check.

Société de Financement Local does not make means of payment available to its clients or those of Caisse Française de Financement Local.

Various procedures and systems are in place to ensure the security of means of payment, including payment processes under the responsibility of the back offices, segregation of duties, clearly defined rules for validating individual payments, secure message management, business continuity plan, specific controls related to compliance, etc.

Operating results

1. Consolidated financial statements prepared under IFRS

At the end of 2013, the Sfil Group posted a net consolidated loss of EUR 69 million, with outstanding loans (on the balance sheet) of EUR 83.5 billion as of this date. The Group's solvency ratio remains above 29%, confirming its financial strength.

This loss in 2013 is mainly due to two exceptional items:

- recognition of the Group's contribution to the local government support fund amounting to EUR 150 million before tax; and
- accounting volatility elements amounting to EUR 23.4 million before tax, which partially mitigates the previous point.

Excluding⁽¹⁾ exceptional items, this would result in a net profit of EUR 23.5 million.

The Sfil Group's consolidated balance sheet is a result of the reorganization of entities responsible for providing municipal financing following the discontinuation of activity by Dexia Crédit Local in this sector. In this context, and under the direction of the French government and Sfil shareholders, Sfil became the parent company of Caisse Française de Financement Local on January 31, 2013.

Until that date, both Sfil and Caisse Française de Financement Local were subsidiaries of the Dexia Crédit Local group. This reorganization was carried out under the joint control of Dexia Crédit Local which until then had produced IFRS consolidated financial statements. For that reason, Sfil has chosen for the consolidation of Caisse Française de Financement Local to adopt IFRS provisions for producing its financial statements. Comparative financial information produced below constitutes for 2012 a pro forma consolidation of Sfil and Caisse Française de Financement Local.

Based on accounting elements which have not been restated, net profit/loss before tax is down EUR 248 million compared to 2012, of which EUR 127 million due to the exceptional items mentioned above.

The line-by-line analysis of this change highlights the following elements:

- Net banking income for 2013 was EUR 155 million. It reflects a net decrease (EUR 102 million) compared with the previous year, which stems mainly from the following:
 - the decrease in margins on the assets in the portfolio had an impact of nearly EUR 24 million in relation with the reduction in outstanding loans on the balance sheet,
 - the changes in the refinancing terms introduced by the new shareholding structure (EUR -68 million) and the refinancing conditions implemented at the end of

⁽¹⁾ Restatements of exceptional items represent:

- a net sum after tax of EUR 6.0 million for the first-time application of IFRS 13, the review of the valuation of derivatives against Eonia and the assessment of hedged risks; and
- EUR -98.4 million (net impact after tax) for the contribution to the multi-year support fund for local governments.

January 2013 (EUR -31 million) impacted the net interest margin by nearly EUR 99 million,

- the year 2012 was marked by balance sheet restructuring operations (debt buybacks/sales of assets) with a positive impact of EUR 20 million, whilst this same type of impact is considerably lower in 2013 at EUR 5 million,
- furthermore, the sum of accounting volatility elements, with notably the first-time application of IFRS 13 had a positive impact of EUR 23.4 million on Net Banking Income (NBI).
- The Group's operating expenses remained under control and were slightly lower (EUR -4 million) than in 2012. These expenses reflect the stringent expenditure policy implemented by the Sfil Group.
- The cost of risk, up EUR 150 million, included the effects related to the recognition as of 2013 of the EUR 150 million contribution of Caisse Française de Financement Local to the local government support fund introduced by the 2014 Finance Law, as well as an increase in general provisions.

2. Annual financial statements prepared under French GAAP

Société de Financement Local posted a loss of EUR 2 million at the end of 2013.

Given its structure and its role of servicer on behalf of Caisse Française de Financement Local and La Banque Postale, Société de Financement Local came close to balancing its refinancing and cost structure for this first year of activity.

Its net banking income was EUR 6 million and its operating expenses net of re-invoicing totaled EUR 8 million. The balance sheet of Société de Financement Local includes the refinancing granted to its Caisse Française de Financement Local subsidiary in the amount of EUR 7 billion for the portion of overcollateralization required as a result of its SCF status, as well as a portfolio of investment securities totaling EUR 4.4 billion.

Shareholding

Sfil acquired all the shares of Caisse Française de Financement Local on January 31, 2013 for EUR 1. It thereby holds 100% of the company.

Significant participating and controlling interests are defined below:

Participating interest in 2013 representing over 66% of the capital

* Caisse Française de Financement Local SA with a share capital of EUR 1,315,000,000

Invoice payment periods

Pursuant to Articles L.441-6-1 and D.441-4 of the French Commercial Code, Sfil must publish annual information on the due dates of its trade payables. Sfil's trade payables represent a non material amount of the company's total balance sheet. Sfil's practice is to always pay its invoices within 45 days unless a contractual agreement signed with the supplier provides for a 30 or 60-day payment period.

Trade payables amounted to EUR 1.03 million as of December 31, 2013 and date to less than 30 days.

Proposed distribution of profit

Given the results of year 2013, it will not be proposed at the annual general meeting of May 23, 2014 that a dividend be distributed.

The loss recorded in 2013, namely EUR 1,982,131.66, will be debited to "Retained earnings". This will result in a negative balance of EUR 2,002,218.66 for the "Retained earnings" account.

Non-deductible costs and expenses

Pursuant to the provisions of Article 223(4) of the French General Tax Code, we specify that during the past year

the total sum of non-deductible costs and expenses covered by article 39-4 of the French General Tax Code amounted to EUR 33,123.11 which did not result in additional corporation tax on the companies given the net loss incurred by the company.

The amount of operating expenses reintegrated following a definitive tax adjustment (Articles 223(5), 39-5 and 54(4) of the French General Tax Code) is nil given the absence of any adjustment.

Research and development

As the company does not conduct any activities relating to research and development, no such data is mentioned in the financial statements.

3. Sfil's income for the last five years

	2009	2010	2011	2012	2013
FINANCIAL POSITION					
Share capital (EUR thousands)	49	49	37	74	130,000
Number of shares	5,315	5,315	5,315	5,315	9,285,725
OVERALL EARNINGS (EUR THOUSANDS)					
Revenue ⁽¹⁾	-	-	-	-	111,912
Income before tax, depreciation, amortization and provisions	(6)	(6)	(11)	(9)	(1,979)
Income tax	-	-	-	-	-
Income after tax, depreciation, amortization and provisions	(6)	(6)	(11)	(9)	(1,982)
Special dividend	-	-	-	-	-
Distributed profit	-	-	-	-	-
EARNINGS PER SHARE (EUR)					
Revenue	-	-	-	-	12.05
Income after tax and before depreciation, amortization and provisions	(1.11)	(1.21)	(2.06)	(1.72)	(0.21)
Income tax	-	-	-	-	-
Income after tax, depreciation, amortization and provisions	(1.11)	(1.21)	(2.06)	(1.72)	(0.21)
Special dividend	-	-	-	-	-
Dividend per share	-	-	-	-	-

(1) Revenue consists of the following items:
 - interest and similar income, net of macro-hedging costs,
 - fee income,
 - net income on foreign exchange transactions,
 - other operating income.

Dexint Developpement, which subsequently became Sfil, did not operate before 2013.

4. Breakdown of Statutory Auditors' fees

Sfil Statutory Auditors' fees in 2013

EUR thousands	Mazars				Deloitte & Associés				Cadéras Martin			
	Amount (excl. VAT)		%		Amount (excl. VAT)		%		Amount (excl. VAT)		%	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Audit												
Audit, certification and review of the individual and consolidated financial statements	146	605	100%	100%	149	621	100%	100%	5	-	100%	N/A
Sfil social	-	313	N/A	100%	-	326	N/A	100%	5	-	100%	N/A
Other tasks	-	-	N/A	-	-	-	N/A	-	-	-	0%	-
Subtotal	146	605	N/A	100%	149	621	N/A	100%	5	0	100%	N/A
Other services												
Legal, tax, labor issues	-	-	-	-	-	-	-	-	-	-	-	-
Internal audit	-	-	-	-	-	-	-	-	-	-	-	-
Other (specify if > 10% of audit fees)	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	146	605	100%	100%	149	621	100%	100%	5	0	100%	N/A

Outlook

The year 2013 was marked by the implementation of the new financing scheme for the French local public sector created by the French government. This scheme is centered around Société de Financement Local and its subsidiary, Caisse Française de Financement Local, along with La Banque Postale and Caisse des Dépôts et Consignations.

The completion in three months of the 2013 issue program confirmed the ability of Société de Financement Local to collect, via Caisse Française de Financement Local, the necessary resources, in terms of amounts and maturities, to fulfill its mission of financing the French local public sector.

In 2013, Société de Financement Local and its subsidiary also successfully began their partnership with La Banque Postale which, in its first year of activity, became a leading player in the French local public sector financing segment. In addition, the new strategy of reducing the sensitivity of structured loans allowed Caisse Française de Financement Local to decrease the outstanding amount of these loans by EUR 1.0 billion during the year.

2014 will be a year in which Société de Financement Local and its subsidiary further expand their functions and develop their activities.

This will entail strengthening the issue policy, particularly by continuing to broaden the investor base, bolstering the

commercial partnership with La Banque Postale, and further implementing the sensitivity reduction strategy.

The amount of *obligations foncières* expected to be issued in 2014 is EUR 4 to 6 billion. In early January, Caisse Française de Financement Local launched its third public issue, the results of which have confirmed its excellent creditworthiness.

With elections being held in 2014, the partnership with La Banque Postale will be strengthened. Société de Financement Local will support the commercial development of La Banque Postale by providing it with the necessary resources to expand and distribute the product range.

Finally, thanks to its active participation in the local government support fund and a secure legal framework (which will result from the French government's commitment to propose a new legislative measure related to the annual percentage rate of charge (*Taux Effectif Global-TEG*) as quickly as possible following the decision of the *Conseil constitutionnel* on December 29, 2013), in 2014 Société de Financement Local will step up its efforts to further implement its sensitivity reduction strategy.

Information about the capital and share

1. Share capital, number and types of shares

The share capital of Société de Financement Local is EUR 130,000,150. It is divided into 9,285,725 shares, each carrying one voting right and not subject to any pledge. Shares are divided into two categories:

- 7,428,580 ordinary shares,
- 1,857,145 preferred shares issued in accordance with Article L. 228-11 of the French Commercial Code (*Code de commerce*) and having the rights and obligations defined in the bylaws.

There are no other securities that grant rights to the capital of Société de Financement Local.

2. Share structure

The share capital of Société de Financement Local is held as follows:

- 75% by the French government via the Agence des Participations de l'Etat (French government shareholding agency), i.e. 6,964,293 ordinary shares;

- 20% by Caisse des Dépôts et Consignations, i.e. 1,857,145 preferred shares; and
- 5% by La Banque Postale, i.e. 464,287 ordinary shares.

3. Dividends paid over the last three years

Pursuant to the provisions of Article 243bis of the French General Tax Code, no dividends were paid out over the last three years.

4. Report on delegations of authority granted to the Board of Directors by the shareholders' meetings

Pursuant to the provisions of Article L.225-1 of the French Commercial Code, it is specified that no delegations of authority were granted to the Board of Directors by the general shareholders' meeting in respect of capital increases by application of Articles L.225-129-1 and L.225-129-2 of the French Commercial Code.

Composition of the Board of Directors (March 2014)

<p>Chairman and Chief Executive Officer Philippe Mills</p>	
<p>Jean-Pierre Balligand Chairman of the Local Finance Steering Committee of La Banque Postale</p>	<p>Cathy Kopp</p>
<p>Corso Bavagnoli Inspector of Finances, Assistant Director of Banks and Public Financing, Ministry of the Economy and Finance - Office of the Treasurer - Office of Financing of the Economy</p>	<p>Antoine de Mieulle Employee representative - Organization Manager</p>
<p>Catherine Boyaval Employee representative - Manager of IT and Quality Systems Organization</p>	<p>Serge Morvan Director General of Local Governments, Ministry of the Interior - Ministry of Government Reform, Decentralization and the Public Function</p>
<p>Pascal Cardineaud Employee representative Financial Engineering Manager</p>	<p>Françoise de Panafieu Member of the Paris City Council</p>
<p>Delphine de Chaisemartin Head of the Financial Institutions unit, Group management division, Caisse des Dépôts et Consignations</p>	<p>Antoine Saintoyant Director of Investments - Assistant Director Services, Aeronautics and Defense, Agence des Participations de l'État - Ministry of the Economy and Finance - Ministry of Productive Recovery</p>
<p>Monique Cohen Associate Manager of Apax Partners</p>	<p>Sandrine Vion Employee representative - Management Controller</p>
<p>Lorraine Coudel Employee representative - Purchasing and Central Services Manager</p>	<p>Rémy Weber Chairman of the Executive Board of La Banque Postale</p>

Concerning the methods for executive management, we remind you that the Board of Directors meeting of January 31, 2013 chose to combine the roles of Chairman of the Board of Directors and Chief Executive Officer. This principle of non-separation of roles was submitted to the French regulatory authority (ACPR) for approval.

Terms and functions of the corporate officers

Pursuant to Article L.225-102-1 of the French Commercial Code, the following list presents the directorships held and duties performed by each corporate officer of Société de Financement Local between January 1 and December 31, 2013.

Chairman of the Board of Directors and Chief Executive Officer

Mr. Philippe Mills (since January 31, 2013)

Age 48

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

- Chairman of the Executive Committee of Société de Financement Local (since January 2013)
- Chairman of the Supervisory Board of Caisse Française de Financement Local (since January 2013)
- Alternate expert on the Board of Directors of the European Investment Bank (since July 2013)

Mr. François Laugier (until January 31, 2013)

Age 49

Deputy Chief Executive Officer of Société de Financement Local

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

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

Members of the Board of Directors

Mr. Jean-Pierre Balligand (since January 31, 2013)

Age 63

Chairman of the Local Finance Steering Committee of La Banque Postale

La Banque Postale - 115, rue de Sèvres - 75275 Paris Cedex 06

- Member of the Supervisory Board and member of the Strategic Steering Committee of Société Nationale Immobilière (SNI)
- Co-chairman of the Board of Directors of Institut de la Décentralisation
- Deputy Chairman of the Association des petites villes de France (APVF)
- Mayor of Vervins (until April 2013)
- Member of the Departmental Council of Aisne

Mr. Corso Bavagnoli (since January 31, 2013)

Age 40

Inspector of Finances - Assistant Director of Banks and Public Financing

Ministry of the Economy and Finance - 139, rue de Bercy - 75572 Paris Cedex 12

Ms. Catherine Boyaval (since April 24, 2013)

Age 55

Manager of IT and Quality Systems Organization at Société de Financement Local

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

Mr. Pascal Cardineaud (since April 24, 2013)

Age 52

Financial Engineering Manager at Société de Financement Local

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

Ms. Delphine de Chaisemartin (since January 31, 2013)

Age 43

Head of the Financial Institutions unit in the Group management division - Caisse des Dépôts et Consignations

Caisse des Dépôts et Consignations - 56, rue de Lille - 75007 Paris

- Director, member of the Appointments and Compensation Committee (since July 2013) and member of the Financing and Guarantees Committee of Bpifrance Financement (since September 2013)
- Director of La Banque Postale Collectivités Locales (since April 2013)
- Director, member of the Audit Committee and the Compensation Committee of SOFIRED
- Director of France Brevet (since December 2013)

Ms. Monique Cohen (since January 31, 2013)

Age 57

Associate Manager of Apax Partners

Apax Partners - 45, avenue Kléber - 75784 Paris Cedex 16

- Executive Vice President of Altamir Gérance
- Chairman of the Supervisory Board of Trocadéro Participations
- President of Trocadéro Participations II
- Member of the Supervisory Board and Audit Committee of JC Decaux
- Director of Altran Technologies
- Director of Safran (since June 2013)
- Director of B*Capital (until March 2013)

- Director of Apax Partners MidMarket
- Director of Financière MidMarket
- Manager of Fabadari
- Member of the board of the Autorité des Marchés Financiers (French Financial Markets Authority)
- Member of the European Commission's Private Equity and Venture Capital expert group (until June 2013)

Ms. Lorraine Coudel
(since April 24, 2013)

Age 54

Purchasing and Central Services Manager at Société de Financement Local
Société de Financement Local - 1, passerelle des Reflets
- La Défense 2 - 92913 La Défense Cedex

Ms. Béatrice Gosserez
(until January 31, 2013)

Age 48

General Secretary of Société de Financement Local
Société de Financement Local - 1, passerelle des Reflets
- La Défense 2 - 92913 La Défense Cedex

- Permanent representative of Dexia Crédit Local, member of the Management Committee of the company Le Monde Investisseurs (until April 2013)
- Member of the Executive Committee of Société de Financement Local (since January 2013)
- Member of the Supervisory Board of Dexia Municipal Agency (now Caisse Française de Financement Local)

Ms. Cathy Kopp
(since January 31, 2013)

Age 64

22, square Alboni - 75016 Paris

- Member of the Compensation, Human Resources and Social Responsibility Committee (since May 2013) and director of Schneider Electric SA
- Director of Fondation SNCF

Mr. Antoine de Mieulle
(since April 24, 2013)

Age 38

Organization Manager at Société de Financement Local
Société de Financement Local - 1, passerelle des Reflets
- La Défense 2 - 92913 La Défense Cedex

- Manager of SCI du Chapitre

Mr. Serge Morvan
(since January 31, 2013)

Age 54

High-ranking civil servant - Director General of Local Governments
Ministry of Government Reform, Decentralization and the Public Function - 80, rue de Lille - BP 10445 - 75327 Paris Cedex 07

- Member of the Supervisory Board of Société du Grand Paris (since March 2013)
- Director of the Etablissement Public National d'Aménagement et de Restructuration des Espaces Commerciaux et Artisanaux (EPARECA - national business development agency)
- Director of the Agence Nationale pour la Rénovation Urbaine (ANRU - national agency for urban renewal)
- Director of the Agence de Services et de Paiement (ASP - services and payment agency)

Ms. Françoise de Panafieu
(since January 31, 2013)

Age 65

Member of the Paris City Council
56, rue Boileau - 75016 Paris

- Director of the Les Amis du Musée des Arts Premiers association (Quai Branly Museum)
- Director of the Les Rencontres d'Arles Photographie association
- Member of the board of the Fondation des Parcs et Jardins de France

Mr. Marc Robert
(until January 31, 2013)

Age 40

Head of Operations and information systems of Société de Financement Local

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

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

Mr. Antoine Saintoyant
(since January 31, 2013)

Age 36

Director of Investments - Assistant Director Services, Aeronautics and Defense
Agence des Participations de l'État - 139, rue de Bercy
- 75572 Paris Cedex 12

- Director of La Poste (since April 2013)
- Director of Orange (since April 2013)
- Director of Société de Prise de Participation de l'État (until March 2013)
- Director of Odas (since December 2013)

Ms. Sandrine Vion
(since April 24, 2013)

Age 30

Management controller at Société de Financement Local
Société de Financement Local - 1, passerelle des Reflets
- La Défense 2 - 92913 La Défense Cedex

Mr. Philippe Wahl
(from January 31, 2013 to December 5, 2013)

Age 57

Chairman of the Board of Directors and Chief Executive
Officer of La Poste

La Poste - 44, boulevard de Vaugirard - 75757 Paris
Cedex 15

- Chairman of the Executive Board (until October 2013), Chairman of the Supervisory Board and member of the Appointments and Compensation Committee of La Banque Postale (since October 2013)
- Executive Vice President (until September 2013), director (since August 2013) and member of the Management Committee of La Poste
- Chairman of the Board of Directors and Chief Executive Officer of SF2 (until December 2013)
- Chairman of the Board of Directors of La Banque Postale Assurance Santé (until November 2013)
- Chairman of the Board of Directors and Chairman of the Appointments and Compensation Committee of La Banque Postale Assurances IARD (until December 2013)
- Chairman of the Board of Directors and Chairman of the Appointments and Compensation Committee of La Banque Postale Prévoyance (until December 2013)
- Member of the Audit Committee (until November 2013) and director of CNP Assurances
- Chairman of the Board of Directors and Chief Executive Officer (until February 2013) and director of Sopassure (since February 2013)
- Chairman of the Supervisory Board (until April 2013), member of the Supervisory Board and Chairman of the Compensation Committee of La Banque Postale Asset Management (until October 2013)
- Vice President (until December 2013) of Association Française des Banques (AFB)
- Representative (until December 2013) of Association Française des Banques (AFB), member of the Management Committee of Fédération Bancaire Française (FBF)
- Member of the Supervisory Board of La Banque Postale Financement (until July 2013)
- Chairman of the Supervisory Board of La Banque Postale Gestion Privée (until July 2013)
- Permanent representative of La Banque Postale, Manager of CRSF DOM (until October 2013)
- Permanent representative of La Banque Postale, Manager of CRSF Métropole (until October 2013)
- Member of the Supervisory Board of Fonds de Garantie des Dépôts et de Résolution (until December 2013)
- Vice Chairman of the Board of Directors (until November 2013) and director of L'Envol Le Campus La Banque Postale
- Permanent representative of La Poste, director of Poste Immo (since October 2013)
- Permanent representative of La Poste, director of Geopost (since September 2013)
- Permanent representative of La Poste, director of Sofipost (since October 2013)

Mr. Rémy Weber
(since December 5, 2013)

Age 56

Chairman of the Executive Board of La Banque Postale
La Banque Postale - 115, rue de Sèvres - 75275 Paris
Cedex 06

- Chairman of the Board of Directors, Chief Executive Officer, and member of the Management Committee of Lyonnaise de Banque (until October 2013)
- President of Gesteurop (until October 2013)
- Member of the Supervisory Board and Chairman of the Compensation Committee of La Banque Postale Asset Management (since October 2013)
- Director of Sopassure (since October 2013)
- Permanent representative of La Banque Postale, Manager of CRSF DOM (since October 2013)
- Permanent representative of La Banque Postale, Manager of CRSF Métropole (since October 2013)
- Director and member of the Audit Committee of CNP Assurances (since November 2013)
- Vice Chairman of the Board of Directors and director of L'Envol Le Campus La Banque Postale (since November 2013)
- Chairman of the Board of Directors of La Banque Postale Assurance Santé (since November 2013)
- Director (since November 2013), Chairman of the Board of Directors and Chairman of the Appointments and Compensation Committee of La Banque Postale Assurances IARD (since December 2013)
- Chairman of the Board of Directors and Chief Executive Officer of SF2 (since December 2013)
- Chairman of the Board of Directors and Chairman of the Appointments and Compensation Committee of La Banque Postale Prévoyance (since December 2013)
- Vice President of Association Française des Banques (AFB) (since December 2013)
- Representative of Association Française des Banques (AFB), member of the Management Committee of Fédération Bancaire Française (FBF) (since December 2013)
- Member of the Supervisory Board of Fonds de Garantie des Dépôts et de Résolution (since December 2013)
- Director of Euro P3C (until October 2013)
- Member of the Management Committee of Euro Information (until October 2013)
- Permanent representative of CIC, director of SOFEMO (until October 2013)

- Permanent representative of Lyonnaise de Banque, member of the Supervisory Board of CM – CIC Asset Management (until October 2013)
- Permanent representative of Lyonnaise de Banque, director of CM – CIC Factor (until October 2013)
- Permanent representative of Groupe des Assurances du Crédit Mutuel, director of ACM IARD SA (until October 2013)
- Permanent representative of Lyonnaise de Banque, Chairman of the Management Committee of Danifos (until October 2013)
- Permanent representative of CM – CIC Investissement, director of Descours et Cabaud (until October 2013)

Representative of the works council

Ms. Sandrine Barbosa

Compensation and benefits granted to the executive directors in 2013

EUR thousands	Fixed gross compensation	Variable gross compensation	Exceptional gross compensation	Benefits in kind ⁽²⁾	Total
Philippe Mills ⁽¹⁾	302	-	-	2	304 ⁽³⁾

(1) Chairman of the Board of Directors and Chief Executive Officer.

(2) Executive vehicle.

(3) Compensation received from 02/01/2013 to 12/31/2013.

Directors' fees paid by Société de Financement Local

Board members	Directors' fees paid for 2013 (EUR)
Philippe Mills	/
Jean-Pierre Balligand	7,666.67 ⁽¹⁾
Corso Bavagnoli	/ ⁽²⁾
Catherine Boyaval	/ ⁽³⁾
Pascal Cardineaud	/ ⁽³⁾
Delphine de Chaisemartin	11,500.00 ⁽⁴⁾
Monique Cohen	14,500.00 ⁽⁵⁾
Lorraine Coudel	/ ⁽³⁾
Cathy Kopp	10,833.33 ⁽¹⁾
Antoine de Mieulle	/ ⁽³⁾
Serge Morvan	/ ⁽²⁾
Françoise de Panafieu	5,833.33
Antoine Saintoyant	/ ⁽²⁾
Sandrine Vion	/ ⁽³⁾
Philippe Wahl	5,166.67 ⁽⁶⁾
Rémy Weber	833.33 ⁽⁷⁾

(1) Including amount paid for his participation on the Appointments and Compensation Committee.

(2) Pursuant to the provisions of Law 83-675 of July 26, 1983 on the democratization of the public sector, the directorships of members of the Board of Directors representing the government are not paid.

(3) Pursuant to the provisions of Law 83-675 of July 26, 1983 on the democratization of the public sector, the directorships of members of the Board of Directors representing the employees are not paid.

(4) Including amount paid for her participation on the Audit and Risks Committee and the Appointments and Compensation Committee. Directors' fees paid to Caisse des Dépôts et Consignations.

(5) Including amount paid for her participation on the Audit and Risks Committee.

(6) Including amount paid for his participation on the Audit and Risks Committee. Directors' fees paid to La Banque Postale.

(7) Directors' fees paid to La Banque Postale.

Employment and environmental information

1. Employment information

1.1 - INFORMATION RELATED TO EMPLOYMENT

Société de Financement Local employed 325 people as of December 31, 2013. Société de Financement Local hired a total of 343 people, including 305 under contracts for an unlimited period of time, 24 under fixed-term contracts and 14 under work-study contracts. Three interns were also hired under their internship program.

Breakdown of employees by gender

	2013	2013
	Number of employees	Full-time equivalent
Men	157	157.0
Women	168	160.5
TOTAL	325	317.5

1.2 - COMPENSATION AND BENEFITS

Compensation policy

Sfil's Appointments and Compensation Committee prepares all items related to the compensation policy. Its proposals are submitted to the Board of Directors of Société de Financement Local which decides on the appropriate measures and approves the compensation policy.

Sfil defines its compensation policy in accordance with five key principles. The compensation policy must:

- be in line with market practices;
- be transparent;
- comply with regulations;
- ensure equal opportunity;
- guarantee a balance between fixed and variable compensation and motivate employees.

This approach relates to both fixed compensation (not performance-related) and variable compensation (performance-related) and the general principles apply to all employees. The principle of balance between fixed and variable compensation seeks to discourage excessive risk-taking and allow a sufficiently flexible and coherent variable compensation policy at Société de Financement Local.

Cap on variable compensation

By virtue of the transposition into French law of the measure to cap the variable compensation of bankers adopted at the European level on April 16, 2013 (CRD IV approved in 2013 for application in 2015 for 2014), the variable compensation for a given year cannot exceed 100% of the fixed compensation.

Compensation of the Chairman and Chief Executive Officer

Pursuant to the provisions of the decree of 1953 amended by decree 2012-915 of July 26, 2012 related to govern-

ment control of the compensation of executives of public companies, which apply to Société de Financement Local, the annual gross compensation of the Chairman and Chief Executive Officer may not exceed EUR 450,000.

On this basis, the compensation of the Chairman and Chief Executive Officer of Société de Financement Local is proposed by the Appointments and Compensation Committee to the Board of Directors for approval, subject to the authorization of the Ministry of the Economy and Finance.

Compensation paid to the members of the Management Committee, the auditor general and individuals whose professional activities have a material impact on the company's risk profile

Sfil's compensation policy contains special provisions applicable to a clearly identified group of people whose duties may impact the risk profile of Société de Financement Local.

They include members of the Executive Committee, the auditor general, financial market professionals, risk managers, those engaged in internal control and compliance, and all employees whose variable compensation exceeds EUR 75,000 during a given year.

The compensation of members of the Executive Committee and the auditor general, with the exception of the Chairman and Chief Executive Officer, is determined by the Board of Directors based on the recommendation made by the Chairman and Chief Executive Officer to the Appointments and Compensation Committee.

If the variable compensation paid for year N exceeds EUR 75,000, a portion of the variable compensation will be paid on a non-deferred basis (60%) during year N+1, and a portion will be paid on a deferred basis (40%) over three years (starting in the year following that in which it was awarded). This deferred portion will be subject to the level of performance being maintained. This principle of spreading out variable compensation applies to all Société de Financement Local employees (including members of the Executive Committee and the auditor general).

In 2013, the gross compensation paid to the aforementioned group of people totaled EUR 7.6 million and concerned 99 employees.

Gross payroll

In 2013, the annual gross payroll was EUR 18.57 million.

Status of employee shareholding

Pursuant to the provisions of article L.225-102 of the French Commercial Code, the employees of the company and associated companies in the sense of Article L.225-180 of the French Commercial Code had no shareholdings in the capital of the company at the close of the year.

Incentive and profit-sharing schemes

Incentive and profit-sharing schemes exist at Société de Financement Local (agreements of June 28, 2013).

Pursuant to the provisions of Article L. 225-129-6, paragraph 2, of the French Commercial Code, all companies must convene an extraordinary shareholders' meeting every three years to propose a resolution to carry out a capital increase reserved for employees of the company and its affiliates if the employees hold less than 3% of the company's share capital.

To satisfy these legal requirements, a proposal will therefore be made at the shareholders' meeting via draft resolutions to authorize the Board of Directors, for a period of 26 months, to increase the share capital on one or more occasions by a maximum amount of EUR 100,030 through the issue of 7,145 new ordinary shares each with a nominal value of EUR 14 granting the same rights to their holders as the old ordinary shares and reserved for the employees of the company and associated companies. The Board of Directors would be given full powers to use the aforementioned authorization.

As Société de Financement Local employees benefit in particular from other employee savings schemes, the Board of Directors will invite the shareholders to reject the resolutions related to employee savings after the report presented by the Statutory Auditors is read.

Since the beginning of the year, the company has operated normally.

1.3 - INDUSTRIAL RELATIONS

As a transitional measure, pending the first workplace-level elections at Société de Financement Local, between February and November 2013 the company's employees were represented by a staff representation committee which exercised the rights of the employees' representatives, the works council and the work-

place health and safety committee. Following the workplace-level elections on November 19, 2013, the transitional committee was replaced by the three aforementioned representative bodies.

1.4 - WORK ENVIRONMENT

Relocation of the employees to a new site in Issy-les-Moulineaux is scheduled for the end of 2014.

This relocation will allow Sfil to:

- take charge of its own future by having its own building;
- have a more user-friendly building than the La Défense building;
- lower its property costs;
- be closer to La Banque Postale employees to facilitate collaboration and work more efficiently.

A resolution regarding the relocation of the head office will be submitted to the shareholders' meeting.

2. Environmental information

Société de Financement Local has implemented a policy to control its waste and responsibly manage consumables via a paper and internal waste sorting, collection and recycling system (toner, electronic waste, obsolete equipment, etc.) as well as a policy to lower its paper consumption (printer settings, reduced paper weight, use of recycled paper, etc.).

In terms of energy consumption, the head office is powered entirely by green electricity, and to control CO₂ emissions the company has agreed to pay 60% of the cost of public transportation passes for its employees working at its head office.

Governance and internal control

Report of the chairman of the board of directors on internal control

The Chairman of the Board of Directors wished to present a report describing the principles and procedures implemented in 2013 at Société de Financement Local ¹.

1. Conditions of preparation and organization of the board of directors' work

1.1 - BOARD OF DIRECTORS

The Board of Directors determines the business strategy of Société de Financement Local (Sfil) and ensures its proper implementation. Subject to the powers expressly conferred on the shareholders' meetings and within the limits of the corporate purpose, it addresses all issues affecting the company's operations and, through its deliberations, settles all matters concerning it.

It should be noted that, as part of the new organization of local public sector financing in France implemented in early 2013, the French Republic, Caisse des Dépôts et Consignations and La Banque Postale became the new shareholders of the company, which is itself the parent company of Caisse Française de Financement Local. As a result, a new governance structure was adopted as of January 31, 2013 based on the provisions of the *Loi de Démocratisation du secteur public* (law on the democratization of the public sector) now applicable to it. As of March 2014, its Board of Directors was comprised of 15 members (seven women and eight men). Eight members were appointed by decree (three representatives of the French state and five "qualified people"), two members were designated by the shareholders' meeting and five members were elected by the company's employees. All the members were therefore named in 2013 and, at its meeting on December 5, 2013, the Board of Directors co-opted Mr. Rémy Weber to replace Mr. Philippe Wahl, who resigned.

Mr. Philippe Mills assumed the position of Chairman of the Board of Directors and Chief Executive Officer of the company. This principle of non-separation of duties was submitted to the French regulatory authority (*Autorité de contrôle prudentiel et de résolution* - ACPR) for approval. As Chairman of the Board of Directors, Mr. Mills organizes and directs the Board's work, ensures that the company's corporate bodies function properly and is involved in the company's relations with the institutional authorities. As Chief Executive Officer, he has the broadest powers to act under all circumstances on behalf of the company. He exercises these powers within the limits of the corporate purpose and subject to the powers

expressly conferred by law and the company's bylaws on the shareholders' meetings and Board of Directors.

Internal rules define the operation of the company's Board of Directors. More specifically, the aim of these rules is to present the manner in which the Board of Directors can best assume its role as guardian of the common interests of all the company's stakeholders, including its shareholders, employees and partners. They specify, in particular, the rights and duties of the members of the Board of Directors.

The Board of Directors meets at least once per quarter. Since the implementation of the company's new organization following the change in its shareholding structure on January 31, 2013, the Board of Directors has met nine times. The members' attendance rate was 85%.

The Chairman and Chief Executive Officer provides the Board members with all information, particularly of a strategic nature, which they need to properly perform their duties.

Prior to a Board meeting, the directors receive an agenda and a file containing the notes or documents related to the agenda.

Directors are appointed in accordance with the law and the company's bylaws. During Board meetings, the Chairman and Chief Executive Officer presents the activity and accounts of the previous period. The Board also periodically reviews the work of the Audit and Risks Committee in the areas of internal control and risk monitoring.

In 2013, in addition to matters within its remit related to setting up the new governance bodies and managing the company, the Board of Directors' work focused specifically on the strategy of reducing the sensitivity of structured loans, the bond issuance strategy of its Caisse Française de Financement Local subsidiary, liquidity management, services provided to its subsidiary and those provided on behalf of La Banque Postale, the IS strategy as a result of the dismantling of Dexia and operating and legal risks. The Board of Directors is also informed of actions taken by the regulators and of the responses given in this regard by the company's management.

The Board convened a shareholders' meeting, held on April 30, 2013. At this meeting, the fulfillment of the conditions precedent governing the entry into force of the company's new bylaws (compliance with the provisions of Law 83-675 of July 26, 1983 related to the democratization of the public sector) was noted. Furthermore, a shareholders' meeting, the purpose of which was to appoint an alternate statutory auditor, was held on October 17, 2013. The procedure for convening shareholders' meetings and the conditions of admission to such meetings are set out in Articles 24 and 26 of the company's bylaws.

At its meeting on March 26, 2014, the company's Board of Directors decided to refer to the provisions of the AFEP-MEDEF Code of corporate governance, despite the

(1) At present, the company is not required to prepare a report as provided by Article L. 225-37 of the French Commercial Code.

fact that the company is not publicly traded. Société de Financement Local, which must also take account of its shareholding structure and the provisions of the law on the democratization of the public sector, will apply most of the code's recommendations. It began to do so in 2013.

1.2 - SPECIALIZED COMMITTEES CREATED BY THE BOARD OF DIRECTORS

The Board of Directors decided to create committees, composed of Board members, which are responsible for assisting it.

For example, an Audit and Risks Committee assists the Board of Directors with its task of controlling the company's management.

The Audit and Risks Committee consists of five members¹ who are Board members but are not involved in the company's management (Executive Committee). Members are chosen based on their competencies and their potential contribution to the work of the Audit and Risks Committee as a result of their experience in different business sectors. The Audit and Risks Committee is chaired by an independent director who is a "qualified person" with proven skills in finance and accounting.

The Audit and Risks Committee meets at least four times per year. In 2013, it met four times. The primary purpose of the first meeting was to present the committee's internal rules of order and governance and policies related to risk management and to approve the 2013 audit charter and audit plan. The other meetings focused mainly on the quarterly financial statements of the company and of Caisse Française de Financement Local and the related statutory auditors' report, the 2013 and 2014 budgets, the quarterly reports on risk monitoring, and information about the sensitivity structured loans reduction process. They were also an opportunity to approve the 2013 inspection activities charter and control plan of the company and of Caisse Française de Financement Local.

An Appointments and Compensation Committee was also formed. It consists of four members² (including two independent members) who are also Board members. Members are chosen based on the same criteria as those described above for members of the Audit and Risks Committee. The Appointments and Compensation Committee is chaired by an independent director who is a "qualified person" with proven skills in the field of human resources.

The Appointments and Compensation Committee meets at least twice a year. In 2013, it met two times. The primary purpose of the meetings was to define the principles of the compensation policy, which was approved by the Board of Directors on December 5, 2013.

(1) Ms. Monique Cohen, Chairperson, Ms. Delphine de Chaisemartin, Mr Corso Bavagnoli, Mr. Antoine de Mieulle and Mr. Rémy Weber.

(2) Ms. Cathy Kopp, Chairperson, Ms. Delphine de Chaisemartin, Mr. Jean-Pierre Balligand and Mr. Antoine Saintoyant.

2. Internal control

2.1 - ORGANIZATION OF INTERNAL CONTROL

a. Responsibilities and general architecture of the internal control system

As a credit institution that does not provide investment services, Société de Financement Local is subject to the oversight of the French Prudential Supervision and Resolution Authority (*Autorité de contrôle prudentiel et de résolution* - ACPR).

Given Société de Financement Local's role as manager of Caisse Française de Financement Local, the responsibility of exercising the functions of internal control for Caisse Française de Financement Local was delegated to it under a management agreement. Therefore, Société de Financement Local's internal control system also meets the regulatory requirements applicable to Caisse Française de Financement Local in this regard. Moreover, this system also takes into account the servicing activities carried out on behalf of La Banque Postale (LBP) pursuant to the servicing agreement signed by Société de Financement Local and LBP.

The objectives and organization of its internal control are therefore within the framework defined by the French Monetary and Financial Code and amended CRBF regulation 97-02. Internal control as provided by amended CRBF regulation 97-02 calls for the implementation of control mechanisms that ensure:

- a control system for internal operations and procedures;
- the organization of accounting and information processing;
- systems to measure risks and results;
- systems to monitor and control risks;
- a documentation and information system;
- monitoring of flows of cash and securities.

This internal control system is a process implemented by the Management Committee and all Société de Financement Local employees, at the initiative of the Board of Directors. Its aim is to provide reasonable, but not absolute, assurance that the objectives set by Société de Financement Local are achieved, particularly in terms of fulfilling the three basic responsibilities assigned to it by its shareholders (refinancing loans granted by LBP, providing support services to LBP and the CDC-LBP joint venture, and pursuing a responsible, proactive policy to reduce the sensitivity of structured loans), performance, profitability and protection of its holdings. Specifically, the responsibilities assigned to internal control at Société de Financement Local aim to:

- verify the efficiency of the risk control system to guarantee the Management Committee that the risks assumed by Société de Financement Local are in line with the policy defined by its Board of Directors and Management Committee and with an acceptable level of risk;
- ensure that the financial and accounting information produced is reliable and relevant and gives a true and fair view of Société de Financement Local's position in a regular, complete and transparent manner;
- ensure compliance with regulations and the rules of ethics applicable at Société de Financement Local, including in particular strict compliance with legislative

and regulatory requirements in terms of corporate governance and compliance;

- monitor the effectiveness and operational efficiency of all Société de Financement Local processes to ensure the proper completion of operations and optimal use of its resources.

To ensure the achievement of the assigned objectives, and in accordance with amended CRBF regulation 97-02, the general architecture of Société de Financement Local's internal control system is based on three levels of control:

- level one control occurs in the operating teams. It is exercised by each employee and his/her line manager for the operations they handle based on the applicable internal procedures;
- level two consists of permanent control activities, i.e. specific controls performed regularly by a network of correspondents designated in the operating divisions who, for these tasks, report to the Operating Risks and Permanent Control division, which itself comes under the authority of the Risks division. Additional controls are performed specifically for the risk of non-compliance (non-compliance with laws or regulations, instructions from the regulator, professional or ethical standards and instructions from the executive body) by the Compliance division, which reports to the Corporate Secretary;
- level three control is periodic control. It is performed by an independent team, the Internal Audit and Inspection division, which reports to the Chairman and Chief Executive Officer and is responsible for periodically ensuring the effective application of the two levels of control described above.

The various functions in charge of internal control (Operating Risks and Permanent Control division, Compliance division, Internal Audit and Inspection division) meet every other month as part of the Internal Control Committee to discuss the risks identified by each of these divisions in their respective areas of competence, to coordinate the internal control measures to be taken to remedy these risks, and to analyze the conclusions of their respective control plans.

To this end, a shared computer application allows automated, continuous tracking of the risks, controls, recommendations and action plans of all the internal control functions at Société de Financement Local.

These various levels of control are exercised under the guidance of Société de Financement Local's supervisory and management teams as follows:

b. Management Committee and Board of Directors

In accordance with the French Commercial Code (*Code de commerce*) and amended CRBF regulation 97-02, the role of the Audit and Risks Committee is to monitor the effectiveness of the internal control and risk management systems, assess the quality of internal control, including in particular the coherence of the risk measurement, monitoring and control systems, and propose, as necessary, additional measures.

Based on the powers conferred upon them as responsible managers as stipulated by the ACPR, the Chairman and Chief Executive Officer and the deputy Chief Executive Officer are responsible for the efficient operation of Société de Financement Local's internal control system. They allocate the necessary resources for the various divi-

sions in charge of such control to complete their tasks and ensure that the assigned objectives are achieved and that the system is in line with Société de Financement Local's needs. To do so, they regularly receive activity reports and results of controls performed in terms of permanent control, compliance and periodic control. These reports are also presented and discussed at Société de Financement Local's Management Committee meetings and actions are proposed and decisions made regarding any issues identified with a view to continuously improving the internal control system.

c. Operating divisions

The role of the employees and line managers of the operating divisions, who form the first level of internal control, is to analyze the risks of each transaction they process based on their area of activity, organize and perform basic controls related to such transactions, verify that the controls are consistent with the risks, and make changes to them. To do so, they apply basic principles, which are adapted to all of Société de Financement Local's activities, namely a set of policies, procedures, indicators and reports and a clear segregation of duties between the completion of the transactions and their validation, control or settlement. These basic principles are applied by several specialized committees, made up of employees from the operating, support and control functions and chaired by a member of the Management Committee, such as the Risks Committee, the New Products Committee, the Operating Risks and Permanent Control Committee, and so on.

d. Risk management division

At the time of their creation in February 2013, Société de Financement Local and Caisse Française de Financement Local set up a comprehensive risk management system to identify, monitor and manage risk, to implement integrated risk measurement covering either a specific type of risk or several types of risk, to proactively alert the competent committees and to decide on the amount of the necessary provisions.

The acceptable level of risk for Société de Financement Local and Caisse Française de Financement Local is defined by Société de Financement Local's Management Committee and Risks Committee. It is approved by the Audit and Risks Committee. Along these lines, policies have been defined for all areas, as well as limits and rules for the delegation of decision-making. Risk managers are charged with monitoring these limits and, where applicable, propose measures to the Management Committee to ensure compliance with them.

A quarterly risk review is presented to the Management Committee and then to the Audit and Risks Committee each quarter by the head of risk management division. This review provides a summary of the main risks of Société de Financement Local and Caisse Française de Financement Local and changes to them during the quarter (credit risk, market and ALM risk, operating risk), as well as changes in regulations during the quarter.

Risk management division is supported by several committees whose responsibilities and composition are approved by Société de Financement Local's Management Committee, Risks Committee and Audit and Risks Committee. Depending on the case, these committees play a cross-functional role - Risks Committee, Committee on the Validation of Methods and Models, New Prod-

ucts Committee – or specialize in credit risk, market risk and operating risk, as described below.

e. Committees

The Risks Committee defines Société de Financement Local's risk profile, approves the risk control systems and ensures compliance with them. It is responsible for defining delegations in the granting of credit throughout the loan chain (delegations to La Banque Postale's sales network, the Outstanding Management division, the Risks division and the Credit Committee) and approving Société de Financement Local's risk policies related to all types of risk and the limits defined by the Risks division. The Committee on the Validation of Methods and Models (Market Validation Committee and Credit Validation-Cross-divisional Models Committee) are, respectively, in charge of validating market risk and pricing models and their deployment and the internal rating systems used to calculate capital.

The New Products Committee examines all new products and management processes or any change in a pre-existing product or process. This committee reviews new products intended for financing, refinancing or hedging customer risks, whether at the request of LBP or Société de Financement Local's teams, as well as the development of any existing product or service to the extent that it substantially modifies the bank's risk profile or internal processes.

f. Permanent control excluding compliance

1. Organization and governance of permanent control

Permanent control excluding compliance is the responsibility of the Risks division. Level two permanent control is carried out in the Operating Risks and Permanent Control division, which makes it possible to maintain synergies with the operating risk management and information systems security processes.

Permanent control must provide assurance of the efficiency and reliability of the risk control system, the quality of accounting and financial information, the quality of information systems, and the existence and quality of key controls in all activities to allow coverage of major risks, regardless of their nature. Permanent control applies to all the bank's divisions and activities.

To ensure oversight on a consolidated basis, permanent control is carried out by the Operating Risks and Permanent Control division and is supported by a network of correspondents in the operating divisions in charge of implementing, coordinating and monitoring level one and two controls.

2. Activities of permanent control excluding compliance

The management principles of permanent control are described in the operating risk and permanent control management policy. Permanent control is based on a control plan that covers the various activities of the bank. They are selected together with the operating divisions. The relevance of this choice is analyzed each year when the control plan is reviewed.

Permanent controls are assessed each quarter.

The goal of the review of the control plan is to adapt it to the company's situation. This review takes the following into account:

- the results of controls carried out the previous year: each control is reviewed to assess its benefit, its consistency with the risks to be covered and its effectiveness, how well it is structured and the relevance of the related measurement indicators;
- the review of incidents recorded;
- the recommendations of internal audit open at the time of the review;
- new products and processes in the area reviewed.

Through this process, changes can be made to existing controls and, where applicable, new controls can be added.

Each quarter, the correspondents assess the controls in their area. The assessment includes a comment and a document justifying the results of the control. All the results are reviewed by the central permanent control oversight team, which may approve or refuse the assessment of the control if the documentation is considered unsatisfactory.

The permanent control assessment process is integrated into the operating risk management and permanent control tool, which tracks the justification of the results and the various approval levels. When the assessments of key controls are not consistent with the expected results, action plans are put in place to ensure that a satisfactory result is achieved for the subsequent periods.

Action plans are approved by the permanent control oversight team. They are monitored regularly and reported on quarterly to the Operating Risks and Permanent Control Committee.

In 2013, the permanent control plan was implemented gradually, increasing from 19 control points at the time of Société de Financement Local's creation in the first quarter to 135 control points assessed in the fourth quarter.

3. Reporting on activities of permanent control excluding compliance

The Executive Committee and the Board of Directors are regularly informed of permanent control activities.

The Operating Risks and Permanent Control division publishes a quarterly report for the Operating Risks and Permanent Control Committee, which is chaired by the head of the Risks division and consists of all the members of the Management Committee. The committee meets quarterly. It reviews the results of the permanent controls and follows up on proposals to prevent incidents or improve the system (permanent control, assessment of operating risks, information security, etc.). It also reviews the main operating risks identified, decides whether or not they are acceptable and which corrective measures, if any, should be taken. For permanent control, this report includes the results of the assessments of controls during the previous period, information about the efficiency of the control system and expected improvements.

The published report includes various types of information:

- qualitative data showing the key issues related to permanent control and ways of improving the internal control process as a whole;

- quantitative information to provide an overview of the efficiency of the process: results of the assessments of controls, follow-up on action plans, follow-up on the permanent control plan (new controls, changes to controls, etc.).

The Audit and Risks Committee periodically receives information on the status of permanent control activities, control plan, assessments of controls and areas of improvement and approves the general guidelines of the process. A detailed review of the permanent control system and non-compliant results was presented to the Audit and Risks Committee on January 14, 2014.

g. Compliance

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

Compliance is autonomous and independent of all operating units and particularly of any commercial activity. Compliance division reports to the General Secretary, who is a member of Société de Financement Local's Executive Committee and has been designated as the compliance contact for the ACPR. The General Secretary is assisted by two compliance managers. She also acts as the TRACFIN correspondent, in accordance with the obligations of banks in the fight against money laundering and terrorism financing.

Compliance contributes to the observance of all legal and regulatory requirements. It oversees the consistency and efficiency of non-compliance risk control at Société de Financement Local and its Caisse Française de Financement Local subsidiary. It acts in accordance with the compliance practices defined at the Société de Financement Local-Caisse Française de Financement Local Group level. The year 2013 was marked by the creation of the compliance function and the implementation of the Société de Financement Local-Caisse Française de Financement Local Group's compliance system. This system consists of codes, policies and procedures and risk detection and control tools (non-compliance risk mapping and annual control plan).

The aim of non-compliance risk mapping is to provide an overview of non-compliance risks and ensure their oversight. It serves as a basis for developing the control plan and approving the risk assumed by Société de Financement Local and Caisse Française de Financement Local. Based on the results of the first non-compliance risk mapping exercise carried out at the end of 2013, all the controls described in the control plan were scheduled for 2014.

Compliance covers all the activities of Société de Financement Local and Caisse Française de Financement Local. It addresses the main compliance areas: ethics, the fight against money laundering and terrorism financing, the prevention of market abuse, the prevention of conflicts of interest, rules of conduct vis-à-vis customers, protection of personal data, etc.

In addition to implementing the compliance system, Compliance also monitors regulatory changes impacting the Société de Financement Local-Caisse Française de Financement Local Group in terms of compliance. Along these lines, it plays an active role in the operational application of the European Market Infrastructure Regulation, the Dodd Frank Act and the Foreign Account Tax Compliance Act in specific project structures.

Lastly, training sessions in the above compliance areas will be offered to all employees based on a two-year plan created with the Human Resources division beginning in 2014.

h. Periodic control

1. Organization and governance of periodic control

Periodic control, within the meaning of amended CRBF regulation 97-02, is exercised by internal audit¹ and inspection² division. The scope of this division covers all the activities carried out in France and all of Société de Financement Local's operating processes and systems, without reservation or exception, including outsourced essential activities and anti-fraud techniques.

To guarantee the independence and effectiveness of the Internal Audit and Inspection Division, its manager, the General Auditor, reports to Société de Financement Local's Chairman and Chief Executive Officer and has no involvement in the operational management of Société de Financement Local's activities. In addition, the division has unconditional, immediate access to all information, documents, premises, systems and people as required for its activities, management provides it with the necessary resources to fulfill its duties, and all its employees comply with the principles of integrity, objectivity, confidentiality and competence (thanks, in particular, to continuous training in audit techniques and regulatory changes). These principles are reflected in the internal audit charter and the inspection charter, which were approved by Société de Financement Local's Audit and Risks Committee on April 16, 2013 and August 27, 2013, respectively, and brought to the attention of all Société de Financement Local employees.

As of December 31, 2013, the division had nine staff members, six of whom were auditors and audit managers. This team was put together over the course of 2013, with the gradual transfer of Dexia employees by July 1, 2013. The General Auditor oversees all activities and all the reports published by the division. She is assisted by a supervisor, who is also in charge of the team of auditors and ensures that audits are conducted by the auditors under the responsibility of the audit managers. Each auditor and audit manager has a specific area of responsibility via continuous updating of documentation, risk monitoring and follow-up on the recommendations of a particular division of Société de Financement Local.

2. Activities of internal audit and inspection division

Activities in this area are described in an internal audit manual which is updated regularly and based on the reference framework of the professional internal audit practices of IFACI³. To monitor the efficiency and performance of these activities and identify opportunities for improvement, quantitative and qualitative indicators were created in 2013 and are measured regularly.

Internal audit and inspection division has taken a "top down" approach to annual risk assessment based on the recommendations of the Institute of Internal Auditors: identification of Société de Financement Local's objectives followed by a review of critical risks to ensure the attainment of these objectives. This approach makes it

(1) *Internal audit is an independent and objective activity which assures Société de Financement Local of the degree of control of its operations, offers advice on how to improve them and creates added value. It helps the organization achieve its objectives by assessing its risk management, control and corporate governance processes based on a systematic and methodical approach and by making suggestions for improving their efficiency.*

(2) *At the Société de Financement Local Group, the role of inspection is to independently and objectively help control the risk of fraud.*

(3) *Institut Français de l'Audit et du Contrôle Interne (IFACI - French Audit and Internal Control Institute).*

possible to develop a mapping of major risks in order to identify problems specific to Société de Financement Local and develop a multi-year audit plan.

In 2013, the annual risk assessment was conducted in the second half of the year and resulted in a mapping of Société de Financement Local's major risks. Based on this mapping, internal audit and inspection proposed its 2014 and multi-year audit and inspection plan, which was approved by the Audit and Risks Committee on January 14, 2014.

Société de Financement Local's multi-year audit plan, which is revised annually, is broken down into audits that are conducted throughout the year based on a pre-established schedule and budget. These audits consist of four key stages (preparation, completion, conclusion and finalization). Audits are conducted according to an internal audit methodology manual, which is updated regularly and based on the methodology of the IFACI. Audits are the subject of a report presented to the Management Committee. This report contains a general assessment of the subject matter of the audit, an assessment of residual risks so that the Management Committee can check whether they are consistent with Société de Financement Local's risk profile, and recommendations to improve the efficiency of the processes and internal controls.

In 2013, internal audits focused on new activities (reducing the sensitivity of structured loans, services provided to LBP) and topics related to the creation of Société de Financement Local (market activities, follow-up on the recommendations of the regulatory authorities and internal control regarding its Caisse Française de Financement Local subsidiary, operational implementation of Société de Financement Local's divisions, and management of the information systems prior to separation from Dexia). The completion rate of the 2013 audit plan was 80% given that there were fewer resources than originally planned. The conclusions of each of these audits, as well as the recommendations made, were presented to Executive Committee for discussion and decision-making.

Follow-up on recommendations made after audits conducted by internal audit and inspection division, the regulatory authorities or the statutory auditors, as the case may be, involves a continuous and automated process for monitoring the implementation of action plans resulting from these recommendations. This implementation is the responsibility of those to whom the recommendations are made. Monitoring this implementation is the responsibility of the auditors and audit managers based on their areas of expertise. Validating the status or completion of these action plans is the responsibility of the supervisor and the General Auditor.

Follow-up on recommendations (internal audit, inspection and regulatory authorities), some of which were inherited from Dexia, resulted in continuous monitoring during 2013 and in an official report, based on the situation as of September 30, 2013, presented to Société de Financement Local's Executive Committee in November 2013 and to the Audit and Risks Committee on January 14, 2014.

Internal audit and inspection division is also responsible for preparing, organizing and following up on audits conducted by the regulatory authorities at Société de Financement Local. It also coordinates the preparation of the Société de Financement Local Group's responses to reports and the formulation of action plans after recommendations are made.

In 2013, internal audit and inspection coordinated two audits conducted by the ACPR, including an investigation into the risk of litigation related to the annual percentage rate of charge (*Taux Effectif Global-TEG*) and an audit on credit risk in the French local public sector.

In addition, under the guidance of the Chairman of the Audit and Risks Committee, internal audit and inspection division organizes all Audit and Risks Committee meetings. It ensures that the information and documents needed to hold meetings and proceedings are provided in a timely manner. It ensures adherence to the annual work schedule prepared by the Chairman of the committee. Working closely with the Chairman of the committee, it also edits the minutes drawn following each of these meetings. It is also responsible for retaining the minutes of the proceedings. In 2013, it organized four Audit and Risks Committee meetings.

Finally, internal audit and inspection division is also responsible for inspection at Société de Financement Local. The purpose of this function is to participate in activities related to fraud prevention, detection and investigation and to propose and monitor actions aimed at correcting any malfunctions identified. It may also support Société de Financement Local's legal services by providing information and facts to defend the company's interests in response to specific requests from the legal department. Management may also ask the inspection function to carry out assignments or provide a response regarding specific issues.

In 2013, inspection controls focused on the resources made available by Société de Financement Local to its employees and access to sensitive IT applications.

3. Reporting on internal audit and inspection activities

Société de Financement Local's Executive Committee is regularly informed of internal audit and inspection activities. In particular, the audit plan is presented each year for information purposes after discussion with Société de Financement Local's management team. Each audit is discussed (scope, objectives, planning, etc.) for information and commentary before it effectively takes place and its conclusions are presented for discussion and decision-making. A report on the follow-up of the recommendations of internal audit, inspection and regulatory authorities and the implementation of the resulting action plans is also presented every six months.

The internal audit charter, the charter of inspection activities and the audit plan are submitted for validation on a yearly basis to the Audit and Risks Committee. This committee is also informed every six months of the results of the follow-up of the recommendations of internal audit, inspection and regulatory authorities and of the status of the related action plans. Regular activity reports are also presented for review. In addition, the annual report on internal control at Société de Financement Local (Articles 42 and 43 of CRBF regulation 97-02) is presented each year for review.

2.2 - PREPARATION OF ACCOUNTING AND FINANCIAL INFORMATION

a. Financial statements

A company's annual financial statements should give a true and fair view of its assets, financial position and results. Under its accounting title, amended CRBF regula-

tion 97-02 on internal control states that the organization adopted must guarantee the existence of a set of procedures called an “audit trail”. This audit trail must make it possible to establish a link between any accounting data and an original supporting document, and vice-versa. This principle underlies the organization of the Société de Financement Local Group’s accounting function and applies to both Société de Financement Local and Caisse Française de Financement Local.

1. Role and organization of Accounting division

The Accounting division at Société de Financement Local comes under the authority of the Finance division, which groups together the Financial Management division, including asset liability management, management control and financial communication, the Organization of Systems and Quality division, and the Accounting division. The Accounting division therefore plays a key role in the general and financial management of Société de Financement Local and allows it to benefit from this central overview.

The Accounting division produces basic accounting data and both individual and consolidated summary reports for Société de Financement Local and Caisse Française de Financement Local, as well as subsidiary account information for La Banque Postale as part of the activity assigned to it. It also produces the Société de Financement Local Group’s consolidated financial statements and has resources to ensure, together with risk management, compliance with regulatory and prudential standards.

2. Preparation of the individual financial statements

To prepare the individual financial statements, the upstream systems that manage transactions with customers and market counterparties and operating expenses automatically transfer information to Société de Financement Local’s accounting system. As transactions are entered into any of these systems, one or more accounting entries are generated immediately according to automated accounting procedures. For certain types of transactions, manual entries are also made. Société de Financement Local’s accounting system is capable of managing accounts based on both French and IFRS EU reporting standards. A summary of these entries is then obtained automatically using parameter-based publication tools.

The internal control system guarantees the completeness and accuracy of the accounting entries. The team in charge of accounting policies ensures compliance with standards, approves the creation of the accounting procedures related to the activities and specifically reviews complex or unusual transactions. If, however, the monitoring of certain transactions cannot be fully integrated into the management tools, controls are implemented by the accounting teams to review the specific effects related to these exceptional cases.

A first level of control is exercised by accounting teams specialized by business line, in particular via an analysis of reconciliations of accounting positions and management inventories, and through an analysis of bank reconciliations or justification of technical suspense accounts. These teams also prepare a summary of the work carried out, which identifies areas requiring special attention as well as improvements to be made to the processes for the purpose of subsequent account closings.

Other accounting teams perform additional controls at the time of monthly, quarterly and year-end closings. The teams responsible for producing the summary reports conduct specific reviews to ensure the quality of the work carried out by the teams in charge of level-one control tasks. These teams also reconcile net banking income data with the management data produced by separate teams. This reconciliation occurs at least quarterly and consistency from one period to the next is verified via analytical controls.

To ensure that its control plan is applied, the Accounting division has a monitoring tool with which it can verify the implementation of key controls and their validation. This information and any comments regarding problem areas are reviewed by the head of Accounting along with the key team managers.

The summary reports are obtained by aggregating the financial statements thus produced via an automated process. This function requires configuration administered by a dedicated and independent team.

The stability of reporting, which represents a key point in terms of communication, is thereby verified. The notes to the individual and regulatory financial statements are generally produced based on the accounting data, to which management information may be added. Qualitative analyses are then performed by cross-checking the summary data within Accounting and with the involvement of the team in charge of monitoring the Group’s balance sheet. Cross-checking is also conducted between the summary reports and the notes. Throughout this process, reviews and controls are carried out based on the delegations of authority in place.

3. Account closing process

The financial statements, balance sheet, income statement and notes undergo a specific review, during production and in their final form, by the head of Accounting and later by the Chief Financial Officer. These reports are presented each quarter to the Audit and Risks Committee and are approved by the Board of Directors annually.

4. Role of the Statutory Auditors

The Société de Financement Local Group is audited by two auditing firms which audit both Société de Financement Local and Caisse Française de Financement Local. The Statutory Auditors are involved throughout the financial and accounting reporting process to ensure efficiency and transparency. As part of the audit process, they analyze the accounting procedures and evaluate the current internal control system to determine their area of activity after assessing the main risk areas. During these analyses, they inform management of ways in which the accounting and financial reporting process can be improved and made more secure. They have access to all the documents and notes produced by the employees responsible for policies and principles and are given accounting procedures manuals and memos drafted by accounting staff. They also receive the audit reports issued by internal audit and inspection division. They check whether the management report data is consistent with the financial statements and whether all the reports are consistent with the audited information. Their work includes reviewing all agreements that are considered regulated agreements. They transcribe them thoroughly and accurately via the specific report that they submit at the end of the statutory audit. These procedures enable them to obtain

reasonable assurance that the financial statements are free of any material misstatements.

b. Management information

In addition to the financial statements (balance sheet, off-balance sheet, income statement, cash flow statement and notes) provided by Société de Financement Local to its shareholders and the public, quarterly activity reports are published by Caisse Française de Financement Local and used, in particular, when this subsidiary issues covered debt instruments called obligations foncières. Management information also includes information about loans originated by La Banque Postale and acquired by Caisse Française de Financement Local, as well as information regarding the reduction of the sensitivity of structured loans. They also include outlooks and risk assessments, which are incorporated into the annual report. This information is provided directly by the operating divisions or by the risk control team. Its accuracy is therefore guaranteed by the internal control system of the divisions concerned.

New financing is offered only in France. However, a geographic breakdown of assets between French and non-French borrowers based on the counterparty's country of residence is provided in the management report. This information is prepared by the Accounting division and by the Financial Management division on the basis of management data reconciled with accounting.

Société de Financement Local also acts as servicer for Caisse Française de Financement Local and La Banque Postale. A specific cost accounting system is therefore used to ensure the proper billing of services rendered as a servicer or in connection with pooled resources.

2.3 - IDENTIFICATION OF RISKS AND CONTROL ACTIVITIES IN RESPONSE TO SUCH RISKS

a. Credit risk

Credit risk represents the potential loss that Société de Financement Local may sustain as a result of a counterparty's reduced creditworthiness.

The Risks division management defines the policies, guidelines and procedures related to credit risk. It is responsible for developing the decision-making process – primarily the granting of loans – and the delegation scheme, and for overseeing the analysis and rating processes.

As part of its credit risk monitoring function, the Risks division, and more specifically the various teams in charge of credit risk, has the following responsibilities:

- defining credit risk policies that are in line with the risk appetite of Société de Financement Local and Caisse Française de Financement Local;
- defining limits by type of counterparty which establish the maximum exposure considered acceptable for a given counterparty;
- proactively monitoring these limits, which it may reduce at any time based on changes in related risks;
- defining delegations by type of counterparty;
- managing the lending process for both new commitments and loan restructuring through credit analyses and ratings (based on either the internal rating systems or expert advice);

- monitoring credit risk on all the portfolios of Société de Financement Local and Caisse Française de Financement Local (French local public sector, international, bank counterparties, etc.) by producing credit analyses and assigning new ratings to the portfolios annually;
- identifying assets with heightened risk for possible inclusion on the watchlist;
- proposing specific or segment-based provisions for the portfolio.

It also maintains and develops the internal rating systems for the French and Italian local public sector and for banks and countries, and develops and maintains the Pillar II models (economic capital). Finally, it is responsible for the aspects of statistical modeling related to the various models and for stress exercises.

The following specialized committees manage credit risk:

- The Credit Committee approves both new commitments⁽¹⁾ of Caisse Française de Financement Local and Société de Financement Local (loans and swaps) and the loan restructuring agreements of Caisse Française de Financement Local. It approves cases where certain predefined thresholds are exceeded. Each application submitted to the Credit Committee contains an independent analysis conducted by risk management for any new commitment. This committee meets on a weekly basis.
- The Watchlist Committee monitors assets that require special attention because of heightened risk and may propose specific provisions. This committee meets on a quarterly basis.
- The Default Committee decides whether a loan should be given default status or be upgraded, and it qualifies unpaid loans as actual default, operational default or technical default. This committee meets on a quarterly basis.
- Each quarter, the Provisions Committee determines the amount of collective provisions and finalizes the calculation of specific provisions based on provisioning rates decided by the Watchlist Committee.
- The Rating Committee ensures the proper application of the internal rating systems and the appropriateness of the rating processes. This committee meets on a quarterly basis. Although an integral part of the credit risk management process, this committee is organized by the head of the "Validation and Quality Control" team, which reports directly to the head of the Risks division to ensure the independence of the control process.

b. Market risk

By its very nature, the institution is not subject to market risk in the regulatory sense of the term. However, non-regulatory market risk is continuously monitored by Société de Financement Local's Market and ALM Risks division, which is responsible for:

- defining the policies, guidelines and procedures related to market risk monitoring;
- defining limits;
- defining calculation and measurement methods for these risks;
- valuing derivatives and monitoring cash collateral calls;
- reporting net income;
- valuing balance sheet items (assets, liabilities, AFS reserve);

(1) Not delegated to risk management, outstanding management or the commercial network of La Banque Postale.

- monitoring market risks.

Market risk governance is built around the Market Risks Committee, which conducts a monthly review of the risk indicators defined for the various market and ALM activities (sensitivity, changes in the mark-to-market of structured swaps of customers in default, AFS reserves, 10-day 99% VaR, limits, cash collateral, etc.). This committee is responsible for proposing an action plan in the event risk limits are exceeded. Lastly, it approves policies, guidelines and procedures before they are submitted to the Risks Committee.

c. Structural risk: interest rate, foreign exchange and liquidity

In the Financial Management division, the “Asset-Liability Management” unit implements the ALM policies defined for Société de Financement Local and its subsidiary Caisse Française de Financement Local.

1. Definition of the ALM policy

This policy is designed to protect the value of the Group's equity and limit the volatility of its income while maintaining the equilibrium of the balance sheet.

At the Société de Financement Local company level, the ALM policy entails exchange rate and interest rate micro-hedging of all its balance sheet and off-balance sheet transactions. In terms of liquidity, this policy aims to minimize the need to obtain financing on the market given the sensitivity of Société de Financement Local's liquidity requirements to financial market fluctuations, regulatory requirements and the financing conditions of partner banks.

At the Caisse Française de Financement Local level, the ALM policy entails minimizing the exposure of its income to interest rate risk. To do so, Caisse Française de Financement Local uses swaps to micro-hedge pertinent balance sheet items, such as securities, structured loans, bond issues, etc. For commercial loans and non-structured securities, interest rate macro-hedging is used, with a limit on the sensitivity of the Net Present Value (NPV) to a 100 bp shift in the yield curve. This risk limit was defined at 3% of equity or EUR 40 million in 2013. In practice, ALM controls interest rate risk well below this limit. The ALM policy also seeks to minimize liquidity risk as much as possible, while complying with the regulatory requirements (one-month liquidity ratio, 180-day cash requirement) and overcollateralization requirements set by the regulator and rating agencies. Moreover, Caisse Française de Financement Local has put a ceiling on its transformation capacity by limiting to three years the maximum duration gap between assets and privileged liabilities. Finally, this policy aims to avoid any foreign exchange risk.

2. Committees

ALM is organized around three committees. The ALM Committee, in which the Market Risks division also participates, decides on the ALM strategy and oversees its proper implementation through a review of management indicators. It works with the “ALM Interest Rate” and “ALM Liquidity” Committees to ensure the operational implementation of its choices.

3. Operational management

In its interest rate management, ALM manages the overall interest rate risk position linked to fixed-rate assets and

liabilities with no micro-hedging, the basis risk linked to imbalances between assets and liabilities in each tenor index (mainly Eonia, 3-month Euribor and 6-month Euribor for Caisse Française de Financement Local), and the residual fixing risk after hedging of the basis risk, linked to the date difference between the fixings of the same tenor index.

These various types of risks are monitored, analyzed and managed through the production of fixed-rate, basis and fixing gaps, respectively, which make it possible to determine the nature and amount of hedges to be used. In the case of Caisse Française de Financement Local, these hedges may be executed either directly on the market or through Société de Financement Local acting as an intermediary with the market.

ALM manages the liquidity of Société de Financement Local and Caisse Française de Financement Local in compliance with regulatory and internal liquidity ratios as well as specific restrictions in legislation on sociétés de crédit foncier. To this end, it relies on a static analysis of the balance sheet and off-balance sheet items likely to influence changes in liquidity, including asset eligibility, available reserves, sensitivity of collateral, off-balance sheet commitment, etc. It also uses a dynamic analysis of liquidity requirements by adding behavioral hypotheses or hypotheses related to the commercial policy (asset acquisition, reduction in sensitivity) or refinancing strategy to the static scenario. Lastly, it is based on both the production of the one-month regulatory liquidity ratio calculated according to the methods defined in the order of May 5, 2009 and on the calculation of the duration gap between the assets and liabilities of Caisse Française de Financement Local.

With regard to the management of foreign exchange risk, the issues and assets denominated in foreign currencies give rise, once entered on the balance sheet, to the conclusion of a cross-currency swap against the euro. The outstanding amount and interest margins in foreign currency of these transactions are therefore fully converted into euros, which ensures a full foreign exchange hedge of the nominal amount and interest rate carried by these balance sheet items. ALM guarantees the absence of foreign exchange risk via the net foreign exchange position in each currency, calculated for total debt commitments and receivables and accrued interest not yet due denominated in foreign currency on the balance sheet.

d. Operating risks

Operating risk represents the risk of loss resulting from the unsuitability or failure of internal processes, staff, systems or external events. It includes the risks linked to the security of information systems, as well as legal risks. Société de Financement Local has chosen to include reputation risk in this category. Procedures for managing operating risks apply to all the operating divisions of Société de Financement Local.

1. Organization and monitoring

Within the framework of the Basel II guidelines on operating risk, Société de Financement Local opted for the standard approach and introduced procedures and a management tool in line with the “sound practices for the management and supervision of operational risk” published by the Basel Committee.

Société de Financement Local has a risk management team dedicated to monitoring operating risk and overseeing permanent control based on a network of corre-

spondents designated in each division. The involvement of business line managers strengthens the system's effectiveness.

Société de Financement Local has created a process for compiling incidents and operating losses. The operating risk correspondents identify and analyze incidents with the help of the risk management team. Based on the results of this analysis, corrective or preventive measures are taken to reduce exposure to operating risk.

Société de Financement Local also has an operating risk management tool and, in particular, an incident collection module.

In addition to the incidents identified, the main risk areas are evaluated by taking existing controls into account in order to define Société de Financement Local's risk profile. Exposure is mapped by the operating divisions with the help of the Risks division. Based on the results, action plans may be implemented to control the level of risk.

Reports provide an analysis of the bank's risk profile by activity, division and type of event. They are presented in the Permanent Control and Operating Risks Committee at least once a year.

An initial mapping exercise was carried out in 2013 covering all the divisions of Société de Financement Local. Detailed results were presented at the November 28, 2013 meeting of the Permanent Control and Operating Risks Committee and a summary of the main risks was presented at the Audit and Risks Committee meeting on January 14, 2014.

For the main risks or risk factors identified, Société de Financement Local progressively introduces a set of key risk indicators that will be monitored quarterly.

2. IS security

The IS policy covers the various procedures designed to protect information against threats that can be detrimental to its confidentiality, integrity or availability.

All these measures are spelled out in Société de Financement Local's IS policy. This policy defines the applicable principles by category of security as well as the roles and responsibilities of the various security players. It is based on guidelines, security-specific policies, rules and operating procedures and on the indications provided by ISO standard 27000/17799.

With the help of all the operating teams, a business continuity plan has been developed and formal procedures related to the recovery process have been created. This plan and these procedures are updated annually and

tested based on a schedule drawn up by the Business Continuity Steering Committee and approved by the Permanent Control and Operating Risks Committee.

The entire recovery process was presented at the January 14, 2014 meeting of the Audit and Risks Committee.

3. Insurance of operational risks

Société de Financement Local is covered by traditional damage insurance, comprehensive insurance for its offices and IT hardware, and liability insurance. It also has insurance that covers the liability of the members of its management bodies, professional liability and fraud. These policies also cover Caisse Française de Financement Local.

e. Legal risk

Société de Financement Local's monitoring of legal risk focuses on the prevention of litigation, the anticipation of changes in laws and compliance with the governance principles. Control of this risk is the responsibility of the General Secretary through six main areas, namely internal legal advice, drafting and control of legal documents, dispute management, legal, legislative and regulatory watch in its field of competence, legal secretarial services of Société de Financement Local and Caisse Française de Financement Local, and oversight of delegations of signing authority.

f. Risks of non-compliance

Article 4-p of amended CRBF regulation 97-02 defines the risk of non-compliance as the risk of legal, administrative or disciplinary sanctions, a significant financial loss or injury to reputation caused by non-compliance with provisions specific to banking and financial activities, whether such provisions are laws or regulations, professional or ethical standards or management directives given based on the orientations of the Board of Directors. Pursuant to this standard, the Société de Financement Local-Caisse Française de Financement Local Group monitors and controls the risk of non-compliance by mapping risks of non-compliance and implementing a control plan. This risk is managed by the Compliance division under the General Secretary Department.

Philippe Mills
Chairman of the Board of Directors

Consolidated financial statements

in accordance with IFRS

Assets as of December 31, 2013

EUR millions	Notes	12/31/2012	12/31/2013
Central banks	2.1	2,400	1,924
Financial assets at fair value through profit or loss		-	-
Hedging derivatives	4.1	9,748	6,170
Financial assets available for sale	2.2	1,125	1,084
Loans and advances to banks	2.3	3,741	2,948
Loans and advances to customers*	2.4	71,996	66,315
Fair value revaluation of portfolio hedge*		3,066	1,611
Financial assets held to maturity		-	-
Current tax assets	2.5	1	13
Deferred tax assets*	2.5	89	113
Accruals and other assets	2.6	3	3,350
TOTAL ASSETS		92,169	83,528

* The figures as of December 31, 2012 have been restated. Cf. notes on the accounting policies and valuation methods - under "Highlights".

Liabilities as of December 31, 2013

EUR millions	Notes	12/31/2012	12/31/2013
Central banks	3.1	-	-
Financial liabilities at fair value through profit or loss		-	8
Hedging derivatives	4.1	14,110	10,378
Due to banks	3.2	7,620	10,472
Customer borrowings and deposits		-	-
Debt securities*	3.3	62,739	57,129
Fair value revaluation of portfolio hedge*		2,861	1,398
Current tax liabilities	3.4	6	4
Deferred tax liabilities	3.4	-	-
Accruals and other liabilities	3.5	3,546	2,719
Provisions		-	3
Subordinated debt		-	-
EQUITY		1,287	1,417
Share capital and reserves		1,315	1,445
Reserves and retained earnings*		125	215
Other comprehensive income		(244)	(174)
Net income		91	(69)
TOTAL LIABILITIES		92,169	83,528

* The figures as of December 31, 2012 have been restated. Cf. notes on the accounting policies and valuation methods - under "Highlights".

Management report

Governance and internal control

Consolidated financial statements
in accordance with IFRS

Annual financial statements
in accordance with French GAAP

Income statement

EUR millions	Notes	2012	2013
Interest income	5.1	5,742	5,238
Interest expense	5.1	(5,503)	(5,118)
Fee and commission income	5.2		1
Fee and commission expense	5.2	(4)	(5)
Net gains (losses) on financial instruments at fair value through profit or loss	5.3	1	26
Net gains (losses) on financial assets available for sale	5.4	21	6
Other income		-	7
Other expense		-	0
NET BANKING INCOME		257	155
Operating expense	5.5	(91)	(87)
GROSS OPERATING INCOME		166	68
Cost of risk	5.6	(28)	(178)
OPERATING INCOME		138	(110)
Net gains (losses) on other assets		-	-
INCOME BEFORE TAX		138	(110)
Income tax	5.7	(47)	41
NET INCOME		91	(69)
EARNINGS PER SHARE (IN EUR)			
- basic		6.93	(7.43)
- diluted		6.93	(7.43)

Statement of net income and other comprehensive income

EUR millions	2012	2013
NET INCOME	91	(69)
ITEMS THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS	104	70
Unrealized or deferred gains and losses of financial assets available for sale	107	71
Unrealized or deferred gains and losses of cash flow hedges	60	21
Tax	(63)	(22)
ITEMS THAT MAY NOT BE RECLASSIFIED TO PROFIT OR LOSS	-	-
Actuarial gains and losses on defined-benefit plans	-	0
Tax	-	-
OTHER COMPREHENSIVE PROFIT (LOSS)	104	70
TOTAL COMPREHENSIVE PROFIT (LOSS) FOR THE YEAR	195	1

Consolidated statement of changes in equity

EUR millions

	Share capital and reserves		Consolidated retained earnings	Total gains and losses through equity		Net income	Total consolidated equity
	Share capital	Capital reserves		Net change in fair value of available for sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax		
EQUITY AS OF DECEMBER 31, 2011	1,300	-	24	(266)	(81)	68	1,044
Capital increase	15	-	-	-	-	-	15
Issuance of preferred shares	-	-	-	-	-	-	-
Allocation of 2011 net income	-	-	53	-	-	(53)	-
Dividends paid on 2011 income	-	-	-	-	-	(15)	(15)
Subtotal of transactions with shareholders	1,315	-	76	(266)	(81)	0	1,044
Income for the period	-	-	-	-	-	91	91
Other comprehensive profit (loss)	-	-	-	74	30	-	104
EQUITY AS OF DECEMBER 31, 2012	1,315	-	76	(192)	(51)	91	1,238
Incidence of error correction*	-	-	48	-	-	-	48
EQUITY AS OF JANUARY 1, 2013	1,315	-	125	(192)	(51)	91	1,287
Capital increase	104	-	-	-	-	-	104
Issuance of preferred shares	26	-	-	-	-	-	26
Allocation of 2012 net income	-	-	91	-	-	(91)	-
Dividends paid on 2012 income	-	-	-	-	-	-	-
Subtotal of movements linked to relations with shareholders	1,445	-	215	(192)	(51)	0	1,417
Income for the period	-	-	-	-	-	(69)	(69)
Other comprehensive profit (loss)	-	-	0	49	21	-	70
EQUITY AS OF DECEMBER 31, 2013	1,445	-	215	(143)	(30)	(69)	1,417

* The figures as of December 31, 2012 have been restated. Cf. notes on the accounting policies and valuation methods - under "Highlights".

Management report

Governance and internal control

Consolidated financial statements
in accordance with IFRS

Annual financial statements
in accordance with French GAAP

Consolidated cash flow statement

EUR millions	2012	2013
NET INCOME BEFORE TAXES	138	(110)
+/- Depreciation and write-downs	70	178
+/- Net loss/gain from investing activities	245	(3,260)
+/- (Income)/expense from financing activities	(124)	(78)
+/- Other non-cash items	(609)	21
= Non-monetary items included in net income before tax and other adjustments	(418)	(3,139)
+/- Cash from interbank operations	(3,007)	7,587
+/- Cash from customer operations (loans)	3,207	2,594
+/- Cash from financial assets or liabilities	8,706	402
+/- Cash from non-financial assets or liabilities	0	0
- Income tax paid	5	(14)
= Decrease/(increase) in cash from operating activities	8,911	10,569
CASH FLOW FROM OPERATING ACTIVITIES (A)	8,631	7,320
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-
+/- Cash from or for shareholders	-	130
+/- Other cash from financing activities	(6,934)	(3,417)
CASH FLOW FROM FINANCING ACTIVITIES (C)	(6,934)	(3,287)
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS (D)	-	-
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)	1,697	4,033
Cash flow from operating activities (A)	8,631	7,320
Cash flow from investing activities (B)	-	-
Cash flow from financing activities (C)	(6,934)	(3,287)
Effect of changes in exchange rates on cash and cash equivalents (D)	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	(3,787)	(2,090)
Central banks (assets & liabilities)	2,198	2,400
Interbank accounts (assets & liabilities) and loans/deposits at sight	(5,985)	(4,490)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	(2,090)	1,943
Central banks (assets & liabilities)	2,400	1,924
Interbank accounts (assets & liabilities) and loans/deposits at sight	(4,490)	19
CHANGE IN NET CASH	1,697	4,033

Notes to the consolidated financial statements prepared under IFRS

1. Accounting policies and valuation methods

1.1 - HIGHLIGHTS OF 2013 AND POST-CLOSING EVENTS

In 2013, the French government implemented the new financing scheme for local governments and public hospitals in France.

At the heart of this scheme, Société de Financement Local has three functions, namely:

- refinancing, through its subsidiary, loans granted by La Banque Postale to eligible local governments and public hospitals,
- providing specialized services to La Banque Postale and Caisse Française de Financement Local to ensure the proper operation of the scheme, and
- reducing the “sensitivity” of certain structured assets of Caisse Française de Financement Local.

Formative measures taken during the year allowed several operational and financial objectives to be met.

a. Creation of a new governance structure

Following the acquisition of the company by the French government, Caisse des Dépôts et Consignations and La Banque Postale, a new governance structure was gradually put in place at Société de Financement Local as of January 31, 2013 based in particular on the provisions of the *Loi de Démocratisation du Secteur Public* (law on the democratization of the public sector). A Board of Directors with 15 new members was appointed. It is assisted by two specialized committees – an Audit and Risks Committee and an Appointments and Compensation Committee. The Chairman of the Board of Directors is responsible for the company's management.

In addition, the governing bodies of Caisse Française de Financement Local were reorganized to reflect the changes at its parent company.

b. Ratings of the entities

1. Société de Financement Local

The three rating agencies – Moody's, Standard & Poor's and Fitch – underscored the close ties that exist between Société de Financement Local and the French government, which enabled Sfil to receive a first set of ratings in early February 2013 equal to or one notch lower than that of the French government: Aa2 Moody's, AA+ Standard & Poor's and AA+ Fitch.

As a result of the downgrade of the French government's ratings in 2013, Sfil's ratings were revised accordingly. As of December 31, 2013, Sfil's ratings were therefore

AA2, AA and AA for Moody's, Standard & Poor's and Fitch, respectively.

2. Caisse Française de Financement Local

The rating agencies reviewed the ratings of Caisse Française de Financement Local at the time of its acquisition by Société de Financement Local. Fitch confirmed the AAA rating of the covered debt instruments called *obligations foncières* issued by Caisse Française de Financement Local and Standard & Poor's and Moody's raised their rating to this same level.

With regard to the ratings assigned by Standard & Poor's and Fitch, France's downgrade resulted in a one notch decrease in the ratings of the securities issued by Caisse Française de Financement Local, in strict compliance with the methodologies in force in 2013.

As of December 31, 2013, the ratings of the *obligations foncières* issued by Caisse Française de Financement Local were therefore Aaa, AA+ and AA+ for Moody's, Standard & Poor's and Fitch, respectively.

c. Operational launch of Sfil and dismantling of Dexia

Société de Financement Local began operations at the beginning of 2013 thanks in particular to a transfer of Dexia staff to Société de Financement Local and the resources made available by Dexia during a transition phase. Société de Financement Local gradually acquired the resources needed for its operation and that of its subsidiary, Caisse Française de Financement Local, for which it acts as manager within the meaning of Article L. 513-15 of the French Monetary and Financial Code.

Based on the commitments made to the European Commission, services between Sfil and Dexia were discontinued on July 31, 2013, with the exception of a few IT functions that were still being duplicated.

Duplicating Dexia's information system will allow Société de Financement Local to have its own information system by no later than 30 months after February 1, 2013, in accordance with the deadline approved by the European Commission.

d. Caisse Française de Financement Local issues

Under the new local public sector financing scheme and in the wake of actions aimed at promoting the creditworthiness of Caisse Française de Financement Local among French, European and Asian investors, Caisse Française de Financement Local was able to complete its entire 2013 financing program, i.e. EUR 3.06 billion, between July and September.

e. Launch of the commercial local public sector financing activity by La Banque Postale

La Banque Postale, for which Société de Financement Local acts as servicer, began its long-term local public sector financing activity in 2013. In that first year, Caisse Française de Financement Local acquired nearly EUR 946 million in loans from La Banque Postale.

f. Litigation and government measures

Certain customers have sued Caisse Française de Financement Local and/or Société de Financement Local for sensitive structured loans that had been marketed to them by Dexia Crédit Local and which are on the balance sheet of Caisse Française de Financement Local.

At the end of December 2013, the number of customers who had undertaken legal proceedings totaled 205 versus 57 at the end of 2012.

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

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

Dexia appealed this decision on April 4, 2013. The loans in question appear in 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 Crédit Local. This voluntary intervention should enable Caisse Française de Financement Local to defend its interests by becoming a party in the proceedings.

Since the decisions concerning the *Département de Seine-Saint-Denis* were made public in February 2013, only one new decision has been handed down. On March 7, 2014, the *Tribunal de Grande Instance (TGI) de Nanterre* in the suit the municipality of *Saint-Maur-des-Fossés* brought against Dexia Crédit Local (and Caisse Française de Financement Local, which had decided to intervene voluntarily in the proceedings in order to defend its interests). This decision concerned a structured loan marketed by Dexia Crédit Local and recognized on the balance sheet of Caisse Française de Financement Local, with initial capital of EUR 10 million. As in the February 2013 decisions, the *Tribunal's* decision did not address the core

issue (structured interest rates), but was motivated by the formal absence in the loan agreement of intermediary data with which to calculate the annual rate of charge (*TEG*). This item led the *Tribunal*, to decide to apply the official rate (*taux légal*) instead of the contractual rate. This decision may be appealed.

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

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

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

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

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

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

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

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

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

g. New accounting standards

Since January 1, 2013, Société de Financement Local has recorded the credit valuation adjustment (CVA) and debt valuation adjustment (DVA) defined by IFRS 13. The application of this standard generated in the consolidated financial statements as of December 31, 2013, an expense of EUR 14.5 million for the CVA and income of EUR 63.0 million for the DVA. These amounts include both the effects of the first-time application of this standard and the changes over the period.

Assets (EUR millions)	Note	12/31/2012 Published version	Restatement	12/31/2012 Restated version
Loans and advances to customers	2.4	71,859	137	71,996
Fair value revaluation of portfolio hedge		3,046	20	3,066
Deferred tax assets	2.5	114	(25)	89
TOTAL ASSETS		92,037	132	92,169

Liabilities (EUR millions)	Note	12/31/2012 Published version	Restatement	12/31/2012 Restated version
Debt securities	3.3	62,659	80	62,739
Fair value revaluation of portfolio hedge		2,858	3	2,861
Equity	3.6	1,238	49	1,287
TOTAL LIABILITIES		92,037	132	92,169

i. Post closing events

No significant event that could have a material impact on the financial position of the Group occurred after the year end.

1.2 - ACCOUNTING PRINCIPLES AND METHODS APPLIED

a. Scope of consolidation

Société de Financement Local is the parent company, with 100% shareholding, of Caisse Française de Financement Local. The Group thus formed consists of these two entities. The Group's sole business is financing local governments and public hospitals.

Name	Consolidation method	Controlling interest (%)	Ownership interest (%)
Consolidating company			
Société de Financement Local			
Consolidated company			
Caisse Française de Financement Local	Full	100%	100%

The mandatory recognition of these adjustments, in effect since January 1, 2013, can be a source of volatility for net banking income.

Moreover, the valuation of fully collateralized derivatives against an Eonia curve (rather than Euribor) has gradually become a standard market practice.

The impact on the 2013 consolidated financial statements of Société de Financement Local was EUR -17.8 million before tax.

h. Error correction

When reviewing its valuation methodology, the Group corrected the fair value of certain assets and liabilities hedged by derivatives within a hedging relationship. In accordance with IAS 8, it restated the financial statements and notes published for year 2012.

The impact of the restatement is as follows:

b. Accounting policies and valuation methods

1. Applicable accounting standards

Sfil resulted from the reorganization of entities responsible for providing municipal financing following the discontinuation of activity by the Dexia Crédit Local group in this sector. In this context, and under the direction of the French government and its shareholders, Sfil (formally Dexint Développement) became the parent company of Caisse Française de Financement Local (formally Dexia Municipal Agency) on January 31, 2013.

Until that date, both Sfil and Caisse Française de Financement Local were subsidiaries of the Dexia Crédit Local group. This reorganization was carried out under the joint control of Dexia Crédit Local that produces IFRS consolidated financial statements. For that reason, Sfil has chosen for the consolidation of Caisse Française de Financement Local to adopt IFRS provisions. Comparative financial information produced below constitutes for 2012 a pro forma consolidation of Sfil and Caisse Française de Financement Local.

The consolidated financial statements are consequently prepared in accordance with international financial reporting standards (IFRS) as endorsed by the European Union. The Group does not apply those standards, interpretations and amendments which application is optional as at december 31, 13. Further-

more, the accounting policies applied to the financial statements are described in note 1.2.b.3 hereto.

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

- IFRS 13 “Fair value measurement”: this standard introduces a new definition of fair value and new disclosure requirements. It has an impact on the determination of the fair value of the Group’s financial assets and liabilities.

The impacts of first-time adoption of IFRS 13 are described in the paragraph relating to fair value of financial instruments in note 1.2.b.3 and note 5.3.

- Amendment to IFRS 7 “Disclosures: offsetting financial assets and liabilities”: additional disclosures are required on all financial instruments which are offset in accordance with paragraph 42 of IAS 32. Disclosures are also required on financial instruments subject to enforceable netting arrangements and similar contracts, even if not offset according to IAS 32 (cf. note 7.2).

This amendment has no impact on the measurement in recognition of transactions.

- Amendment to IAS 19 “Employee benefits”. This amendment mainly modifies the recognition and measurement of defined benefit plans (with notably the elimination of the “corridor” mechanism) and enhances disclosures about these plans in the notes to the financial statements.

Retrospective application of this amendment has no impact on the consolidated financial statements as Sfil had no employees at the end of the previous reporting period.

- Amendment to IAS 1 “Presentation of items of other comprehensive income”: this amendment requires the presentation of distinct subtotals for items forming “other comprehensive income”, as well as related tax, making a distinction between those eligible for subsequent reclassification in net income and those that will never be reclassified under net income.

The other standards, amendments and interpretations endorsed by the European Union which application was mandatory for periods beginning on or after January 1, 2013 had no impact on the Group’s consolidated financial statements:

- IFRIC 20 “Stripping costs in the production phase of a surface mine”.
- Amendment to IAS 12 “Deferred tax: recovery of underlying assets”, as these assets are measured by the Group at amortized cost.
- Amendments to IFRS 1 “Severe hyperinflation and removal of fixed dates for first-time adopters”, as the Group is not a first-time adopter.
- “Annual improvements – 2009-2011 cycle”, representing a series of minor amendments to existing IFRSs.
- Amendment to IFRS 1 “Government loans”, as the Group is not a first-time adopter.

IASB and IFRIC texts endorsed by the European Commission during the current year but not yet applicable as from January 1, 2013

- Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated financial statements, Joint arrangements,

Disclosure of interests in other entities: Transitional provisions”.

- Amendments to IFRS 10, IFRS 12 and IAS 27 “Investment entities”.
- Amendments to IAS 36 “Impairment of assets: Recoverable amount disclosures for non-financial assets”.
- Amendments to IAS 39 – Novation of derivatives and continuation of hedge accounting”.

The Group does not anticipate significant impacts from these amendments applicable to its financial statements as from January 1, 2014.

New IFRS, IFRIC interpretations and amendments issued by IASB during the current year but not yet endorsed by the European Commission

- IFRIC 21 “Levies”
- Amendments to IAS 19 – “Defined benefit plans: employee contributions”
- “Annual improvements – 2010-2012 cycle”
- “Annual improvements – 2011-2013 cycle”

The Group does not anticipate significant impacts from these texts as applied to its financial statements.

2. Presentation rules and closing date

Financial statements are prepared on a going concern basis. They are prepared in millions of euros, except where otherwise indicated. They have been presented in accordance with recommendation 2013-04 of the French Accounting Standards Board (*Autorité Des Normes Comptables* - ANC), issued on November 7, 2013.

The consolidated financial statements at December 31, 2013 were adopted by the Board of Directors on March 26, 2014.

When preparing financial statements, management is required to make estimates and assumptions that affect the amounts reported therein. To make these estimates and assumptions, management uses information available at the date of preparation of the financial statements and exercises its judgment for that purpose. Even though management considers that it has used all information available to it when making these assumptions, actual results may significantly differ and have material impacts on the financial statements.

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

Judgments are made mainly in the following areas:

- the classification of financial instruments;
- determining whether or not an active market exists for financial instruments measured at fair value;

- hedge accounting;
- the existence of a present obligation entailing a probable outflow of resources in the event of litigation;
- identifying criteria triggering impairment.

These judgments are developed in the corresponding sections on valuation methods.

Estimates are made mainly in the following areas:

- determining fair value of financial instruments measured at fair value;
- determining the recoverable amount of impaired financial assets;
- estimating probable future taxes for the recognition and measurement of deferred tax assets.

3. Accounting principles applied to the financial statements

Consolidation

The consolidated financial statements of Sfil include only companies subject to exclusive control. The financial statements of companies subject to exclusive control are consolidated using the full consolidation method. Exclusive control of an entity exists when the Group has the power to govern, directly or indirectly, the financial and operating policies of the entity.

A subsidiary is consolidated as from the date when the Group effectively acquires control. Intra-group transactions and balances are eliminated as are unrealized gains or losses resulting from intra-group transactions.

Offsetting financial assets and financial liabilities

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

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 assets available for sale which are recognized in equity. Foreign exchange differences from non-monetary assets and liabilities recognized at fair value are recognized as fair value adjustments.

Trade date and settlement date accounting

All purchases and sales of financial assets are recognized on the settlement date, which is the date when a financial asset is received or delivered by one of the Group companies. Hedging instruments are recognized at fair value on the transaction date.

Financial assets

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

Loans and advances to banks and customers

Loans consist of 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;
- those for which the holder may not recover substantially all of its initial investment for reasons other than the deterioration of credit, which should be classified as available for sale.

The Group 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 life of the financial instrument or, when appropriate, over a shorter period to determine the net carrying amount of the financial asset. The calculation of this rate takes into account commissions received or paid and which, by their nature, constitute an integral part of the effective rate of the contract, transaction costs and possible premiums or discounts.

Financial assets held to maturity

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

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

Available-for-sale financial assets

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".

Available-for-sale financial assets 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 available-for-sale financial assets are recognized in equity. When assets are sold, the related accumulated fair value adjustments are reversed in the income statement in "Net gains (losses) on available-for-sale financial assets".

When available-for-sale financial assets are restated as loans and advances subsequent to initial recognition by the company on the basis of the October 2008 amendment to IAS 39, the reserve representative of changes in the fair value of available-for-sale financial assets as presented in the financial statements as of December 31, 2013, corresponds to the part of this reserve still to be amortized with regard to the securities restated as of October 1, 2008.

Financial assets held for trading

The Group does not hold any trading assets.

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

The Group does not use the option to designate its financial assets at fair value through profit or loss.

Realized gains and losses on sales of financial assets

For financial assets not at fair value through profit and loss, realized gains or losses on disposals are the differences between the proceeds received (net of transaction costs) and the cost or amortized cost 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 financial asset is sold, the total of gains or losses previously recognized in equity is reversed in the income statement.

Accounting for prepayment penalty

The Group 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 prepayment penalties, there are several possibilities depending on whether the prepayment is recognized as being a prepayment with or without refinancing.

Prepayment with refinancing

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

In line with the principles of AG 62 of IAS 39, the Group 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.

Prepayment 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 prepayment penalties are amortized over the term of the new loan. If not (i.e. the difference exceeds 10%), they are recognized immediately in income.

Prepayment without refinancing

When a loan has been extinguished, the Group recognizes the prepayment penalty and any gains or losses of unamortized premium or discount, as profit or loss of the period, as required by IFRS.

Impairment of financial assets

The Group records charges 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 from the financial asset or group of financial assets that can be reliably estimated, in accordance with IAS 39. The impairment represents the management's best estimate of loss in the value of assets at each balance-sheet date.

Financial assets at amortized cost

The Group 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 measured for impairment.

- Determination of the impairment
- Specific impairment: if there is objective evidence that loans or other receivables or held-to-maturity investments 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 individually impaired, it will be excluded from the portfolio on which a collective impairment is calculated.
- Collective impairment: it 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, the Group 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 model of expected losses.

- 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” as the net loss is recorded. Subsequent recoveries are also recognized in “Cost of risk”.

Reclassified financial assets

Regarding impairment, reclassified financial assets follow the same rules as financial assets initially recognized at amortized cost. If there is objective evidence that reclassified financial assets are impaired, the

amount of the impairment is calculated as the difference between the net carrying amount of the asset, excluding the amount of revaluations at fair value due to former classification in available-for-sale financial assets, and the net present value of the expected cash flows discounted at the effective interest rate at the time of reclassification. Any existing unamortized amount of unrealized gains and losses on available-for-sale financial assets reserve will be reversed to profit or loss 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 and not by a reversal of impairment.

Available-for sale financial assets

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

- Determination of the impairment

Available-for-sale financial assets consist exclusively of interest-bearing debt instruments. For these assets, impairment is triggered according to the same criteria as those applied to financial assets valued at amortized cost (see above).

- Accounting treatment of the impairment

When available-for-sale financial assets are impaired, the total AFS reserve is recycled into profit or loss and the Group reports these impairment losses in the income statement in "Cost of risk" (for the fixed income available-for-sale financial asset with fixed income) or "Net gains (losses) on available-for-sale financial assets" (for available-for-sale financial assets with variable income). Any subsequent decline in fair value constitutes an additional impairment loss, recognized in the income statement.

In the event of an increase in the fair value of an available-for-sale financial asset objectively relating to an event occurring after the last impairment was recognized, the Group recognizes a reversal of the impairment loss in the income statement in "Cost of risk" (for available-for-sale financial assets with fixed income).

Off-balance sheet commitments

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

Sale and repurchase agreements and lending of securities

Securities sold subject to a linked repurchase agreement (repos) are not derecognized and remain on the balance sheet in their original category. The corresponding liability is included in "Due to banks" or "Customer

borrowings and deposits" 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 due from banks" or "Loans and advances to customers" 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".

Financial liabilities

Liabilities designated at fair value through profit or loss

The Group does not use this option.

Borrowings

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

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

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

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

Fees and commissions on bond issues are amortized over the life of the loans to which they are attached.

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

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

Pursuant to article L.513-12 of the Monetary and Financial Code and article 6 of CRBF regulation 99-10 of July

27, 1999, total assets must at all times be greater than total liabilities benefiting from the privilege mentioned in article L.513-11 of the above-mentioned Monetary and Financial Code.

Derivatives

Derivative financial instruments are initially recognized, and subsequently measured, at fair value. Fair value of derivatives is determined either on the basis of quoted prices on active markets or by using internal valuation models.

The amount recorded in the balance sheet includes the premium paid or received after amortization, fair value adjustments and accrued interest, with the combined amount constituting the derivative's fair value. Derivatives are presented under assets if the fair value is positive and under liabilities if negative.

Derivatives not used in a hedging relationship

Any derivatives that are not the hedging instrument in a qualifying hedge are considered to be held for trading purposes. Realized and unrealized gains and losses are recorded under "Net gains (losses) on financial instruments at fair value through profit or loss".

Certain embedded derivatives included in other financial instruments are treated as separated derivatives when:

- their risks and characteristics are not closely related to those of the host contract;
- the hybrid contract is not recognized at fair value through profit or loss.

At December 31, 2013 derivatives held for trading resulted from transactions in which hedging instruments were not settled whereas the hedged items were reclassified under doubtful loans.

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 specific asset or liability or a future transaction (cash flow hedge).

Hedge accounting may be used for derivatives designated as hedging instruments, provided certain criteria are met:

- formal and precise 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 item throughout the reporting period;
- the hedge shall be effective at inception and on an ongoing basis.

Changes in the fair value of derivatives that are designated and documented in a fair value hedge relationship, and that respect the criteria set out above, are recorded in the income statement, along with the cor-

responding 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 hedge relationship, that respect the criteria set out above, and that prove to be effective in relation to the hedged risk, is recognized under equity as "Other comprehensive income". The non-effective portion of the changes in the fair value of the derivatives is recognized in the income statement.

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

Hedging of the interest rate risk of a portfolio

The Group makes use of the provisions of IAS 39 as adopted by the European Union ("IAS 39 carve-out") because it better reflects the way the Group 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 hedged items.

The Group performs a comprehensive analysis of its interest rate risk exposure. It consists in assessing fixed-rate exposure generated by all fixed-rate balance sheet items.

The Group selects financial assets and liabilities to be included in the hedge of the portfolio's interest rate risk exposure. The Group constantly applies the same methodology for selecting financial assets and liabilities to be included in the portfolio. The financial assets and liabilities are classified by time-buckets. Hence, when they are removed from the portfolio, they must be removed from all the time-buckets on which they have an impact.

The Group 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, the Group defines at inception the risk exposure to be hedged, the length of the time-buckets and the manner and the frequency of testing.

The hedging instruments are derivatives portfolios which positions may be offset. The hedging items are recognized at 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".

Fair value of financial instruments

Fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability through an arm's length transaction between participants on the measurement date either in their primary

market or, in the absence of a principal market, in the most advantageous market to which the Group has access on this date. The fair value of a liability reflects the effect of the risk of non-execution which includes notably the Group's own credit risk.

Market prices are used to measure fair value when there exists an active market defined as so by the existence of 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 a Group company.

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 the transaction price on the measurement date according to actual market conditions. It takes into account all the factors that market participants would consider when pricing the asset such as for example changes in the quality of the credit risk of the financial instruments in question and market liquidity. Within this framework, the Group uses its own valuation models and market assumptions, i.e. present value of cash-flows or any other techniques based on market conditions existing at the closing date.

Financial instruments measured at amortized cost

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

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

Financial instruments measured at fair value

(available-for-sale financial assets, derivatives)

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

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

To determine the fair value of its derivatives, the Group uses different discount rate curves according to the effective swap of collateral with its counterparty. When there is a swap of collateral, future cash flows from derivatives are discounted with an *Overnight Indexed Swap*. In contrast, when there is no swap of collateral, they are discounted using a Euribor type curve. For information, the entity Caisse Française de Financement Local does not pay collateral to its derivative counterparties, as they benefit from the legal privilege

over assets in the same way as *obligations foncières* bondholders.

Furthermore, a value adjustment is taken into account in the measurement of derivatives to reflect the credit risk of the counterparty (CVA - Credit Value Adjustment) or net exposure of the latter to the credit risk of Group entities (DVA - Debt Value Adjustment). The value adjustment makes it possible to adjust fair value according to risk-free rate discounted future cash flows, i.e. without taking into account the counterparty risk at a fair value integrating this risk. It is determined according to the risk exposure combined with loss rates that integrate market parameters.

Interest income and expense

For all interest-bearing instruments at amortized cost, 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.

Commissions

Commissions are recognized in accordance with IAS 18. Pursuant to this standard, most of the commissions arising from the Group'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 credit line is drawn. They are recorded as commission income on the expiry date of the commitment if this credit line is not drawn.

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 the remeasurement of assets available for sale and cash flow hedging, are also credited or charged directly to equity.

Provisions

Provisions 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:

- the Group 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.

Provisions on loan commitments are recognized using the same methodology as that applied for the impairment of financial assets measured at amortized cost.

Leases

Sfil is the lessee of lease agreements. A finance lease is one that transfers substantially all the risks and rewards incident to ownership. An operating lease is any lease that is not a finance lease.

If the lease is classified as a finance lease, the asset is recognized on inception of the contract at the fair value, or if lower, at the present value of the minimum payments under the lease. For subsequent measurements, the asset is recognized according to accounting rules that apply to this type of asset. Liabilities corresponding to lease payment commitments are accounted for as debt and lease payments are recognized according to the effective interest rate method.

For operating leases, the leased asset is not recognized on the balance sheet. Payments made for operating leases are recorded in the income statement on a straight-line basis over the lease period. When an operating lease is terminated before maturity, any penalties payable to the lessor are recognized under expenses in the period in which the lease was terminated.

Employee benefits

Sfil grants employees different types of benefits classified into four categories:

Short-term benefits

Short-term benefits, payable within a maximum of twelve months after rendering the service, are not discounted to present value and are recognized as an expense.

Post-employment benefits

Retirement plans of Sfil employees are classified either as defined benefit plans or defined contribution plans. Plan assets are generally managed by insurance companies or pension funds. These plans are financed from contributions by both employees and Sfil.

Defined benefit plans

Defined benefit plans refer to plans in which SFIL has a legal or constructive obligation to provide agreed benefits to its employees and therefore effectively places a medium or long-term risk on the company. A provision

is recorded in liabilities under "Provisions" to cover these pension obligations.

The defined benefit obligation is measured on an actuarial basis taking into account demographic and financial assumptions and using the projected unit credit method which enables to spread the obligation over time according to the period of service of employees.

The recognized net defined benefit liability, calculated by independent actuaries, represent the difference between the present value of plan obligations and the fair value of plan assets (if any). When plan assets exceed the present value of the obligation, an asset is recognized if it represents future economic benefits available to SFIL in the form of refunds from the plan or reduced contributions to it.

The annual charge recorded in staff costs for pension costs comprises current service costs, past service costs resulting from a scheme amendment or curtailment and interest on the net defined benefit liability (asset).

The measurement of the obligation resulting from a plan or the value of plan assets may evolve according to changes in actuarial assumptions and result in the remeasurement of the defined benefit liability (asset). These actuarial gains or losses are recognized directly in the period in which they arise in other comprehensive income.

Defined contribution plans

These plans do not represent an obligation for the company and in consequence do not require a provision to be recorded. Contributions of the company are recorded in profit and loss when payable.

Long-term benefits

These benefits are generally related to seniority and paid to current employees on a deferred period exceeding twelve months following the end of the reporting period in which the corresponding service was rendered. In particular, these represent seniority bonuses corresponding to long service awards.

Paid annual vacation or seniority days are recognized when the benefits are granted to the employee. To this purpose, a provision is recorded based on rights vested by employees on the end of the reporting period, both for annual vacation and days of seniority.

The actuarial gains and losses related to these benefits and all other service costs are recognized immediately in the income statement.

Termination benefits

Termination benefits result from the decision by Sfil to terminate an employment contract before the legal retirement age or by a decision of voluntary redundancy in exchange for termination benefits.

A charge for termination benefits at the end of the employment contract is recorded only when Sfil is no longer able to withdraw its offer. Termination benefits payable at more than twelve months after the end of the reporting period are subject to a present value adjustment.

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 post-closing events.

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.

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. Sfil is held by the French government, the Caisse des Dépôts et Consignations and La Banque Postale, companies registered

in France. Within this framework, related party transactions are those with companies accounted for by the equity method and with members of the company's management bodies.

Segment reporting

The Group's sole activity is financing or refinancing commitments on public sector entities.

The Group conducts its business solely from France. The company has no direct activity in other countries and is unable to present a relevant breakdown of its results by geographic region.

Cash and cash equivalents

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

Management report

Governance and internal control

Consolidated financial statements
in accordance with IFRS

Annual financial statements
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2. Notes to the assets

2.1 - CENTRAL BANKS

EUR millions	12/31/2012	12/31/2013
Mandatory reserve deposits with central banks	-	-
Other deposits	2,400	1,924
TOTAL	2,400	1,924

2.2 - FINANCIAL ASSETS AVAILABLE FOR SALE

a. Analysis by type

EUR millions	12/31/2012	12/31/2013
Loans	-	-
Bonds	1,125	1,084
TOTAL	1,125	1,084

b. Analysis by counterparty

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

c. Impairment

EUR millions	12/31/2012	12/31/2013
Public sector	1,125	1,084
Replacement assets	-	-
Total performing assets	1,125	1,084
Public sector	-	-
Replacement assets	-	-
Total impaired assets	-	-
Specific impairment	-	-
TOTAL ASSETS AFTER IMPAIRMENT	1,125	1,084

d. Analysis by residual maturity: See note 7.4

e. Unrealized or deferred gains and losses, breakdown by country: See note 4.4

2.3 - LOANS AND ADVANCES TO BANKS**a. Analysis by type**

EUR millions	12/31/2012	12/31/2013
Sight accounts	23	20
Other loans and advances to banks	3,718	2,928
Performing assets	3,741	2,948
Impaired loans and advances	-	-
Impaired assets	-	-
Total assets before impairment	3,741	2,948
Specific impairment	-	-
Collective impairment	-	-
TOTAL	3,741	2,948

b. Breakdown by counterparty

EUR millions	12/31/2012	12/31/2013
Credit institutions	-	8
Swiss cantonal banks benefiting from their cantons' legal guarantee	924	686
Banks guaranteed by a local government, <i>crédits municipaux</i>	169	129
Other credit institutions belonging: loans benefiting from the assignment of refinanced public debt as security	2,110	2,105
Credit institutions guaranteed by the State	15	-
Assets pledged as collateral to Banque de France	0	-
Replacement assets	523	20
TOTAL	3,741	2,948
<i>of which eligible for central bank refinancing</i>	-	-

c. Replacement assets

EUR millions	12/31/2012	12/31/2013
Dexia Sabadell - <i>cedulas territoriales</i>	500	-
Dexia LdG Banque - <i>lettres de gage publiques</i>	-	-
Dexia Crédit Local - loans secured by public sector assets	-	-
Credit institutions - current accounts	23	20
TOTAL	523	20

d. Analysis by residual maturity: See note 7.4

e. Unrealized or deferred gains and losses, breakdown by country: See note 4.4

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2.4 - LOANS AND ADVANCES TO CUSTOMERS

a. Analysis by counterparty

EUR millions	12/31/2012	12/31/2013
Public sector*	59,792	58,250
Other - guaranteed by the public sector	3,864	3,525
Other - ABS made up solely of public sector commitments	8,270	4,370
Performing assets	71,926	66,145
Impaired loans and advances	122	254
Impaired assets	122	254
Total assets before impairment	72,048	66,399
Specific impairment	(8)	(14)
Collective impairment	(44)	(70)
TOTAL	71,995	66,315
<i>of which eligible for central bank refinancing</i>	<i>38,585</i>	<i>42,118</i>
<i>Assets pledged as collateral to the central bank</i>	<i>-</i>	<i>-</i>

* The figures as of December 31, 2012 have been restated. Cf. notes on the accounting policies and valuation methods - under "Highlights".

Impaired loans concern customers that represent a definite credit risk (non-performing loans: EUR 188 million) and clients with unpaid loans corresponding to a dispute as to the amount due (contested claims: EUR 66 million).

During the period, Caisse Française de Financement Local strengthened its hedging on the structured credit portfolio by increasing collective impairments, which now stand at EUR 70 million.

b. Public sector ABS

EUR millions	Rating	12/31/2012	12/31/2013
Colombo	-	3	-
Astrea	-	0	-
Blue Danube	-	70	-
DCC - Dexia Crediop per la Cartolarizzazione	-	3,361	-
DSFB - Dexia Secured Funding Belgium 2	-	1,303	1,229
DSFB - Dexia Secured Funding Belgium 4	-	3,533	3,141
TOTAL	-	8,270	4,370

The ABS consisting of Italian loans were liquidated in the last quarter. Caisse Française de Financement Local carries 92% of the underlying assets on its balance sheet.

c. Analysis by residual maturity: See note 7.4

d. Unrealized or deferred gains and losses, breakdown by country: See note 4.4

2.5 - TAX ASSETS

EUR millions	12/31/2012	12/31/2013
Current income tax	1	13
Other taxes	0	0
Current tax assets	1	13
Deferred tax assets (see note 4.2)*	89	113
TOTAL TAX ASSETS	90	126

* The figures as of December 31, 2012 have been restated. Cf. notes on the accounting policies and valuation methods - under "Highlights".

2.6 - ACCRUALS AND OTHER ASSETS

EUR millions	12/31/2012	12/31/2013
Cash collateral paid	-	3,336
Accrued income	-	5
Prepaid charges	-	4
Other accounts receivable and other assets	3	5
TOTAL ACCRUALS AND OTHER ASSETS	3	3,350

2.7 - RESTATEMENT OF FINANCIAL ASSETS (AMENDED IAS 39)

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

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

This item includes refinancing obtained through Banque de France tenders. The use of such financing organized

by tenders involves the pledging of eligible assets within the framework of a general guarantee management agreement (3G). This source of financing does not benefit from the privilege defined in article L.513-11 of the Monetary and Financial Code.

EUR millions	12/31/2012	12/31/2013
Overnight borrowing	-	-
Term borrowing	-	-
Interest accrued not yet due	-	-
TOTAL FUNDING FROM BANQUE DE FRANCE	-	-

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

EUR millions	12/31/2012	12/31/2013
Demand deposits	4,510	1
Term deposits	3,110	10,471
TOTAL	7,620	10,472

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EUR millions	12/31/2012	12/31/2013
Current account	4,510	-
Interest accrued not yet due	-	-
Long-term borrowing	3,100	10,444
Interest accrued not yet due	10	27
Sight accounts	-	1
TOTAL	7,620	10,472

b. Analysis by residual maturity: See note 7.4

3.3 - DEBT SECURITIES

a. Analysis by type

EUR millions	12/31/2012	12/31/2013
<i>Obligations foncières*</i>	57,303	51,522
Registered covered bonds	5,436	5,607
TOTAL	62,739	57,129

* The figures as of December 31, 2012 have been restated. Cf. notes on the rules of measurement and presentation - under "Highlights".

b. Analysis by residual maturity: See note 7.4

3.4 - TAX LIABILITIES

EUR millions	12/31/2012	12/31/2013
Current income tax	3	-
Other taxes	3	4
Current tax liabilities	6	4
Deferred tax liabilities (see note 4.2)	-	-
TOTAL TAX LIABILITIES	6	4

3.5 - ACCRUALS AND OTHER LIABILITIES

EUR millions	12/31/2012	12/31/2013
Cash collateral received	3,518	2,547
Accrued charges	25	19
Prepaid income	-	-
Other accounts payable and other liabilities ⁽¹⁾	3	153
TOTAL	3,546	2,719

(1) This item mainly corresponds to Caisse Française de Financement Local's commitment to contribute EUR 10 million per year to the multi-year support fund for a period of 15 years, as soon as it is operational.

4. Other notes to the balance sheet

4.1 - DERIVATIVES

a. Analysis by type

EUR millions	12/31/2012		12/31/2013	
	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss	-	-	-	8
Derivatives designated as fair value hedges	5,770	9,840	3,517	7,420
Derivatives designated as cash flow hedges	8	184	(5)	118
Derivatives designated as portfolio hedges	3,970	4,086	2,595	2,826
Hedging derivatives	9,748	14,110	6,107	10,364
CVA/DVA impact	-	-	63	14
TOTAL DERIVATIVES	9,748	14,110	6,170	10,386

b. Detail of derivatives designated as fair value hedges

EUR millions	12/31/2012			
	Notional amount		Assets	Liabilities
	To be received	To be delivered		
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	12/31/2013			
	Notional amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	10,829	11,254	(2)	315
Interest rate derivatives	63,643	63,629	3,519	7,105
TOTAL	74,472	74,883	3,517	7,420

c. Detail of derivatives designated as cash flow hedges

EUR millions	12/31/2012			
	Notional amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	1,857	1,926	8	184
Interest rate derivatives	-	-	-	-
TOTAL	1,857	1,926	8	184

EUR millions	12/31/2013			
	Notional amount		Assets	Liabilities
	To be received	To be delivered		
Foreign exchange derivatives	446	483	(5)	118
Interest rate derivatives	-	-	-	-
TOTAL	446	483	(5)	118

EUR millions	12/31/2012	12/31/2013
Amount reclassified from the fair value reserve for cash flow hedges to the acquisition value of a non-financial instrument (hedging of cash flows of a highly probable transaction)	-	-

d. Detail of derivatives designated as portfolio hedges

EUR millions	12/31/2012			
	Notional amount		Assets	Liabilities
	To be received	To be delivered		
Interest rate derivatives	131,169	131,164	3,970	4,086
TOTAL	131,169	131,164	3,970	4,086

EUR millions	12/31/2013			
	Notional amount		Assets	Liabilities
	To be received	To be delivered		
Interest rate derivatives	88,276	88,271	2,595	2,826
TOTAL	88,276	88,271	2,595	2,826

4.2 - DEFERRED TAXES

* The figures as of December 31, 2012 have been restated. Cf. notes on the rules of measurement and presentation - under "Highlights".

a. Analysis by type

EUR millions	12/31/2012	12/31/2013
Deferred tax assets before impairment	89	113
Impairment on deferred tax assets	-	-
Deferred tax assets⁽¹⁾	89	113
Deferred tax liabilities⁽¹⁾	-	-
TOTAL	89	113

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

b. Movements

EUR millions	12/31/2012	12/31/2013
As of January 1	165	89
Charge/credit recognized in the income statement	(24)	46
Effect of change in tax rates - impact on the income statement	-	-
Movements directly recognized in equity	(63)	(22)
Effect of change in tax rates - impact on equity	-	-
Translation adjustment	-	-
Other movements	11	-
As of December 31	89	113

c. Deferred taxes from assets on the balance sheet

EUR millions	12/31/2012	12/31/2013
Loans and loan loss provisions	(2)	475
Securities	89	91
Derivatives	(8)	(14)
Accruals and other assets	14	14
TOTAL	93	566

d. Deferred taxes from liabilities on the balance sheet

EUR millions	12/31/2012	12/31/2013
Borrowings, deposits and issues of debt securities	20	(453)
Derivatives	-	-
Provisions	-	-
Regulated provisions	(24)	-
Accruals and other liabilities	-	-
TOTAL	(4)	(453)

4.3 - TRANSACTIONS WITH RELATED PARTIES

Analysis by type

EUR millions	Parent company and entities ⁽¹⁾		Other related parties ⁽²⁾	
	12/31/2012	12/31/2013	12/31/2012	12/31/2013
ASSETS				
Loans and advances	5,983	-	-	-
Bonds	-	-	-	-
LIABILITIES				
Due to banks - sight accounts	4,521	-	-	-
Due to banks - term loans	3,110	-	-	10,482
INCOME STATEMENT				
Interest income on loans and advances	111	-	-	-
Interest income on bonds	0	-	-	-
Interest expense on borrowings	(89)	-	-	(89)
Fees and commissions	(3)	-	-	(0)
OFF-BALANCE SHEET				
Foreign exchange transactions	6,532	-	-	-
Interest rate derivatives	99,549	-	-	3,713
Commitments and guarantees received	12,296	-	-	5,365
Commitments and guarantees given	-	-	-	6,995

(1) Until 2012, this item included transactions with entities of the Dexia Crédit Local Group.

(2) Until 2012, this item included transactions with entities of the Luxembourg sub-group consolidated by Dexia SA, the former parent company of Dexia Crédit Local. As of January 2013, it includes transactions with CDC and La Banque Postale, which are shareholders of Sfil, the parent company of Caisse Française de Financement Local.

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

EUR millions	12/31/2012	12/31/2013
Unrealized gains and losses on available-for-sale securities	(169)	(116)
Canada	1	-
Germany	-	1
France	(1)	2
Italy	(178)	(110)
United States	9	(9)
Unrealized gains and losses on loans and receivable securities	(122)	(105)
Belgium	(2)	-
Germany	(1)	-
Spain	(2)	(2)
France	5	5
Italy	(118)	(108)
United States	(4)	-
Unrealized gains and losses on derivatives designated as cash flow hedges	(66)	(45)
TOTAL	(357)	(266)
Deferred taxes on gains and losses, available-for-sale securities	58	40
Deferred taxes on gains and losses, loans and receivable securities	40	36
Deferred taxes on gains and losses, derivatives designated as cash flow hedges	15	16
TOTAL	(244)	(174)

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4.5 - BREAKDOWN OF GOVERNMENT BONDS IN A SELECTION OF EUROPEAN COUNTRIES AND IMPAIRMENT OF SOVEREIGN BONDS OF COUNTRY BENEFITING FROM EUROPEAN RESCUE PLAN

a. Exposure to credit risk on government bonds in a selection of european countries

The credit risk exposure represents the net carrying amount of outstandings, i.e., notional amounts less specific impairments and including accrued interest.

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

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

	12/31/2012					Total
	Spain	Ireland	Italy	Portugal	Greece	
Financial assets available for sale	-	-	492	-	-	492
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-
Loans and advances to customers	-	-	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)

	12/31/2013					Total
	Spain	Ireland	Italy	Portugal	Greece	
Financial assets available for sale	-	-	480	-	-	480
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-
Loans and advances to customers	-	-	112	-	-	112
TOTAL	-	-	592	-	-	592

Unrealized gains and losses on available-for-sale securities	-	-	(110)	-	-	(110)
Unrealized gains and losses on loans and receivable securities	-	-	(0)	-	-	(0)

5. Notes to the income statement

5.1 - INTEREST INCOME - INTEREST EXPENSE

EUR millions	2012	2013
INTEREST INCOME	5,742	5,238
Central banks	0	0
Loans and advances to banks	115	65
Loans and advances to customers	2,009	1,761
Financial assets available for sale	45	41
Financial assets held to maturity	-	-
Hedging derivatives	3,573	3,371
Impaired assets	-	-
Other	-	-
INTEREST EXPENSE	(5,503)	(5,118)
Accounts with central banks	(8)	(0)
Due to banks	(75)	(97)
Customer borrowings and deposits	-	-
Debt securities	(2,367)	(2,067)
Subordinated debt	-	-
Hedging derivatives	(3,053)	(2,953)
Other	-	(1)
INTEREST MARGIN	239	120

5.2 - FEES AND COMMISSIONS

EUR millions	2012			2013		
	Income	Expense	Net	Income	Expense	Net
Lending activity	0	(0)	(0)	1	(0)	1
Purchase and sale of securities	-	(1)	(1)	-	(0)	(0)
Financial engineering	-	-	-	-	-	-
Securities services other than custodian services	-	(3)	(3)	0	(4)	(4)
Custodian services	-	-	-	-	-	-
Issuance and underwriting of securities	-	(0)	(0)	-	(1)	(1)
TOTAL	0	(4)	(4)	1	(5)	(4)

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

EUR millions	2012	2013
Net trading result	-	2
Net result of hedge accounting	1	24
Net result of foreign exchange transactions	0	(0)
TOTAL	1	26

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

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

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Analysis of net result of hedge accounting: EUR 24 million

EUR millions	2012	2013
Fair value hedges⁽¹⁾	1	(28)
Fair value changes in the hedged item attributable to the hedged risk	428	(391)
Fair value changes in the hedging derivatives	(427)	363
Cash flow hedges	-	-
Fair value changes in the hedging derivatives - ineffective portion	-	-
Termination of cash flow hedging relationship (cash flows no longer expected to occur)	-	-
Portfolio hedges⁽¹⁾	-	3
Fair value changes in the hedged item	325	7
Fair value changes in the hedging derivatives	(325)	(4)
CVA/DVA impact⁽²⁾	-	49
TOTAL	1	24

(1) Société Française de Financement Local values against Eonia those derivatives for which it is paid collateral. Derivatives for which no payment is made to counterparties continue to be measured against Euribor. This treatment points to an accounting ineffectiveness of -EUR 18 million.

(2) Application of IFRS 13 shows a CVA impact of -EUR 14 million and a DVA impact of EUR 63 million as of December 31, 2013. These amounts include, in aggregate, the effects of first-time adoption of this standard and of changes during the period.

5.4 - NET RESULT OF FINANCIAL ASSETS AVAILABLE FOR SALE

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

5.5 - OPERATING EXPENSE

EUR millions	2012	2013
Payroll costs	-	(34)
Other general and administrative expense	(87)	(47)
Taxes	(4)	(6)
TOTAL	(91)	(87)

5.6 - COST OF RISK

EUR millions	2012			2013			
	Collective impairment	Specific impairment and losses	Total	Collective impairment	Specific impairment and losses	Contribution to the support fund	Total
Loans, advances and commitments	(27)	(1)	(28)	(26)	(2)	(150)	(178)
Fixed income securities available for sale	-	-	-	-	-	-	-
TOTAL	(27)	(1)	(28)	(26)	(2)	(150)	(178)

Detail of collective and specific impairments

Collective impairment EUR millions	2012			2013		
	Allocations	Reversals	Total	Allocations	Reversals	Total
Loans and advances	(43)	16	(27)	(68)	42	(26)
Off-balance sheet commitments	-	-	-	-	-	-
TOTAL	(43)	16	(27)	(68)	42	(26)

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

(1) Greek sovereign bonds

Specific impairment EUR millions	2013				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	(5)	4	-	-	(1)
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	(5)	4	-	-	(1)
Fixed-income securities	-	-	-	-	-
TOTAL	(5)	4	-	-	(1)

5.7 - CORPORATE INCOME TAX

a. Detail of tax expense

EUR millions	2012	2013
Current taxes	(24)	(8)
Deferred taxes	(23)	47
Tax on prior years' income	-	2
Deferred taxes on prior years	-	0
Provisions for tax litigation	-	-
TOTAL	(47)	41

b. Effective tax expense as of December 31, 2013

The standard corporate tax rate applicable in France is 36.10%. The tax rate applied to the contribution from Caisse Française de Financement Local's Irish subsidiary is the rate applied locally in accordance with that country's legislation and tax system. Following the closure of the Dublin subsidiary, the transfer of the assets to Paris generated a capital gain in Ireland at the Irish rate and a capital loss in France at the French rate. This explains the EUR 14.4 million difference in the rate on this transaction.

The difference between the two rates can be analyzed as follows:

EUR millions	2012	2013
INCOME BEFORE TAX	138	(110)
Net income from associates	-	-
TAX BASE	138	(110)
Applicable tax rate at the end of the period	36.10%	36.10%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	50	(40)
Impact of differences between foreign tax rates and the French standard tax rate	(6)	(15)
Tax effect of non-deductible expenses	-	-
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Other additional taxes or tax savings	3	14
Liability method	-	-
Provisions for tax litigation	-	-
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	47	(41)
EFFECTIVE TAX RATE	34.2%	N/A

c. Tax consolidation

Société Française de Financement Local signed a tax consolidation agreement with Caisse Française de Financement Local, which will take effect on January 1, 2014.

6. Notes on off-balance sheet items

6.1 - REGULAR WAY TRADE

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

(1) In the form of registered covered bonds.

6.2 - GUARANTIES

EUR millions	12/31/2012	12/31/2013
Guarantees received from credit institutions	4,742	1,428
Guarantees received from customers	7,358	6,801

6.3 - FINANCING COMMITMENTS

EUR millions	12/31/2012	12/31/2013
Loan commitments granted to credit institutions	0	-
Loan commitments granted to clients ⁽¹⁾	317	228
Loan commitments received from credit institutions ⁽²⁾	6,006	5,231
Loan commitments received from clients	-	-

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

(2) This item concerns a firm and irrevocable commitment by Dexia Crédit Local to make available to Caisse Française de Financement Local the funds required to redeem the obligations foncières that will mature in the next 12 months. This commitment was terminated on January 31, 2013 after the sale of Caisse Française de Financement Local to Société de Financement Local.

6.4 - OTHER COMMITMENTS

EUR millions	12/31/2012	12/31/2013
Commitments granted ⁽¹⁾	-	6,995
Commitments received	286	278

(1) This concerns the value of a group of loans pledged to Caisse des Dépôts et Consignations.

7. NOTES ON RISK EXPOSURE

7.1 - FAIR VALUE

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

These fair value adjustments take into account the characteristics of the assets and liabilities concerned (maturity, interest rate risk hedging, amortization profile, and for assets, the rating); they are also influenced by current market conditions, in particular in terms of liquidity and margin, for these very operations or operations to which they can be assimilated. The breakdown of assets and liabilities in function of the method used to determine their fair value is presented in note c. below. In fact, the great majority of the assets are valued according to a technique that accounts for the fact that significant param-

eters are not observable for the assets, since exposure mainly concerns loans, a commitment format that is not listed in liquid markets. To value liabilities, certain observable parameters are taken into account.

In previous years (2012), the Company reported no new business, neither in terms of the production of new assets nor with regard to bond issues. Because of this run-off management, the valuation of the fair value of the liabilities had been determined in a way that was consistent with that of the assets, to which they are closely linked, to account for the fact that as a société de crédit foncier, the liabilities of Caisse Française de Financement Local are guaranteed by the assets recognized on the balance sheet and that their valuation should thus be appreciated on the basis of the same criteria. The spread applied to

debt was that used for the re-valuation of the assets eligible for the central bank, in light of their preponderant and sufficient proportion to hedge any liquidity needs the Company might encounter.

In 2013, with the change in the shareholding structure and the return of Caisse Française de Financement Local to the markets (more than EUR 3 billion was raised in the bond markets), observable parameters were able to be used. The liabilities were valued according to a new valuation method, the reference of which is the curve formed by the Company's liquid issues. The decrease in the Company's credit spread in the past year and the application of a method based on market data resulted in a rise in the fair value of the liabilities that reflects Caisse Française de Financement Local's solid financial base. For the valuation of the assets at the date of closing, account was taken of the re-launch of business (acquisi-

tion of loans recently originated by La Banque Postale) to adjust the parameters of the valuation based on listed assets with characteristics relatively close to the loans to be valued.

For assets and liabilities with good congruence in interest rates and maturities that are meant to be held on the balance sheet to maturity (because of the specialized business the Company conducts), these fair values provide interesting information, but it would not be relevant to draw conclusions about the value of the Company or the results it will achieve in the future.

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

a. Composition of the fair value of the assets

EUR millions	12/31/2012		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	2,400	2,400	-
Loans and advances to banks	3,741	3,741	-
Loans and advances to customers*	71,996	71,726	(270)
Financial assets available for sale	1,125	1,125	-
Hedging derivatives	9,748	9,748	-
TOTAL	89,010	88,740	(270)

* The figures as of December 31, 2012 have been restated. Cf. notes on the accounting policies and valuation methods - under "Highlights".

EUR millions	12/31/2013		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1,924	1,924	-
Loans and advances to banks	2,948	2,948	-
Loans and advances to customers	66,315	63,690	(2,625)
Financial assets available for sale	1,084	1,084	-
Hedging derivatives	6,170	6,170	-
TOTAL	78,441	75,816	(2,625)

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

EUR millions	12/31/2012		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	7,620	7,620	-
Hedging derivatives	14,110	14,110	-
Debt securities	62,739	60,299	(2,440)
TOTAL	84,469	82,029	(2,440)

* The figures as of December 31, 2012 have been restated. Cf. notes on the accounting policies and valuation methods - under "Highlights".

EUR millions	12/31/2013		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	10,472	10,562	90
Hedging derivatives	10,386	10,386	-
Debt securities	57,129	55,529	(1,600)
TOTAL	77,987	76,477	(1,510)

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

Fair value of financial assets	12/31/2012			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
EUR millions				
Central banks	2,400	-	-	2,400
Loans and advances to banks	61	1,815	1,865	3,741
Loans and advances to customers	-	209	71,517	71,726
Subtotal of Assets measured at amortized cost	2,461	2,024	73,382	77,867
Financial assets available for sale	590	42	493	1,125
Hedging derivatives	-	8,367	1,381	9,748
Subtotal of Assets measured at fair value	590	8,409	1,874	10,873
TOTAL	3,051	10,433	75,256	88,740

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

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

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

Fair value of financial assets	12/31/2013			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
EUR millions				
Central banks	1,924	-	-	1,924
Loans and advances to banks	18	1,794	1,136	2,948
Loans and advances to customers	942	760	61,988	63,690
Subtotal of Assets measured at amortized cost	2,884	2,554	63,124	68,562
Financial assets available for sale	589	153	342	1,084
Hedging derivatives	-	4,887	1,283	6,170
Subtotal of Assets measured at fair value	589	5,040	1,625	7,254
TOTAL	3,473	7,594	64,749	75,816

Fair value of financial liabilities	12/31/2012			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
EUR millions				
Due to banks	-	7,620	-	7,620
Debt securities	-	60,299	-	60,299
Subtotal of Liabilities measured at amortized cost	-	67,919	-	67,919
Hedging derivatives	-	9,247	4,863	14,110
Subtotal of Liabilities measured at fair value	-	9,247	4,863	14,110
TOTAL	-	77,166	4,863	82,029

Fair value of financial liabilities	12/31/2013			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
EUR millions				
Due to banks	1	10,561	-	10,562
Debt securities	-	55,529	-	55,529
Subtotal of Liabilities measured at amortized cost	1	66,090	-	66,091
Hedging derivatives	-	4,709	5,677	10,386
Subtotal of Liabilities measured at fair value	-	4,709	5,677	10,386
TOTAL	1	70,799	5,677	76,477

d. Transfers between Levels 1 and 2

EUR millions	12/31/2012	12/31/2013
Level 1 to Level 2	-	-
TOTAL	-	-

e. 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	Origination	Settlement	Transfer to assets held for sale	Transfer to Level 3	Transfer out of Level 3	Other changes	12/31/2013
Financial assets available for sale	493	-	-	(9)	-	-	-	-	-	44	(173)	(13)	342
Hedging derivatives	1,381	9	(104)	-	35	-	-	-	-	5	(43)	-	1,283
TOTAL FINANCIAL ASSETS	1,874	9	(104)	(9)	35	-	-	-	-	49	(216)	(13)	1,625
Hedging derivatives	4,863	(551)	372	-	778	-	-	-	-	271	(56)	-	5,677
TOTAL FINANCIAL LIABILITIES	4,863	(551)	-	-	778	-	-	-	-	271	(56)	-	5,677

Sensitivity to alternative Level 3 measurement assumptions

Financial instruments that are not quoted on active markets are measured using valuation techniques. The models used by CAFFIL range from standard models (discounted cash flow) to models developed in-house.

Only observable market data can be used for a Level 2 fair value. The data that CAFFIL includes in its valuation models are directly observable (prices), are indirectly observable (spreads) or result from assumptions made by the Sfil Group based on non-observable market data. The fair values of financial instruments that are based primarily on assumptions made by CAFFIL must be classified as Level 3 for the purposes of publication in these notes.

When no active market exists, the securities are valued using the mark-to-model approach. The valuation price consists of a market price component and a model price component. The weighting assigned to the model price component reflects estimated market activity.

For its model prices (mark-to-model), the Sfil Group uses the discounted cash flow model based on spreads that reflect the credit spread (CDS) and the cash/CDS basis. The credit spread is estimated on the basis of the specific characteristics of the relevant securities (sector, rating, loss given default, etc.) and on the basis of liquid CDS indices. A component linked to the cash/CDS basis is then added to the credit component to establish the spread on the security. Level 3 hedging derivatives are valued using a variety of valuation models developed in-house.

7.2 - OFFSETTING ASSETS AND LIABILITIES

a. Financial assets subject to offsetting or to an enforceable master netting arrangement or similar agreement

EUR millions	12/31/2012					
	Gross amount before offsetting	Gross amount offset under IAS 32	Net amount on the balance sheet	Other amounts included in the scope but not offset		Net amount under IFRS 7 paragraph 13
				Effect of master netting agreements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	9,748	-	9,748	(6,021)	(3,424)	303
Loans and advances to banks	3,741	-	3,741	-	(1,856)	1,885
Loans and advances to customers	71,996	-	71,996	-	-	71,996
TOTAL	85,485	-	85,485	(6,021)	(5,280)	74,184

The figures as of December 31, 2012 have been restated. Cf. notes on the accounting policies and valuation methods - under "Highlights".

EUR millions	12/31/2013					
	Gross amount before offsetting	Gross amount offset under IAS 32	Net amount on the balance sheet	Other amounts included in the scope but not offset		Net amount under IFRS 7 paragraph 13
				Effect of master netting agreements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	6,170	-	6,170	(3,656)	(2,422)	92
Loans and advances due from banks	2,948	-	2,948	-	(1,856)	1,092
Loans and advances to customers	66,315	-	66,315	-	-	66,315
TOTAL	75,433	-	75,433	(3,656)	(4,278)	67,499

b. Financial liabilities subject to offsetting or to an enforceable master netting arrangement or similar agreement

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

EUR millions	12/31/2013					
	Gross amount before offsetting	Gross amount offset under IAS 32	Net amount on the balance sheet	Other amounts included in the scope but not offset		Net amount under IFRS 7 paragraph 13
				Effect of master netting agreements	Financial instruments pledged as collateral	
Derivatives (including hedging instruments)	10,386	-	10,386	(3,656)	(3,010)	3,720
Due to banks	10,472	-	10,472	-	-	10,472
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	20,858	-	20,858	(3,656)	(3,010)	14,192

7.3 - EXPOSURE TO CREDIT RISK

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

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

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

Breakdown of exposure to credit risks:

Analysis of exposure by geographic region

EUR millions	12/31/2013
France	48,803
Belgium	4,631
Italy	7,087
Spain	482
Luxembourg	0
Germany	975
United Kingdom	2,372
Switzerland	3,155
Other European Union countries	227
United States and Canada	596
Japan	25
Other	213
TOTAL EXPOSURE	68,566

EUR millions	Risk weighting (Basel II)				Total
	from 0 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	
Debt securities	496	588	-	-	1,084
Loans and advances	47,452	18,636	751	89	66,928
Financing commitments	218	9	-	-	227
Hedging derivatives	-	44	207	39	290
Other financial assets	13	-	5	19	37
TOTAL EXPOSURE	48,179	19,277	963	147	68,566
Share	70.3%	28.1%	1.4%	0.2%	100.0%

Certain exposures do not yet benefit from an internal evaluation system validated by the banking supervisors;

Analysis of exposure by category of counterparty

EUR millions	12/31/2013
States	4,022
Local public sector	58,218
<i>Corporate</i>	158
ABS	4,370
Financial institutions	1,798
TOTAL EXPOSURE	68,566

Analysis of exposure by category of instrument

EUR millions	12/31/2013
Debt securities	1,084
Loans and advances	66,928
Financing commitments	227
Hedging derivatives	290
Other financial assets	37
TOTAL EXPOSURE	68,566

Evaluation of asset credit quality

This enables Société de Financement Local to present below an analysis of its exposures as of December 31, 2013, broken down by risk weighting, as used to calculate capital requirements for credit risk. Risk 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 the portfolio: 70% of the portfolio has a weighting of less than 5% and 98% of the portfolio has a weighting that is less than or equal to 20%.

in those cases, their weighting is that of the standard method, which is, for example, 20% for local governments.

7.4 - LIQUIDITY RISK: ANALYSIS BY TERM TO MATURITY

a. Analysis of assets

EUR millions	12/31/2013						Breakdown total
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	
Central banks	1,924	-	-	-	-	-	1,924
Hedging derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	-	-	400	561	-	961
Loans and advances to banks	20	16	130	2,544	225	-	2,935
Loans and advances to customers	-	1,351	3,084	17,870	38,889	-	61,194
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	126	126
Accruals and other assets	-	3,350	-	-	-	-	3,350
TOTAL	1,944	4,717	3,214	20,814	39,675	126	70,490

EUR millions	12/31/2013				
	Breakdown total	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	1,924	-	-	-	1,924
Hedging derivatives	-	462	5,708	-	6,170
Financial assets available for sale	961	8	115	-	1,084
Loans and advances to banks	2,935	17	(4)	-	2,948
Loans and advances to customers	61,194	812	4,393	(84)	66,315
Fair value revaluation of portfolio hedge	-	-	1,611	-	1,611
Financial assets held to maturity	-	-	-	-	-
Tax assets	126	-	-	-	126
Accruals and other assets	3,350	-	-	-	3,350
TOTAL	70,490	1,299	11,823	(84)	83,528

b. Analysis of liabilities, excluding equity

EUR millions	12/31/2013						Breakdown total
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	
Central banks	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-
Due to banks	1	1,837	687	6,179	1,740	-	10,444
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	2,523	1,183	23,810	25,328	-	52,844
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	-	-	-	4	4
Accruals and other liabilities	-	2,719	-	-	-	-	2,719
Provisions	-	-	-	-	-	3	3
Subordinated debt	-	-	-	-	-	-	-
TOTAL	1	7,079	1,870	29,989	27,068	7	66,014

EUR millions	12/31/2013			
	Breakdown total	Accrued interest	Fair value adjustment	Total
Central banks, due to banks	-	-	-	-
Hedging derivatives	-	851	9,535	10,386
Due to banks	10,444	27	1	10,472
Customer borrowings and deposits	-	-	-	-
Debt securities	52,844	1,047	3,238	57,129
Fair value revaluation of portfolio hedge	-	-	1,398	1,398
Tax liabilities	4	-	-	4
Accruals and other liabilities	2,719	-	-	2,719
Provisions	3	-	-	3
Subordinated debt	-	-	-	-
TOTAL	66,014	1,925	14,172	82,111

c. Net liquidity gap

EUR millions	12/31/2013							
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Not broken down	Breakdown total
AMOUNT	1,943	(2,362)	1,344	(9,175)	12,607	119	(3,059)	1,417

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 the refinancing agreement with its parent company, Société de Financement Local. In addition,

the Company may obtain funding from the Banque de France, by pledging some of these assets as collateral. Caisse Française de Financement Local can thus obtain funding from the Banque de France enabling it to redeem the *obligations foncières* when they reach maturity; the assets pledged as collateral are therefore excluded from the calculation of the coverage ratio.

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

a. Analysis of assets

EUR millions	12/31/2013						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Breakdown total
Central banks	1,924	-	-	-	-	-	1,924
Hedging derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	341	-	59	561	-	961
Loans and advances to banks	20	1,953	180	674	107	-	2,934
Loans and advances to customers	-	11,384	8,933	12,276	28,601	-	61,194
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	126	126
Accruals and other assets	-	3,350	-	-	-	-	3,350
TOTAL	1,944	17,028	9,113	13,009	29,269	126	70,489

EUR millions	12/31/2013				
	Breakdown total	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	1,924	-	-	-	1,924
Hedging derivatives	-	462	5,708	-	6,170
Financial assets held for sale	961	8	115	-	1,084
Loans and advances to banks	2,934	17	(3)	-	2,948
Loans and advances to customers	61,194	812	4,393	(84)	66,315
Fair value revaluation of portfolio hedge	-	-	1,611	-	1,611
Financial assets held to maturity	-	-	-	-	-
Tax assets	126	-	-	-	126
Accruals and other assets	3,350	-	-	-	3,350
TOTAL	70,489	1,299	11,824	(84)	83,528

b. Analysis of liabilities, excluding equity

EUR millions	12/31/2013						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Breakdown total
Central banks	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-
Due to banks	1	350	10,093	-	-	-	10,444
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	4,926	2,736	21,818	23,364	-	52,844
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	-	-	-	4	4
Accruals and other liabilities	-	2,719	-	-	-	-	2,719
Provisions	-	-	-	-	-	3	3
Subordinated debt	-	-	-	-	-	-	-
TOTAL	1	7,995	12,829	21,818	23,364	7	66,014

EUR millions	12/31/2013			
	Breakdown total	Accrued interest	Fair value adjustment	Total
Central banks, due to banks	-	-	-	-
Hedging derivatives	-	851	9,535	10,386
Due to banks	10,444	27	1	10,472
Customer borrowings and deposits	-	-	-	-
Debt securities	52,844	1,047	3,238	57,129
Fair value revaluation of portfolio hedge	-	-	1,398	1,398
Tax liabilities	4	-	-	4
Accruals and other liabilities	2,719	-	-	2,719
Provisions	3	-	-	3
Subordinated debt	-	-	-	-
TOTAL	66,014	1,925	14,172	82,111

c. Balance-sheet sensitivity gap

EUR millions		Au 12/31/2013						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Breakdown total	Total
AMOUNT	1,943	9,033	(3,716)	(8,809)	5,905	119	(3,058)	1,417

7.6 - CURRENCY RISK

Classification by original currency EUR millions	12/31/2012				
	EUR	Other EU currencies	USD	Other currencies	Total
Total assets	81,728	4,177	2,969	3,295	92,169
Total liabilities	81,728	4,177	2,969	3,295	92,169
NET BALANCE SHEET POSITION	0	0	0	0	0

Classification by original currency EUR millions	12/31/2013				
	EUR	Other EU currencies	USD	Other currencies	Total
Total assets	75,187	3,730	2,303	2,308	83,528
Total liabilities	75,187	3,730	2,303	2,308	83,528
NET BALANCE SHEET POSITION	0	0	0	0	0

7.7 - SENSITIVITY TO INTEREST RATE RISK

The Sfil Group 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 in response to changes in the yield curve, while leaving the margin unchanged.

The Sfil Group 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, and 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 with 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 measured in this way corresponds to the change in the gap's net present value for a 100-basis-point change in the yield curve.

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	1Q 2013	16.4	18.1	15.7	31.0
	2Q 2013	15.6	16.5	14.3	31.0
	3Q 2013	16.0	19.7	14.1	31.0
	4Q 2013	12.1	16.5	3.2	31.0
Monetary	1Q 2013	(0.3)	0.5	(0.7)	9.0
	2Q 2013	(0.1)	1.4	(1.1)	9.0
	3Q 2013	1.5	1.8	1.3	9.0
	4Q 2013	(0.3)	2.9	(4.7)	9.0
Total	1Q 2013	16.1	18.6	14.9	40.0
	2Q 2013	15.5	17.9	13.2	40.0
	3Q 2013	17.5	21.5	15.4	40.0
	4Q 2013	11.8	19.4	(1.5)	40.0

Statutory Auditors' report on the consolidated financial statements

Year ended 31 December 2013

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report should be read in conjunction and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In accordance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended 31 December 2013, on:

- the audit of the accompanying consolidated financial statements of Société de Financement Local;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion. In our opinion, the consolidated financial statements give a true and fair view of the financial position and assets and liabilities of the Group as at 31 December 2013 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying the above opinion, we draw your attention to the following notes to the consolidated financial statements:

- "Note 1.2.b.2 - Presentation rules and closing date", which outlines the assumption used for the consolidated accounts closing, according to which the legislative measures designed to secure, from a legal point of view, the current loan agreements with public entities, will be voted on in 2014, thus removing the corresponding risks;
- "Note 1.1.h - Error correction", which outlines the impacts of the error correction recorded for the fair value of certain assets and liabilities hedged by derivatives as part of a hedging relationship;
- "Note 1.2.b.1 - Applicable accounting standards" and the section in "Note 1.1.g - New accounting standards," which refer to the first-time adoption of IFRS 13 "Fair value measurement."

Courbevoie and Neuilly-sur-Seine, 7 April 2014
The Statutory Auditors
French original signed by

MAZARS

Virginie CHAUVIN Anne VEAUTE

DELOITTE & ASSOCIES

Charlotte VANDEPUTTE José-Luis GARCIA

Annual financial statements

in accordance with French GAAP

Assets as of December 31, 2013

EUR thousands	Note	12/31/2012	12/31/2013
Central banks	2.1	-	453,147
Government and public securities		-	-
Loans and advances to banks	2.2	60	6,774,703
Loans and advances to customers	2.3	-	16,286
Bonds and other fixed income securities	2.4	-	4,369,734
Equities and other variable income securities		-	-
Investments in non-consolidated companies and other long-term investments	2.5	-	3
Investments in consolidated companies	2.6	-	0
Intangible assets		-	-
Property and equipment	2.7	-	56
Other assets	2.8	0	3,337,291
Accruals and other assets	2.9	-	825,150
TOTAL ASSETS	2.10	60	15,776,370

Liabilities as of December 31, 2013

EUR thousands	Note	12/31/2012	12/31/2013
Central banks		-	-
Due to banks	3.1	-	14,850,327
Customer borrowings and deposits		-	-
Debt securities		-	-
Other liabilities	3.2	1	4,560
Accruals and other liabilities	3.3	5	790,528
Provisions	3.4	-	2,957
Equity		54	127,998
Subscribed capital	3.5	74	130,000
Additional paid-in capital		-	-
Reserves and retained earnings		(11)	(20)
Net income	3.5	(9)	(1,982)
TOTAL LIABILITIES	3.6	60	15,776,370

Off-balance sheet items as of December 31, 2013

EUR thousands	Note	12/31/2012	12/31/2013
COMMITMENTS GRANTED	4.1	-	11,414,742
Financing commitments		-	50,000
Guarantees granted		-	-
Other commitments granted		-	11,364,742
COMMITMENTS RECEIVED	4.2	-	6,460,261
Financing commitments		-	5,230,874
Guarantees received		-	1,229,387
Forward commitments		-	-
Other commitments received		-	-
OTHER COMMITMENTS	4.3	-	53,325,143
Foreign currency transactions		-	22,025,166
Interest rate derivatives		-	31,299,977
Commitments related to securities transactions		-	-

Income statement

EUR thousands	Note	12/31/2012	12/31/2013
Interest income	5.1	-	85,841
Interest expense	5.1	(0)	(106,297)
Income from variable income securities		-	-
Commission income	5.2	-	19,271
Commission expense	5.2	-	(71)
Net gains (losses) on trading portfolio		-	120
Net gains (losses) on placement portfolio		-	-
Other income	5.3	-	6,838
Other expense	5.3	-	(4)
NET BANKING INCOME		(0)	5,698
General operating expense	5.4	(9)	(7,677)
Depreciation and amortization		-	(3)
OPERATING INCOME BEFORE COST OF RISK		(9)	(1,982)
Cost of risk		-	-
INCOME FROM OPERATIONS		(9)	(1,982)
Income (loss) on fixed assets		-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		(9)	(1,982)
Non-recurring items		-	-
Income tax		-	-
Net allocation to general banking risks reserve and regulated provisions		-	-
NET INCOME		(9)	(1,982)
Basic earnings per share		(1.72)	(0.21)
Diluted earnings per share		(1.72)	(0.21)

Equity

EUR thousands	Amount
AS OF 12/31/2012	
Share capital	74
Additional paid-in capital (APIC)	-
Commitments to increase share capital and APIC	-
Reserves and retained earnings	(11)
Net income for the year	(9)
Interim dividends	-
EQUITY AS OF 12/31/2012	54
MOVEMENTS FOR THE PERIOD	
Changes in share capital	129,926
Changes in APIC	-
Changes in commitments to increase share capital and APIC	-
Changes in reserves and retained earnings	-
Dividends paid (-)	-
Net income for the period	(1,982)
Other movements	-
AS OF 12/31/2013	
Share capital	130,000
Additional paid-in capital (APIC)	-
Commitments to increase share capital and APIC	-
Reserves and retained earnings	(20)
Net income for the year	(1,982)
EQUITY AS OF 12/31/2013	127,998

Management report

Governance and internal control

Consolidated financial statements in accordance with IFRS

Annual financial statements in accordance with French GAAP

Notes to the French GAAP financial statements

1. Rules of measurement and presentation

1.1 - PUBLICATION CONTEXT

To prepare its financial statements, the management of Société de Financement Local regularly makes estimates and assumptions that affect the amounts reported therein. They are established from information available at the date of preparation by exercising its judgment. The financial statements as of December 31, 2013 of Société de Financement Local were therefore prepared taking into account, in particular, the hypothesis according to which the legislative measures aiming to provide a solid legal base for the loan agreements in effect with public sector entities (validation law), which were part of the 2014 law of Finance and were rejected by the *Conseil Constitutionnel* on December 29, 2013, will be voted in 2014 and their application will make it possible to eliminate the corresponding legal and financial risks. This hypothesis is based on the government's commitment to find a lasting and comprehensive solution to the problem of structured loans contracted by public sector entities, and in particular on its press release, published on December 29, 2013, which specified that "a legal framework taking into account the arguments raised by the *Conseil Constitutionnel* will be prepared rapidly".

1.2 - ANNUAL HIGHLIGHTS AND POST-CLOSING EVENTS

In 2013, the French government implemented the new financing scheme for local governments and public hospitals in France. Formative measures taken during the year allowed several operational and financial objectives to be met.

At the heart of this scheme, Société de Financement Local has three functions, namely:

- refinancing, through its subsidiary, loans granted by La Banque Postale to eligible local governments and public hospitals;
- providing specialized services to La Banque Postale and Caisse Française de Financement Local to ensure the proper operation of the scheme, and;
- reducing the "sensitivity" of certain structured assets of Caisse Française de Financement Local.

a. Creation of a new governance structure

Following the acquisition of the company by the French government, Caisse des Dépôts et Consignations and La Banque Postale, a new governance structure was gradually put in place at Société de Financement Local as of January 31, 2013 based in particular on the provisions of the *Loi de Démocratisation du Secteur Public* (law on the democratization of the public sector). A Board of Directors with 15 new members was appointed. It is assisted by two specialized committees - an Audit and Risks Committee and an Appointments and Compensation

Committee. The Chairman of the Board of Directors is responsible for the company's management.

b. Ratings of Société de Financement Local

The three rating agencies - Moody's, Standard & Poor's and Fitch - underscored the close ties that exist between Société de Financement Local and the French government, which enabled Sfil to receive a first set of ratings in early February 2013 equal to or one notch lower than that of the French government: Aa2 Moody's, AA+ Standard & Poor's and AA+ Fitch.

As a result of the downgrade of the French government's ratings in 2013, Sfil's ratings were revised accordingly. As of December 31, 2013, Sfil's ratings were therefore AA2, AA and AA for Moody's, Standard & Poor's and Fitch, respectively.

c. Operational launch of Sfil and dismantling of Dexia

Société de Financement Local began operations at the beginning of 2013 thanks in particular to a transfer of Dexia staff to Société de Financement Local and the resources made available by Dexia during a transition phase. Société de Financement Local gradually acquired the resources needed for its operation and that of its subsidiary, Caisse Française de Financement Local, for which it acts as manager within the meaning of Article L. 513-15 of the French Monetary and Financial Code.

Based on the commitments made to the European Commission, services between Sfil and Dexia were discontinued on July 31, 2013, with the exception of a few IT functions that were still being duplicated.

Duplicating Dexia's information system will allow Société de Financement Local to have its own information system by no later than 30 months after February 1, 2013, in accordance with the deadline approved by the European Commission.

d. Launch of the commercial local public sector financing activity by La Banque Postale

La Banque Postale, for which Société de Financement Local acts as servicer, began its long-term local public sector financing activity in 2013. In that first year, Caisse Française de Financement Local acquired nearly EUR 946 million in loans from La Banque Postale.

e. Litigation and government measures

Certain customers have sued Caisse Française de Financement Local and/or Société de Financement Local for sensitive structured loans that had been marketed to them by Dexia Crédit Local and which are on the balance sheet of Caisse Française de Financement Local.

At the end of December 2013, the number of customers who had undertaken legal proceedings totaled 205 versus 57 at the end of 2012.

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

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

Dexia appealed this decision on April 4, 2013. The loans in question appear in 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 Crédit Local. This voluntary intervention should enable Caisse Française de Financement Local to defend its interests by becoming a party in the proceedings.

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

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

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

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

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

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

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

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

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

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

f. Post closing events

No significant event that could have a material impact on the financial position of the Group occurred after the year end.

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

Société de Financement Local, formerly Dexint Développement, was authorized as a credit institution by the French Prudential Supervision and Resolution Authority (*Autorité de contrôle prudentiel et de résolution*) on January 16, 2013. Since this date, it has therefore pre-

pared its annual financial statements in compliance with CRB 91-01 and CRC 2000-03 as modified on the preparation of individual financial statements for credit institutions. Previously, the company prepared its financial statements in compliance with CRC 99-03, applicable to corporations.

The following tables present the transition on December 31, 2012 from the general chart of accounts applicable to corporations to the chart of accounts for credit institutions.

(EUR thousands)

General chart of accounts	Amount	Chart of accounts for credit institutions	Amount
Assets	60	Assets	60
Other receivables	0	Other assets	0
Cash assets	60	Loans and advances to banks	60
Liabilities	60	Liabilities	60
Other liabilities	-	Other liabilities	1
Operating losses	6	Accruals	5
Equity	54	Equity	54
Subscribed capital	74	Subscribed capital	74
Retained earnings	(11)	Reserves (and retained earnings)	(11)
Profit (loss) of the year	(9)	Profit (loss) of the year	(9)

(EUR thousands)

General chart of accounts	Amount	Chart of accounts for credit institutions	Amount
Income statement	(9)	Income statement	(9)
Other purchases and external expenses	(8)	Operating expenses	(8)
Other taxes and similar payments	(1)	Operating expenses	(1)
Interest and related expense	(0)	Interest expense	(0)

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. Loans and advances to banks and customers

Loans and advances to banks cover all loans in connection with banking activities, with the exception of those represented by a security. They are broken down between interbank sight and term deposits.

Loans and advances to customers consist of loans granted to personnel.

Client loans are recorded in the balance sheet net of impairment. The undrawn portion of signed loan agreements is recorded as an off-balance sheet item.

Interest on loans is recorded as "Interest income" *pro-rata temporis* for accrued amounts due and not due, as is interest on unpaid installments. Interest on doubtful loans recorded in net banking result is neutralized with an impairment of an equivalent amount.

Commissions received and marginal transaction costs are incurred when an advance is granted or acquired, and if significant, are amortized over the actual life of the loan. Other commissions received are recognized directly in the income statement.

Société de Financement Local applies CRC regulation 2002-03 amended by CRC regulations 2005-03 and 2007-06. This regulation stipulates that a loan shall be considered as non-performing when it presents one of the following characteristics:

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

Compromised non-performing loans are those for which the prospects of recovery have significantly deteriorated and with a probability of being eventually recognized as a loss. Loans recognized as non-performing for more than one year are reclassified in this latter category. Uncollected interest on these loans ceases to be recognized once they have been transferred to the category of compromised non-performing loans.

Impairment charges are recorded for non-performing and compromised non-performing loans. The amount for the depreciation of capital is determined by the Risk Division based on the anticipated loss. Interest is fully written down.

Impairment charges and reversals are recorded under “Cost of risk” along with losses for uncollectible loans and recoveries amortized loans and other changes in the depreciation for credit risk.

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

When a loan restructured because of financial difficulties results in a new unpaid amount, it is immediately reclassified as a non-performing or a compromised non-performing loan.

b. Securities transactions

Securities held by Société de Financement Local are recorded under assets in “Government and public entity securities” or “Bonds and other fixed income securities”.

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

“Bonds and other fixed income securities” include:

- 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.

Securities held by Société de Financement Local are recorded as investment securities or placement securities in accordance with the provisions of CRC regulation 2005-01.

Investment securities (held to maturity)

Fixed income securities with a fixed-term maturity are recognized under “Investment securities” when there exists an intent and ability to hold them until maturity. Securities in this category are subject to with secure financing or an interest rate hedge over their residual life.

Securities considered as investment securities are recorded on the date of purchase at acquisition clean price excluding fees. Interest accrued at the date of acquisition is recorded in a separate account. Interest income from the securities is recognized in the income statement under “Interest and similar income on bonds and other fixed income securities”.

Any difference arising 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 the end of the accounting period, unrealized gains are not recorded. Unrealized losses are not recognized except in the following cases:

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

Placement securities

Securities not falling under any of the other existing categories are recorded under 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. Interest income from the securities

is recognized in the income statement under “Interest and similar income on bonds and other fixed income securities”.

Any difference arising 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 year-end, in application of the principle of prudence, placement securities are recorded on the balance sheet at the lower of their acquisition cost or selling price at closing, after accounting, when relevant, for the value of the micro-hedge swap.

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

When the decline in the value of the security is greater than the unrealized gain on the micro-hedge, the decline in net value is recorded under “Net gains (losses) on placement portfolio” as are impairment reversals and gains and losses on sales.

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

c. Due to banks

Amounts due to banks are broken down by nature (sight accounts, current accounts, long-term loans, unallocated sums) and their initial term (sight borrowings or term borrowings).

Accrued interest on this debt is carried in the account for counterparty-related liabilities of the income statement.

d. Provisions

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

- Société 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.

e. Derivative transactions

Derivative transactions engaged in by Société de Financement Local are either micro-hedges or isolated open positions.

The notional amount of these 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.

The principles of measurement and recognition are linked to the management strategy for these instruments.

Micro-hedge transactions

Transactions booked as micro-hedges are swaps designated to hedge against the interest rate risk related to an item or set of homogeneous items identified from the start.

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

In the event of prepayment, the sale of the hedged item, or prepayment 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 income statement at the time of cancellation. However, the equalization payment paid by Société de Financement Local is charged against income only for the portion that exceeds gains not yet recorded in income in the symmetric position. The balance of equalization payments that may remain is recognized under accruals and assets or liabilities.

Isolated open positions

Société de Financement Local acts as an intermediary between Caisse Française de Financement Local, its subsidiary and certain banking counterparties. These transactions with its subsidiary constitute isolated open positions.

Expense and income on these transactions are recorded in the income statement prorata temporis. The contra entry is recorded in accruals until the date of payment or settlement of the funds.

A provision is recorded in respect of any unrealized losses. Unrealized gains are not recognized.

f. Foreign currency transactions

Pursuant to CRB standard 90-01, Société 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, Société 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. Staff costs

Staff costs include all expenses related to personnel and include in particular employee profit-sharing expenses for the period.

Employee benefits are classified into four categories:

- **Short-term benefits**
Short-term benefits, payable within a maximum of twelve months after rendering the service, are not discounted to present value and are recognized as an expense.
- **Long-term benefits**
These benefits are generally related to seniority, paid to current employees on a deferred exceeding twelve months following the end of the reporting period in which the corresponding service was rendered. In particular, these represent seniority bonuses corresponding to long service awards.
Paid annual vacation or seniority days are recognized when the benefits are granted to the employee. To this purpose, a provision is recorded based on rights vested by employees at the end of the reporting period.
The actuarial gains and losses related to these benefits and all other service costs are recognized immediately in the income statement.
- **Termination benefits**
Employee termination benefits result from the decision by Société de Financement Local to terminate an employment contract before the legal retirement age or by a decision of voluntary redundancy in exchange for termination benefits.
A charge for termination benefits at the end of the employment contract is recorded only when Société de Financement Local is no longer able to withdraw its offer. Termination benefits payable at more than twelve months after the end of the reporting period are subject to a present value adjustment.
- **Post-employment benefits**
Retirement plans of Société de Financement Local employees are classified either as defined benefit plans or defined contribution plans.
Plan assets are generally managed by insurance companies or pension funds. These plans are financed

from contributions by both employees and Société de Financement Local.

Defined contribution plans

These plans do not represent an obligation for the company and in consequence do not require a provision to be recorded. Contributions of the company are recorded under expenses in the period incurred.

Defined benefit plans

Defined benefit plans refer to plans in which Sfil has a legal or constructive obligation to provide agreed benefits to its employees and therefore effectively places a medium or long-term risk on the company. A provision is recorded in liabilities under "Provisions" to cover these pension obligations.

The defined benefit obligation is measured on an actuarial basis taking into account demographic and financial assumptions and using the projected unit credit method which enables to spread the obligation over time according to the period of service of employees.

The recognized net defined benefit liability, calculated by independent actuaries, represent the difference the present value of plan obligations and the fair value of plan assets (if any).

The measurement of the obligation resulting from a plan or the value of plan assets may evolve according to changes in actuarial assumptions and result in the remeasurement of the defined benefit liability (asset).

Actuarial gains and losses are accounted for according to the corridor method whereby only the net cumulative actuarial gains or losses exceeding the corridor may be recognized in profit or loss over the average residual period of activity of employees. The corridor is determined as the higher of the following two: 10% of the discounted value of the obligation for defined benefits or 10% of the fair value of plan assets at the end of the previous financial period.

The annual charge recorded in staff costs for pension costs represents current service costs, the financial cost related to discounting of obligations, expected investment income, the amortization of actuarial gains and losses and past services costs resulting from a scheme amendment or curtailment.

i. Non-recurring income and expense

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

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

j. Tax consolidation

As of January 1, 2014, Sfil was the head of a tax group formed with Caisse Française de Financement Local.

k. Offices and activities in uncooperative states and territories

In application of article L.511-45 of the Monetary and Financial Code, it should be noted that Société 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).

2. Notes to the assets (EUR thousands)

2.1 - CENTRAL BANKS

	12/31/2012	12/31/2013
Mandatory reserve deposits with central banks	-	-
Other deposits	-	453,147
TOTAL	-	453,147

2.2 - LOANS AND ADVANCES TO BANKS

a. Sight loans and advances to banks

	12/31/2012	12/31/2013
Sight accounts	60	1,557
Unallocated sums	-	-
TOTAL	60	1,557

b. Term loans and advances to banks

This item consists of loans to Caisse Française de Financement Local in the amount of EUR 6,758,008 thousand (excluding accrued interest).

1. Accrued interest included in this item: 15,138

2. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
284,308	310,308	4,925,775	1,237,617	6,758,008

3. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2012	Gross amount as of 12/31/2013	Impairment as of 12/31/2013	Net amount as of 12/31/2013
Loans of less than 1 year	-	284,308	-	284,308
Loans of more than 1 year	-	6,473,700	-	6,473,700
TOTAL	-	6,758,008	-	6,758,008

4. Breakdown by counterparty

	12/31/2012	12/31/2013
Loans to Caisse Française de Financement Local	-	6,758,008
TOTAL	-	6,758,008

2.3 - LOANS AND ADVANCES TO CUSTOMERS

a. Accrued interest included in this item: 0

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
123	14	266	15,883	16,286

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

Economic sector	12/31/2012	12/31/2013
Other sectors ⁽¹⁾	-	16,286
TOTAL	-	16,286

(1) This concerns loans granted to employees of Société de Financement Local.

d. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2012	Gross amount as of 12/31/2013	Impairment as of 12/31/2013	Net amount as of 12/31/2013
Loans of less than 1 year	-	-	-	-
Loans of more than 1 year	-	16,286	-	16,286
TOTAL	-	16,286	-	16,286

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

	Net amount as of 12/31/2012	Gross amount as of 12/31/2013	Impairment as of 12/31/2013	Net amount as of 12/31/2013
Performing commitments	-	16,286	-	16,286
Restructured commitments	-	-	-	-
Non-performing loans	-	-	-	-
Compromised non-performing loans	-	-	-	-
TOTAL	-	16,286	-	16,286

2.4 - BONDS AND OTHER FIXED INCOME SECURITIES

a. Accrued interest included in this item: 5,018

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
172,163	266,476	1,475,886	2,450,191	4,364,716

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

	12/31/2012	12/31/2013	Unrealized capital loss ⁽¹⁾
DSFB - Dexia Secured Funding Belgium	-	4,364,716	(201,368)
TOTAL	-	4,364,716	(201,368)
- of which eligible for central bank refinancing	-	-	-

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

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

	12/31/2012	12/31/2013	Unrealized capital loss as of 12/31/2013 ⁽¹⁾
Listed securities	-	-	-
Other securities	-	4,364,716	(201,368)
TOTAL	-	4,364,716	(201,368)

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

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

Portfolio	Net amount as of 12/31/2012	Gross amount as of 12/31/2012	Acquisitions ⁽¹⁾	Redemptions or disposals	Translation adjustments	Impairment as of 12/31/2013	Net amount as of 12/31/2013
Transaction	-	-	-	-	-	-	-
Placement	-	-	-	-	-	-	-
Investment ⁽¹⁾	-	-	4,364,716	-	-	-	4,364,716
TOTAL	-	-	4,364,716	-	-	-	4,364,716

(1) The ABS consisting of DSFB Belgian local public sector loans were transferred from Caisse Française de Financement Local to Sfil on July 1, 2013.

2.5 - INVESTMENTS IN NON-CONSOLIDATED COMPANIES AND OTHER LONG-TERM INVESTMENTS

This item includes a share acquired in the company SWIFT to benefit from its services.

2.6 - INVESTMENTS IN CONSOLIDATED COMPANIES

Sfil acquired 100% of the shares of Caisse Française de Financement Local, for EUR 1, on January 31, 2013.

2.7 - PROPERTY AND EQUIPMENT

	Computer equipment	Other equipment	Fixtures	Construction work in progress	Total
Acquisition cost as of 12/31/2012	-	-	-	-	-
Changes during the year:					
*increases	13	28	12	6	59
*decreases	-	-	-	-	-
*other	-	-	-	-	-
Acquisition cost as of 12/31/2013	13	28	12	6	59
Depreciation and impairments as of 12/31/2012	-	-	-	-	-
Changes during the year:					
*increases	(0)	(2)	(1)	-	(3)
*decreases	-	-	-	-	-
*other	-	-	-	-	-
Depreciation and impairments as of 12/31/2013	(0)	(2)	(1)	-	(3)
Net carrying amount as of 12/31/2013	13	26	11	6	56

Through transfer agreements, Sfil's property and equipment has been acquired from Dexia Crédit Local for EUR 1.

2.8 - OTHER ASSETS

	12/31/2012	12/31/2013
Cash collateral granted	-	3,335,925
Other receivables	0	1,366
TOTAL	0	3,337,291

2.9 - ACCRUALS AND OTHER ASSETS

	12/31/2012	12/31/2013
Deferred charges on hedging transactions	-	418,202
Other prepaid charges	-	3,101
Accrued interest not yet due on hedging transactions	-	352,134
Other accounts receivable on hedging transactions	-	4,496
Other deferred income	-	47,217
TOTAL	-	825,150

2.10 - TOTAL ASSETS

Analysis by original currency	Amount in original currency as of 12/31/2012	Amount in euros as of 12/31/2012	Amount in original currency as of 12/31/2013	Amount in euros as of 12/31/2013
EUR	60	60	15,731,836	15,731,836
CHF	-	-	43,900	35,770
JPY	-	-	893,119	6,172
SEK	-	-	1,166	131
USD	-	-	3,393	2,461
TOTAL		60		15,776,370

3. Notes to the liabilities (EUR thousands)**3.1 - DUE TO BANKS**

As of December 31, 2013, the balance, excluding accrued interest, breaks down as follows: EUR 10,356 million with Caisse des Dépôts et Consignations, EUR 4,364 million with Caisse Française de Financement Local and EUR 100 million with La Banque Postale.

	12/31/2012	12/31/2013
Sight accounts	-	-
Current account	-	-
Term borrowing	-	14,818,639
Interest accrued not yet due	-	31,688
Unallocated sums	-	-
TOTAL	-	14,850,327

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 of 12/31/2013
Sight	-	-	-	-	-
Term	2,008,757	953,070	7,655,230	4,201,582	14,818,639
TOTAL	2,008,757	953,070	7,655,230	4,201,582	14,818,639

3.2 - OTHER LIABILITIES

	12/31/2012	12/31/2013
Cash collateral received	-	290
Taxes	-	725
Other payables	1	3,545
TOTAL	1	4,560

3.3 - ACCRUALS AND OTHER LIABILITIES

	12/31/2012	12/31/2013
Deferred income on hedging transactions	-	418,173
Accrued interest not yet due on hedging transactions	-	351,556
Other accounts payable on hedging transactions	-	4,528
Other accrued charges	5	16,271
TOTAL	5	790,528

3.4 - PROVISIONS

	Amount as of 12/31/2012	Increases	Decreases	Translation adjustments	Amount as of 12/31/2013
Pensions	-	2,957	-	-	2,957

3.5 - EQUITY

	12/31/2012	12/31/2013
Share capital	74	130,000
Legal reserve	-	-
Retained earnings (+/-)	(11)	(20)
Net income (+/-)	(9)	(1,982)
TOTAL	54	127,998

Pursuant to the January 22, 2013, extraordinary shareholder's meeting, share capital was increased by EUR 129,926 thousand. Société de Financement Local's share capital totaled EUR 130 million, comprising 9,285,725 shares with a face value of EUR 14.

3.6 - TOTAL LIABILITIES

Analysis by original currency	Amount in original currency as of 12/31/2012	Amount in euros as of 12/31/2012	Amount in original currency as of 12/31/2013	Amount in euros as of 12/31/2013
EUR	60	60	15,731,836	15,731,836
CHF	-	-	43,900	35,770
JPY	-	-	893,119	6,172
SEK	-	-	1,166	131
USD	-	-	3,393	2,461
TOTAL		60		15,776,370

3.7 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Consolidated entity	Consolidated entity ⁽²⁾	Other related parties ⁽¹⁾	Other related parties
	12/31/2012	12/31/2013	12/31/2012	12/31/2013
ASSETS				
Loans and advances to banks - sight	-	-	-	-
Loans and advances to banks - term	-	6,773,146	-	-
Bonds and other fixed income securities	-	-	-	-
LIABILITIES				
Due to banks - sight	-	-	-	-
Due to banks - term	-	4,367,882	-	10,482,444
INCOME STATEMENT				
Interest income on loans and advances	-	64,671	-	-
Interest income on debt securities	-	-	-	-
Interest expense on borrowings	-	(16,041)	-	(89,054)
Net commissions	-	19,271	-	-
OFF-BALANCE SHEET				
Interest rate derivatives	-	13,900,364	-	3,712,712
Foreign exchange derivatives	-	5,180,235	-	-
Commitments and guarantees received	-	-	-	5,230,874
Commitments and guarantees granted	-	4,419,734	-	6,995,008

(1) Other related parties concern La Banque Postale and Caisse des Dépôts et Consignations.

(2) Caisse Française de Financement Local.

4. Notes to the off-balance sheet items (EUR thousands)**4.1 - COMMITMENTS GRANTED**

	Amount as of 12/31/2012	Amount as of 12/31/2013
Financing commitments granted to credit institutions	-	50,000
Other commitments given, assets assigned in guarantee	-	11,364,762
TOTAL	-	11,414,762

4.2 - COMMITMENTS RECEIVED

	Amount as of 12/31/2012	Amount as of 12/31/2013
Financing commitments received from credit institutions	-	5,230,874
Guarantees received from credit institutions ⁽¹⁾	-	1,229,387
Guarantees received from local governments and asset transfers as guarantees of commitments on local governments	-	-
Other commitments received	-	-
TOTAL	-	6,460,261

(1) The guarantees of commitment received from credit institutions correspond to the guarantee from Belfius Banque et Assurances on the DSFB 2 securities (Dexia Secured Funding Belgium SIC).

4.3 - FOREIGN CURRENCY TRANSACTIONS AND COMMITMENTS ON INTEREST RATE DERIVATIVES

A. Foreign currency transactions

Cash and forward foreign exchange transactions are recorded at their value in foreign currencies translated at the exchange rate at the end of the period.

The items "Currencies to receive" and "Currencies to deliver" are composed of long currency swaps with intermediate payment flows corresponding to hedging transactions.

	12/31/2012	12/31/2013	Fair value as of 12/31/2013
Currencies to receive	-	11,012,583	387,367
Currencies to deliver	-	11,012,583	(387,367)
TOTAL	-	22,025,166	0

B. Commitments on interest rate derivatives

Commitments on interest rate derivatives are recorded in accordance with CRB regulations 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	Less than 1 year	1 year to 5 years	More than 5 years	Total of 12/31/2013
Unconditional transactions	3,847,552	5,214,620	22,237,805	31,299,977
of which deferred start	-	-	254,882	254,882

b. Analysis of interest rate transactions by product type

	12/31/2012	12/31/2013
Interest rate swaps	-	31,299,977
Term contracts	-	-
Interest rate options	-	-
TOTAL	-	31,299,977

c. Analysis of interest rate transactions by counterparty

	12/31/2012	12/31/2013
Caisse Française de Financement Local	-	13,900,364
Other related parties	-	3,712,712
Other counterparties	-	13,686,901
TOTAL	-	31,299,977

C. Foreign exchange transactions and commitments to derivative financial instruments by type of transaction

Type of transaction	Amount as of 12/31/2012	Micro-hedge	Isolated open position	Amount as of 12/31/2013	Fair value as of 12/31/2013
Foreign currency transactions - to receive	-	5,180,235	5,832,348	11,012,583	387,367
Foreign currency transactions - to deliver	-	5,180,235	5,832,348	11,012,583	(387,367)
Interest rate swaps	-	17,685,922	13,614,055	31,299,977	(34,390)
TOTAL	-	28,046,392	25,278,751	53,325,143	(34,390)

5. Notes to the income statement (EUR thousands)

5.1 - INTEREST AND RELATED INCOME

	2012	2013
INTEREST AND RELATED INCOME	-	85,841
Loans and advances to banks	-	68,750
Loans and advances to customers	-	771
Bonds and other fixed income securities	-	16,310
Macro-hedge transactions	-	10
Other commitments	-	-
INTEREST AND RELATED EXPENSE	-	(106,297)
Due to banks	-	(106,277)
Due to clients	-	(7)
Bonds and other fixed income securities	-	-
Macro-hedge transactions	-	(13)
Other commitments	(0)	-
INTEREST MARGIN	(0)	(20,456)

5.2 - ANALYSIS OF COMMISSIONS RECEIVED AND PAID

	2012	2013
Billing commissions received from Caisse Française de Financement Local	-	19,271
Other commissions	-	(71)
TOTAL	-	19,200

5.3 - OTHER INCOME AND EXPENSE

	2012	2013
Other income ⁽¹⁾	-	6,838
Other expense	-	(4)
TOTAL	-	6,834

(1) This income corresponds to compensation from Dexia Crédit Local for general expenses.

5.4 - GENERAL EXPENSES

	2012	2013
Payroll expense	-	(22,345)
Social security taxes	-	(13,545)
Taxes	-	(617)
Other general operating expense ⁽¹⁾	(9)	28,830
TOTAL	(9)	(7,677)

(1) This item mainly includes expenses billed to Caisse Française de Financement Local in 2013.

Société de Financement Local employs, as of end 2013, 325 employees, which corresponds to an equivalent full-time number for the past year of 317.5. Furthermore, the company has not made any employees available to other entities during the year.

6. Financial relations with members of the Executive Committee and the Board of Directors (EUR thousands)

Gross compensation allocated to members of the Executive Committee and Board of Directors of the company owing to their functions within them, in the subsidiaries and affiliated companies	
Executive Committee	2,204
Board of Directors ⁽¹⁾	-
TOTAL	2,204
Amount, at year end, of the debt liabilities in their favor and of other obligations undertaken on their behalf	
Executive Committee	429
Board of Directors	-
TOTAL	429

(1) Directors' fees for 2013 were paid in February 2014 and amounted to EUR 56,000.

7. Information on subsidiaries and shareholdings (EUR thousands)

Companies	Capital	Share premiums, reserves and retained earnings	Net Banking Income (NBI) of last year (2013)	Profit or loss of last year (2013)	Percentage of capital held	Carrying amount of shares held ⁽¹⁾	Dividends received by Sfil during the year	Loans and advances granted by Sfil	Total guarantees granted by Sfil	Business
Caisse Française de Financement Local 1 Passerelle des Reflets - La Défense 2 - 92913 La Défense Cedex	1,315,000	84,165	176,924	(20,519)	100,00	0	-	6,773,146	4,419,734	Société de crédit foncier

(1) Sfil acquired 100% of the shares of Caisse Française de Financement Local, for EUR 1, on January 31, 2013.

Statutory Auditors' report on the financial statements

Year ended 31 December 2013

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements. This report should be read in conjunction and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In accordance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended 31 December 2013, on:

- the audit of the accompanying financial statements of Société de Financement Local;
- the justification of our assessments;
- the specific verifications and disclosures required by law.

The financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with professional practice standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2013 and of the results of its operations for the year then ended in accordance with French accounting standards.

Without qualifying the above opinion, we draw your attention to the following notes to the annual financial statements:

- “Note 1.1 – Publication context”, which outlines the assumption used for the accounts closing, according to which the legislative measures designed to secure, from a legal point of view, the current loan agreements with public entities will be voted on in 2014, thus removing the corresponding risks.

- “Note 1.3 – Applicable accounting standards”, which presents the transition of the accounting position as at 31 December 2012 between the general chart of accounts applicable to commercial companies and the chart of accounts for credit institutions, following the Company's approval as a credit institution.

JUSTIFICATION OF OUR ASSESSMENTS

In accordance with Article L. 823-9 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following items:

Valuation of financial instruments

As stated in Note “1.4.b – Security transactions” to the annual financial statements, your company uses internal models and methodologies to value financial instruments that are not traded on active markets, to set aside certain provisions and to assess the relevance of the transactions classified as hedges. We analysed the control system used to ascertain whether markets are active or not, to verify the models and to determine the parameters used. These assessments were performed as part of our audit approach for the financial statements taken as a whole and contributed to the expression of our opinion in the first part of this report.

SPECIFIC VERIFICATIONS AND DISCLOSURES

We have also performed the specific verifications required by law in accordance with professional practice standards applicable in France.

We have no matters to report regarding the fair presentation and the consistency with the financial statements of the information provided in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Pursuant to the law, we have verified that the management report contains the appropriate disclosures as to the percentage interests and votes held by shareholders.

Courbevoie and Neuilly-sur-Seine, 7 April 2014
The Statutory Auditors
French original signed by

MAZARS

Virginie CHAUVIN Anne VEAUTE

DELOITTE & ASSOCIES

Charlotte VANDEPUTTE José-Luis GARCIA

Société de Financement Local

Société anonyme

Share capital EUR 130,000,150

R.C.S. NANTERRE 428,782,585

Registered office

1, passerelle des Reflets

La Défense 2, 92913 La Défense Cedex

Contact : (33) 1 71 02 90 90

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