Financial report

Half-year 2015

Caisse Française de Financement Local

Public sector assets - *Obligations foncières*

French version of this information is reviewed by the statutory auditors

Financial Report
Half-year 2015

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For the period January 1 to June 30, 2015

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

1.1 – NATURE AND ACTIVITIES OF THE COMPANY

Caisse Française de Financement Local (also known by its acronym CAFFIL) is a credit institution active in the refinancing of loans to local public sector entities through the issue of covered bonds, which are called *obligations foncières*.

It is a specialized credit institution authorized to operate as a *société de crédit foncier*. As a credit institution, the Company is subject to all legal and regulatory provisions that apply to credit institutions. It conducts banking transactions in its ordinary course of business. As *a société de crédit foncier*, these transactions are specialized and have an exclusive purpose, as defined in articles L.513-2 and following of the Monetary and Financial Code.

In the case of Caisse Française de Financement Local, this specialization is exclusively limited to transactions with public sector entities or entities they guarantee as specified in its October 1, 1999, authorization by the Autorité de contrôle prudentiel et de résolution (ACPR) and its own by-laws.

- The authorization mentions that the Company "is approved as a *société de crédit foncier* the activities of which exclusively concern the granting or acquisition of loans to public sector entities or those they guarantee, as well as the holding of securitization units or shares of similar entities when the assets in these securitizations are for at least 90% composed of assets of the same nature as the above-mentioned loans, in accordance with article 94-II and III of law 99-532".
- The purpose of the Company (article 2 of the by-laws) specifies that the exclusive purpose of the Company is:
  - to grant or to acquire exposures to public sector entities as defined in article L.513-4 of the Monetary and Financial Code as well as securitization units as defined in article L.513-5 of the Monetary and Financial Code if their underlying assets are made of exposures to public sector entities;
  - to hold securities, bank deposits and other safe assets under the conditions set by decree to be considered as replacement assets.

Sociétés de crédit foncier, which were created by the law of June 1999, are now well-known in the world of bond issuers and investors. They issue covered bonds called *obligations foncières* and contract other covered debt negotiable or not in regulated markets. All these instruments are characterized by the legal privilege that primarily affects cash flows from the Company's assets to pay the interest and reimbursement of the *obligations foncières*. *Sociétés de crédit foncier* may also issue or contract non-covered debt.

Obligations foncières constitute a significant element in the international covered bond market.

1.2 – SHAREHOLDING STRUCTURE OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

Caisse Française de Financement Local and its parent company Société de Financement Local, renamed SFIL since April 2015, are key elements in the organization introduced by the French State in 2013 to finance local governments and public hospitals in France. This organization is based on a commercial activity developed by La Banque Postale with refinancing provided by Caisse Française de Financement Local.

The capital of Caisse Française de Financement Local is 100% held by SFIL, which also manages the Company in accordance with article L.513-15 of the Monetary and Financial Code. SFIL is a credit institution approved by the Autorité de contrôle prudentiel et de résolution (ACPR). Its shareholders are the French State (75%), Caisse des Dépôts et Consignations (20%) and La Banque Postale (5%). SFIL's shareholders are thus firmly anchored in the public sphere, reflecting the mission the French State assigned it.

The French State is the "reference shareholder" of SFIL and Caisse Française de Financement Local for the Autorité de contrôle prudentiel et de résolution (ACPR) underlining its commitment to ensure oversight and to influence strategic decisions, as well as its determination to ensure Caisse Française de Financement Local and SFIL's ongoing financial transactions if so required.
The common objective is to enable French local governments and public hospitals to benefit from the optimal financing conditions through a first step rating and irreproachable risk management.

1.3 ECONOMIC MODEL OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

a. Servicing by SFIL

SFIL acts as a servicer to support and manage the activities of Caisse Française de Financement Local as defined by the regulations applicable to *sociétés de crédit foncier*, in particular article L.513-15 of the Monetary and Financial Code. This role primarily involves the following:

- ensure the complete operational management of the Company (day-to-day management as well as the operational management of the reduction in the sensitivity of the structured loans on the balance sheet of Caisse Française de Financement Local);
- provide Caisse Française de Financement Local with derivatives and non-privileged funding its activity requires.

The funds required to finance the activity of Caisse Française de Financement Local (financing of over-collateralization and intermediated derivatives) are lent to SFIL by Caisse des Dépôts et Consignations (CDC) for all the needs linked to operations booked prior to the date of acquisition (January 31, 2013), and for 35% of the needs generated by new business originated by La Banque Postale (LBP). The latter entity supplies the remaining 65%. With the development of the new export credit refinancing activity, the breakdown of these financings brought by the shareholders is going to evolve: CDC will cover the needs related to the new export refinancing activity (and to operations booked prior to the change of shareholding in 2013) and LBP will cover all the needs related to loans to French local authorities and public hospitals it origins.

In addition, on January 31, 2013, SFIL signed a declaration of support of Caisse Française de Financement Local, which is reproduced in the 2014 annual financial report – General information.

It should be noted that SFIL also supplies services for the business of lending to French public sector entities engaged by La Banque Postale and its joint venture La Banque Postale Collectivités Locales. These services concern activities involving commercial support, financial oversight, the supply of data for risk analysis and back office operations.

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

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

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

This partnership allows Caisse Française de Financement Local to preserve the control of its credit risk as it organizes the analysis of the credit risk of the loans in two stages.

- When the loan is originated, the initial analysis of the counterparty is carried out simultaneously at the two entities. The loans that do not meet the credit criteria of Caisse Française de Financement Local cannot be transferred to its balance sheet.
  Caisse Française de Financement Local's eligibility criteria are strictly monitored by internal management policies and limit eligible counterparties to French local public sector entities and public hospitals.
- Before the loans originated by La Banque Postale are transferred to Caisse Française de Financement Local, a new analysis of the assets is conducted, and Caisse Française de Financement Local may refuse a loan prior to the transfer if the asset no longer meets the criteria.

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

c. Refinancing of export credit

Starting in the second half 2015, in the context of the extension of its activities to the refinancing of large export credit, Caisse Française de Financement Local grants loans to banks, mainly to its parent company SFIL, to refinance their export credits. These refinancing loans benefit from an irrevocable and unconditional 100% guarantee provided by Coface acting on behalf of, and with the guarantee of the French State. The new activity will root Caisse Française de Financement Local even more firmly in the French public sector without modifying the risk profile of its cover pool.

The system will function as follows.

- SFIL will contribute to the financial proposal made by one or more banks in the banking syndicate granting the buyer credit insured by the French export credit agency Coface on behalf of the State; these banks will then sell to SFIL all or a part of the credit (and the rights attached) and keep the part of the export credit sold that is not insured (usually 5%).

- Caisse Française de Financement Local will grant a loan to SFIL to enable it to refinance the acquired export credit; this refinancing loan will benefit from an irrevocable and unconditional 100% guarantee provided by Coface for and with the guarantee of the French State, referred to as an "enhanced guarantee" . Loans granted by Caisse Française de Financement Local to SFIL to refinance the purchased export credit loans will constitute exposures that are totally guaranteed by France, thus eligible for the cover pool of a *société de crédit foncier*. These loans will also comply with the European CRR regulation (article 129, that specifies which assets are authorized for the inclusion in a cover pool to ensure that the covered bonds will benefit from the best prudential treatment).

Loans benefiting from the irrevocable and unconditional 100% guarantee provided by Coface for and with the guarantee of the French State could also be granted by Caisse Française de Financement Local to banks other than SFIL for the refinancing of their export credits.

These new loans, like the new French local public sector loans marketed by La Banque Postale, will complement the portfolio (cover pool) of Caisse Française de Financement Local, which is financed by the issue of covered bonds. Given the current size of the cover pool and the growth of its traditional business, the share of the new activity in the portfolio of Caisse Française de Financement Local will increase progressively and will only become significant after several years.

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

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

The rating of the bonds issued by Caisse Française de Financement Local is at the highest level of credit quality (step 1). This requires that the quality of the cover pool and strict management rules be consistent with the criteria and approaches of the three agencies.

The principle by which each agency rates *obligations foncières* (and covered bonds in general) involves taking as a starting point the issuer's rating or that of the parent company if the issuer is not rated, and enhancing this rating by one or several notches in function of the safeguards introduced (legal framework, quality of assets, asset/liability management, over-collateralization, etc.).

The rating of SFIL by the three agencies is now set at the same level as that of France for S&P and one notch below France for Moody's and Fitch. These very good ratings have been attributed because the agencies consider SFIL as an entity that is linked to the French government. These take into account a strong probability that the State will provide extraordinary support if necessary because of the strategic importance of the missions of public service it was entrusted to, commitments of the State and the influence of this one on the governance of SFIL.

The close relationship between Caisse Française de Financement Local and the French State, due to its shareholding structure and support, but also to its mostly French cover pool, creates a link between the rating of *obligations foncières* and the rating of France for Fitch and S&P. Fitch's rating may thus not be higher than the sovereign rating; otherwise Fitch would apply an ultra-stressed rating scenario (an 80% default rate, with recoveries limited to 20%), making it necessary to have a level of over-collateralization that would be incompatible with the profitability of the business model. S&P's rating is limited to one notch above that of France.

The rating of *obligations foncières* is also limited by S&P to one notch above the rating of SFIL, by reason of the non-conformity of certain derivative contracts with the agency's most recent methodological criteria (counterparties not rated by S&P or absence of a replacement clause).

2. Highlights of the first half of 2015 and post closing events

2.1 – THE COVERED BOND MARKET

In the first half of 2015, business in the euro-denominated primary covered bond market for benchmark transactions remained dynamic but the volume issued slowed down with EUR 62 billion compared to EUR 67 billion for the same period in 2014. The market was sustained by major technical factors during the first quarter (negative net supply, continuation of the Eurosystem's third covered bonds purchase program (CBPP), and the indirect effects of the Public Sector Purchase Program (PSPP)), but market volatility increased during the second quarter due to doubts about the capacity of Greece to fulfill its commitments,. In this context, covered bond issuance activity slowed down sharply in May and June. with investors focused on short maturity (3 to 5 years), and then shut down up to mid July when Greece found an agreement with its creditors. As a consequence, and despite Eurosystem's buying flows, spreads tightening trend stopped, due to lower investor's appetite and the need to offer increased new issue premium versus secondary market.

In this market context, Caisse Française de Financement Local accentuated its particular positioning by successfully completing its euro denominated yield curve when it launched in January a 20-year benchmark issue for EUR 500 million followed in April by an 8 years jumbo transaction (EUR 1 billion). In addition to these public issues, Caisse Française de Financement Local took advantage of investors demand to increase outstanding amounts of existing issues (EUR 150 millions for each of 2019 and 2035 outstanding issues) and to remain active on private placement segment with new issuance of EUR 0.7 billion. The average maturity of the funds raised by Caisse Française de Financement Local in the first half was close to 14 years.

2.2 – EVENTS AFFECTING THE RATING OF OBLIGATIONS FONCIERES

The rating of the *obligations foncières* issued by Caisse Française de Financement Local was not altered in 2015. As of June 30, 2015, the ratings were as follows: AA+ by Standard and Poor's, Aaa by Moody's and AA by Fitch.

2.3 – LITIGATION RELATED TO STRUCTURED LOANS

In its portfolio, Caisse Française de Financement Local has structured loans considered as sensitive that were granted to French customers of Dexia Credit Local. Certain of these customers initiated legal proceedings against Dexia Credit Local, Caisse Française de Financement Local and/or SFIL to contest the contractual interest rate.

As of June 30, 2015, the number of customers who had brought suit totaled 185 as compared with 210 at the end of 2014.

Since the law that created a legal basis to secure structured loan agreements subscribed by public entities took effect on July 30, 2014, the reasons linked to the annual rate of charge (TEG), in particular the formal absence of the TEG in the faxes which had preceded the signing of the contract, which had motivated the decision of the Tribunal de grande instance de Nanterre on February 8, 2013, concerning the loans granted to the Département de la Seine-Saint-Denis, can no longer be invoked.

The Département de la Seine-Saint-Denis which had been the cause of this law suit, decided to put a end to the litigation within the framework of a financial agreement that made it possible to eliminate its debt sensitivity.

Two new decisions of the Tribunal de grande instance de Nanterre were handed down since the law that created a legal basis to secure structured loan agreements subscribed by public entities took effect.

According to the terms of the first decision on April 24, 2O15, the Tribunal de grande instance de Nanterre rejected all the claims of the city of Carrières-sur-Seine, particularly as regards responsibility.

According to the terms of the second decision on June 26, 2O15, the Tribunal de grande instance de Nanterre condemned jointly and severally Dexia Credit Local and Caisse Française de Financement Local, to the benefit of the city of Saint-Cast-le-Guildo, for the failure of Dexia Credit Local to provide adequate information and sufficient warning when a loan was negotiated in 2007, while at the same time condemning this borrower to reimburse Caisse Française de Financement Local for all the unpaid sums and to pay the contractual interest rate for the remaining life of the contract.

The creation of the two support funds by the government should lead to a significant reduction in the number of law suits by enabling local governments and public hospitals to finance the cost of disengaging themselves from their structured loans. According to information published in the press, 676 eligible local governments submitted a request for assistance from the support fund. Thirty-one financial agreements have already been signed between Caisse Française de Financement Local and eligible customers.

The capacity for intervention of these funds was massively increased in the first quarter of 2015 in order to cover the additional cost linked to the appreciation of the Swiss franc so that the early reimbursement penalties for which the concerned customers were still responsible, after assistance from the funds, would not be greater than it would have been without the decision of the Swiss National Bank (SNB) in January 2015 to put an end to the floor rate of exchange of its national currency, the Swiss franc (CHF). The fund earmarked for local governments now totals EUR 3.0 billion and the one for pubic hospitals EUR 400 million. Likewise, the ceiling of the assistance made available (initially set at 45% of indemnities due) will be significantly raised for the most fragile local governments.

Caisse Française de Financement Local, which made a voluntary contribution to the local government support fund in the amount of EUR 150 million and to the hospital support fund for EUR 18 million, did not book any provision in its 2015 half year financial statements for a potential supplemental contribution linked to the increase of the total funds (given the uncertainty as to the very existence of such a contribution, its features and possible amount).

To prepare its 2015 half year financial statements, Caisse Française de Financement Local took into account the effects of the decision of the Swiss National Bank (SNB) on January 15, 2015, and the hypothesis that the solution announced by the government (in particular, strengthening the funds' intervention capacity and pushing up the ceiling for assistance to the most vulnerable local governments) would in fact rapidly be made available so that the support funds would remain at least as attractive as before the SNB decision for local governments and hospitals holding loans indexed on the EUR/CHF exchange rate.

3. Changes in main balance sheet items

EUR billions - value after currency swaps	12/31/2013	12/31/2014	6/30/2015	Change Jun. 2015 / Dec. 2014
Cover pool	**63.7**	**62.3**	**61.0**	**(2.1)%**
Loans	53.2	51.6	50.0	(3.1)%
Securities	9.0	10.2	9.9	(3.0)%
Cash in central bank	1.5	0.5	1.1	107.9%
Assets assigned in guarantee to Banque de France	**-**	**-**	**-**	**-**
Privileged debt	**55.3**	**54.6**	**53.9**	**(1.2)%**
Obligations foncières *	52.8	52.2	52.5	0.5%
Cash collateral received	2.5	2.4	1.4	(40.1)%
Non-privileged debt	**6.8**	**6.2**	**5.6**	**(10.0)%**
Parent company	6.8	6.2	5.6	(10.0)%
Banque de France	-	-	-	-
Equity IFRS (excluding unrealized gains and losses)	**1.5**	**1.5**	**1.5**	**(2.4)%**

**Including registered covered bonds*

Caisse Française de Financement Local's cover pool is composed of loans and debt securities; it also includes the temporary cash surplus, deposited at the Banque de France or invested in short-term French sovereign securities for a total amount of EUR 2.8 billion at the end of the first half of 2015 versus EUR 2.1 billion as of the end of 2014.

As of June 30, 2015, the cover pool totaled EUR 61 billion, excluding accrued interest not yet due. As of December 31, 2014, the total was EUR 62.3 billion; the decrease was therefore EUR 1.3 billion (-2.1%).

At the end of June, no asset was excluded from the cover pool in order to be sold to a bank in a repurchase agreement or assigned in guarantee to the Banque de France.

Outstanding debt benefiting from the legal privilege, including cash collateral received, was EUR 53.9 billion, which decreased (1.2%) in comparison with December 2014.

The debt contracted with the parent company totaled EUR 5.6 billion and does not benefit from the legal privilege. It mainly corresponds to the financing of the over-collateralization of the cover pool, which is at a significantly higher level than the amount required by regulators and the rating agencies.

4. Cover pool

4.1 – CHANGE IN ASSETS IN THE FIRST HALF OF 2015

The net change in the cover pool as of June 30, 2015, corresponded to a decrease in assets in the amount of EUR 1.3 billion. This change is explained by the following items.

(EUR billions)	June 30, 2015	
1- Acquisition of loans from La Banque Postale		**1.7**
Loans to the French public sector (vanilla loans in euros)	1.7	
2- Reduction of loan sensitivity		**0.3**
Sensitive structured loans removed	-0.4	
Refinancing loans (vanilla loans in euros)	0.4	
New loans (vanilla loans in euros)	0.3	
3- Amortization of portfolio of loans and securities		**-2.7**
4- Early reimbursments		**-1.4**
5- Changes in treasury		**0.7**
Change in short maturity securities investments (French sovereign)	0.1	
Change in Banque de France cash deposit	0.6	
6- Other changes		**0.1**
Other loans to the French public sector	0.1	
Divestments	0.0	
Impairment and currency adjustment	0.0	
Net change in the cover pool		**-1.3**

In 2015, Caisse Française de Financement Local has so far acquired a total of EUR 1.7 billion in loans to the French public sector originated by La Banque Postale.

The operations conducted in application of the policy of reduction of loan sensitivity since the beginning of 2015 made it possible to decrease outstanding loans considered as sensitive by EUR 0.4 billion by replacing them by fixed rate loans. They were accompanied by new fixed rate loans in the amount of EUR 0.3 billion. After amortization, outstanding loans considered as sensitive diminished by EUR 0.5 billion in the first half of 2015.

The natural amortization of the portfolio of loans and securities represented EUR 2.7 billion in first half of 2015, and early reimbursements EUR 1.5 billion (mostly the reimbursement of a loan granted to SFIL recognized as a replacement asset).

Available cash deposited at the Banque de France or invested in short-term French sovereign securities increased by EUR 0.7 billion.

4.2 – OUTSTANDING ASSETS AS OF JUNE 30, 2015

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

EUR billions	12/31/2014	6/30/2015
Loans and bonds to the public sector	56.3	55.6
Treasury (sight accounts and short term investments)	2.1	2.8
Replacement assets	3.9	2.6
Total	**62.3**	**61.0**

Surplus cash is deposited in an account opened by Caisse Française de Financement Local at the Banque de France or invested in short-term French sovereign securities, respectively amounting to EUR 1.1 billion and EUR 1.7 billion as of June 30, 2015.

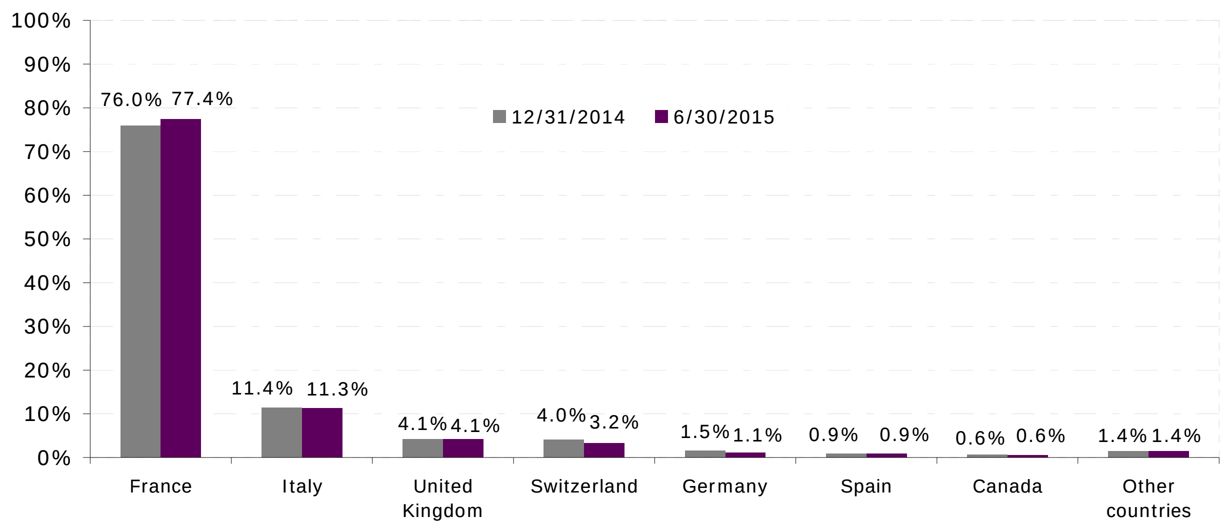
a. Public sector loans and securities (excluding replacement assets and cash investments)

1. Geographic breakdown

French assets are predominant in the cover pool (almost 77.4%), and their percentage is expected to rise in the future. Loans acquired through La Banque Postale since 2013 accounted for EUR 4.1 billion as of June 30, 2015, representing 9.7% of French public sector loans included in the cover pool.

The other assets are managed in a run-off mode; they correspond to granular and geographically diversified exposures on foreign public sector entities. They were originated in the past by subsidiaries of the Dexia Group.

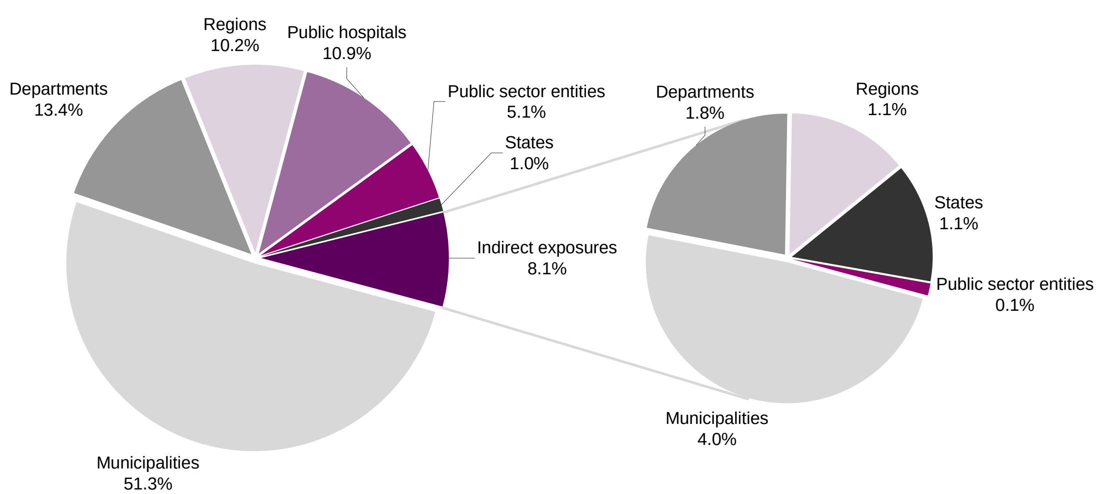
The relative proportion of the total assets can be broken down as follows.



Exposures to Other countries as of June 30, 2015, are broken down by country in the section Bonds and public sector loans, which is presented at the end of this activity report.

2. Breakdown by type of counterparty

The portfolio of Caisse Française de Financement Local is made up for almost 82% of direct or indirect exposures on municipalities, departments or regions.



Indirect exposures are composed of exposures guaranteed by public sector entities, most of which are local.

3. Securitizations

There are no securitization units in the cover pool of Caisse Française de Financement Local (since July 2013). Its *obligations foncières* respect the conditions of eligibility for refinancing by the European Central Bank and the new CRR / CRD IV requirements.

4. Exposures on sovereign countries

Caisse Française de Financement Local has stable and limited exposure to sovereign countries.

EUR millions	Ratings **	12/31/2014	6/30/2015	in % of the cover pool ***
France*	AA/Aa1/AA+	172	180	0.3%
United Kingdom	AAA/Aa1/AA+	481	443	0.8%
Italy	BBB/Baa2/BBB+	576	555	1.0%
TOTAL		**1,229**	**1,178**	**2.1%**

* *Excluding cash investments (Banque de France sight account and short term sovereign bonds)*
** *S&P, Moody's and Fitch ratings at the publication date of this report*
*** *Excluding cash investments and replacement assets*

Most of these exposures are concentrated on countries that benefit from very good ratings as of June 30, 2015, and which guarantee these loans.

b. Replacement assets

Assets considered by law as replacement assets correspond to exposures on credit institutions benefiting of at least a Step 1 rating, or a Step 2 rating when their remaining maturity does not exceed 100 days, and their total amount is limited to 15% of debt benefiting from the legal privilege (*obligations foncières* and registered covered bonds).

As of June 30, 2015, the replacement assets of Caisse Française de Financement Local were comprised of long-term loans to SFIL, which benefited from a Step 1 rating (rated AA by S&P, Aa2 by Moody's and AA- by Fitch), as well as bank account balances usually with a Step 2 rating. They represented 4.7% of the privileged debt (*obligations foncières* and registered covered bonds) of Caisse Française de Financement Local following the early reimbursement of a loan to SFIL in the amount of EUR 1.3 billion considered as a replacement asset.

Replacement assets	Country	Issuer	EUR millions	
			12/31/2014	6/30/2015
Step 1 credit rating				
Loans to sponsor bank	France	SFIL	3,912	2,546
Step 2 credit rating				
Bank account balances	Other	Other	14	13
TOTAL			**3,926**	**2,559**

c. Assets removed from the cover pool

Because of its status as a credit institution, Caisse Française de Financement Local has access to refinancing operations offered to banks by the Banque de France within the Eurosystem. In steering its cover pool and its over-collateralization or in order to meet the need for temporary liquidity, Caisse Française de Financement Local may thus convert a portion of its assets into cash. The loans or securities assigned in guarantee with the central bank in order to obtain financing on the occasion of tenders organized by the Banque de France are then removed from the cover pool and replaced by the cash thus obtained.

The same treatment would be applied to the assets in the cover pool if they were mobilized in interbank repurchase agreements in the event of a need for liquidity.

In the last two fiscal years, Caisse Française de Financement Local mobilized or pledged no assets with the Banque de France or a bank counterparty.

d. Structured loans

1. Definition

Certain loans to French public sector entities in the cover pool of Caisse Française de Financement Local may be qualified as structured loans. To define this notion, Caisse Française de Financement Local refers to the charter of good practices signed by banks and local governments (the Gissler charter), which can be consulted on the Internet site of the French Ministry of

the Interior[1]. This document was signed on December 7, 2009, by several organizations that represent local governments in France (Association des maires de France, Fédération des maires des villes moyennes, Association des petites villes de France, Association des maires de grandes villes de France and Assemblée des communautés de France) as well as certain banks.
Therefore, structured loans are defined as:

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

2. Structured loans and sensitive loans

In the first half of 2015, outstanding French public sector loans increased slightly, with a decrease of EUR 0.9 billion in outstanding structured loans (as defined above) and a rise of EUR 1.1 billion in non-structured vanilla loans.

EUR billions	12/31/2014	6/30/2015	% cover pool	Number of customers*
Sensitive loans not in the charter	3.2	3.0	*5.0%*	*362*
Sensitive loans (3E/4E/5E)	3.1	2.8	*4.5%*	*338*
Subtotal sensitive loans	**6.3**	**5.8**	**9.5%**	**700**
Other structured loans	5.2	4.8	*7.9%*	*1,355*
Subtotal structured loans	**11.5**	**10.6**	**17.4%**	**2,055**
Vanilla loans	30.6	31.7	*51.9%*	*15,174*
French public sector loans	**42.1**	**42.3**	**69.4%**	**17,229**
Cover pool	**62.3**	**61.0**		

* considering the customer in the category with the most structured loan

As of June 30, 2015, outstanding structured loans on the balance sheet of Caisse Française de Financement Local represented EUR 10.6 billion (versus EUR 11.5 billion at the end of 2014).

The most structured loans according to the Gissler categories (3E, 4E and 5E as well as loans which the charter does not allow to be marketed) may be qualified as “sensitive”. They are closely monitored and specific measures are taken to reduce their sensitivity. They benefit from support from funds set up by the French government in order to allow customers to convert sensitive loans into fixed rate vanilla loans. These loans represented a total of EUR 5.8 billion at the end of June 2015 compared with EUR 6.3 billion at the end of 2014. The EUR 0.5 billion decrease in these outstanding loans was due for EUR 0.4 billion to proactive efforts to reduce the sensitivity of the outstanding amount and for EUR 0.1 billion to the contractual amortization of these loans.

The most sensitive structured loans (loans not in the charter) represented 5% of the cover pool and 362 customers. In particular, this portfolio included loans indexed on the EUR/CHF exchange rate. These loans concern the following customer categories.

Sensitive loans not in the charter	Amounts EUR billions	Number of customers
Municipalities with fewer than 10,000 inhabitants	0.2	73
Municipalities with more than 10,000 inhabitants and groups of municipalities	1.7	206
Regions and departments	0.5	20
Public hospitals	0.5	48
Other customers	0.1	15
TOTAL	**3.0**	**362**

3. Reduction in loan sensitivity

The policy implemented by SFIL since 2013 to reduce the sensitivity of outstanding loans on the balance sheet of its subsidiary Caisse Française de Financement Local was carried out in accordance with the schemas validated by the Supervisory Board. The method used consists in reducing the sensitivity of loans definitively by converting them into fixed rate loans. To this end, Caisse Française de Financement Local may allocate if necessary new liquidity at cost for loans refinancing the early reimbursement indemnities and for new loans granted at market price.

These measures made it possible to eliminate entirely the sensitivity of outstanding loans to 251 customers between SFIL

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

creation date and June 30, 2015.

The two support funds created by the government and operational since the last quarter of 2014 should accelerate this process of reduction in loan sensitivity in 2015 by helping local governments and public hospitals to finance the cost of disengaging themselves from their structured loans.

The capacity for intervention of these funds was massively increased in the first quarter of 2015 in order to cover the additional cost linked to the appreciation of the Swiss franc so that the early reimbursement penalties for which the concerned customers were still responsible, after assistance from the funds, would not be greater than it would have been without the decision of the Swiss National Bank in January 2015 to put an end to the floor rate of exchange its national currency, the Swiss franc (CHF). The fund earmarked for local governments now totals EUR 3.0 billion and the one for pubic hospitals EUR 400 million. Likewise, the ceiling of the assistance made available (initially set at 45% of indemnities due) will be significantly raised for the most fragile governments.

5. Debt benefiting from the legal privilege as of June 30, 2015

As of June 2015, debt benefiting from the legal privilege is composed of *obligations foncières* and registered covered bonds issued by Caisse Française de Financement Local as well as of cash collateral received from counterparties in derivative transactions.

EUR billions	12/31/2014	6/30/2015
Cash collateral received	2.5	1.4
Obligations foncières and registered covered bonds	52.2	52.5
Total	**54.7**	**53.9**

5.1 – CASH COLLATERAL IN 2015

Cash collateral received by Caisse Française de Financement Local decreased compared with the situation at the end of December 2014. Its level stood at EUR 1.4 billion at the end of June 2015.

5.2 – ISSUES IN 2015

Within the framework of an annual recurrent program totaling EUR 4 billion to EUR 6 billion, the issuance policy of Caisse Française de Financement Local primarily aimed to construct a coherent reference curve in the euro market while ensuring the good performance of its benchmark in the secondary market. The diversification of its funding sources is necessary to attain long maturities that match its needs. This implies an active presence in the market for private placements within the framework of the EMTN program or the issue of registered covered bonds. In the last few years, Caisse Française de Financement Local did not implement its issuance policy in foreign currencies since market conditions were not favorable to such a euro/non-euro arbitrage.

a. New issues in 2015

In the first half of 2015, Caisse Française de Financement Local reported a volume of issues totaling EUR 2.5 billion with very long maturities by enriching its reference curve with a 20 year point and by playing an active role in the segment of private placements.

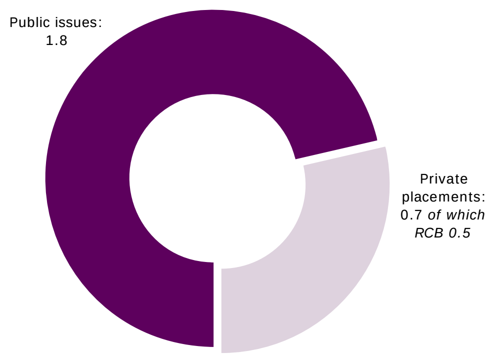
Caisse Française de Financement Local launched issues in the public primary market on two occasions in the first six months of the year:

- in January, for a 20 year issue of EUR 500 million (a benchmark size for this maturity, which is rare in the covered bond market); the outstanding amount was increased to EUR 650 million through a tap realized in May 2015;
- in April, for an 8 year benchmark issue totaling EUR 1.0 billion, which added a new point to CAFFIL's public issue curve, and a tap of the 2019 issue for EUR 150 million.

In addition to these public transactions, Caisse Française de Financement Local was very active in the private placement segment and, in particular, in registered covered bonds (RCB). This allowed the bank to satisfy investors' search for long and very long maturities. Altogether, EUR 0.7 billion were raised in this market segment.

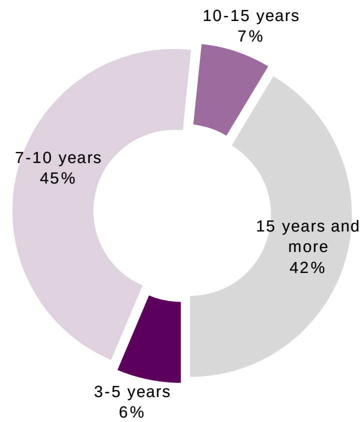
The breakdown of new issues by public/private format and maturity is presented below.

2015 issues by format

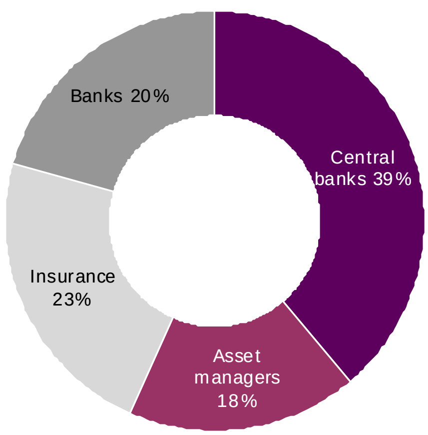


EUR billions

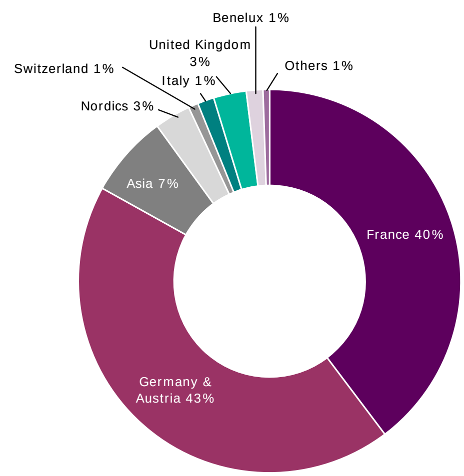
2015 issues by maturity



2015 public issues by investor type



2015 public issues by geographic zone

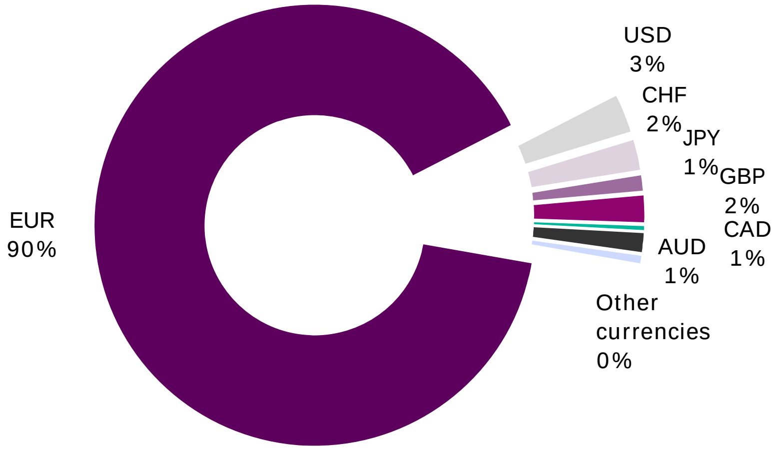


b. Outstanding debt as of June 2015

Outstanding *obligations foncières* and registered covered bonds totaled EUR 52.5 billion in swapped value at the end of June 2015, including the new issues of *obligations foncières* for EUR 2.5 billion and after the amortization of issues arriving at maturity for EUR 2.2 billion.

EUR billions - swapped value	2014	H1 2015
Beginning of the year	**52.8**	**52.2**
Issues	4.0	2.5
Amortizations	-3.7	-2.2
Buyback	-0.9	0.0
End of period	**52.2**	**52.5**

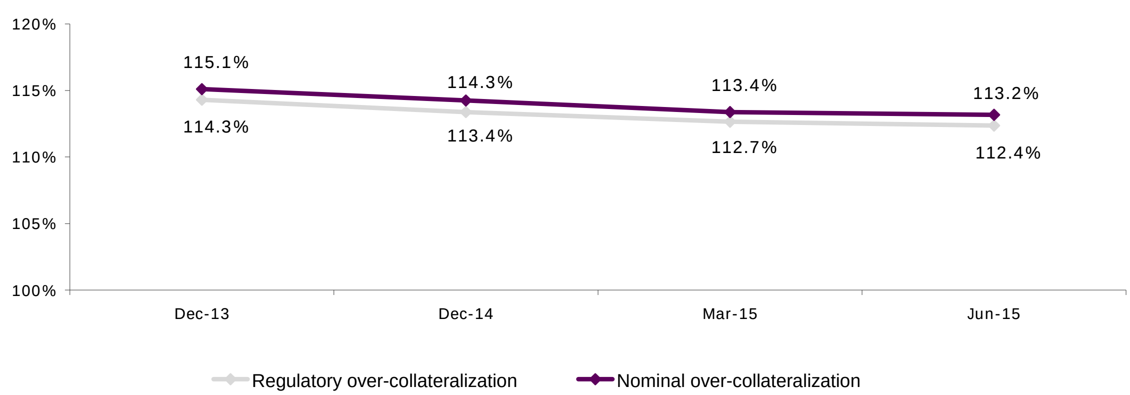
As of June 30, 2015, issues can be broken down by currency as follows.



6. Changes in the over-collateralization ratio in 2015

The over-collateralization (OC) ratio, which is calculated on the basis of regulatory standards governing *sociétés de crédit foncier*, is the ratio between the assets and the resources benefiting from the legal privilege. The legal minimum threshold is set at 105% and corresponds to the minimum level that Caisse Française de Financement Local had committed to maintain since its creation.

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

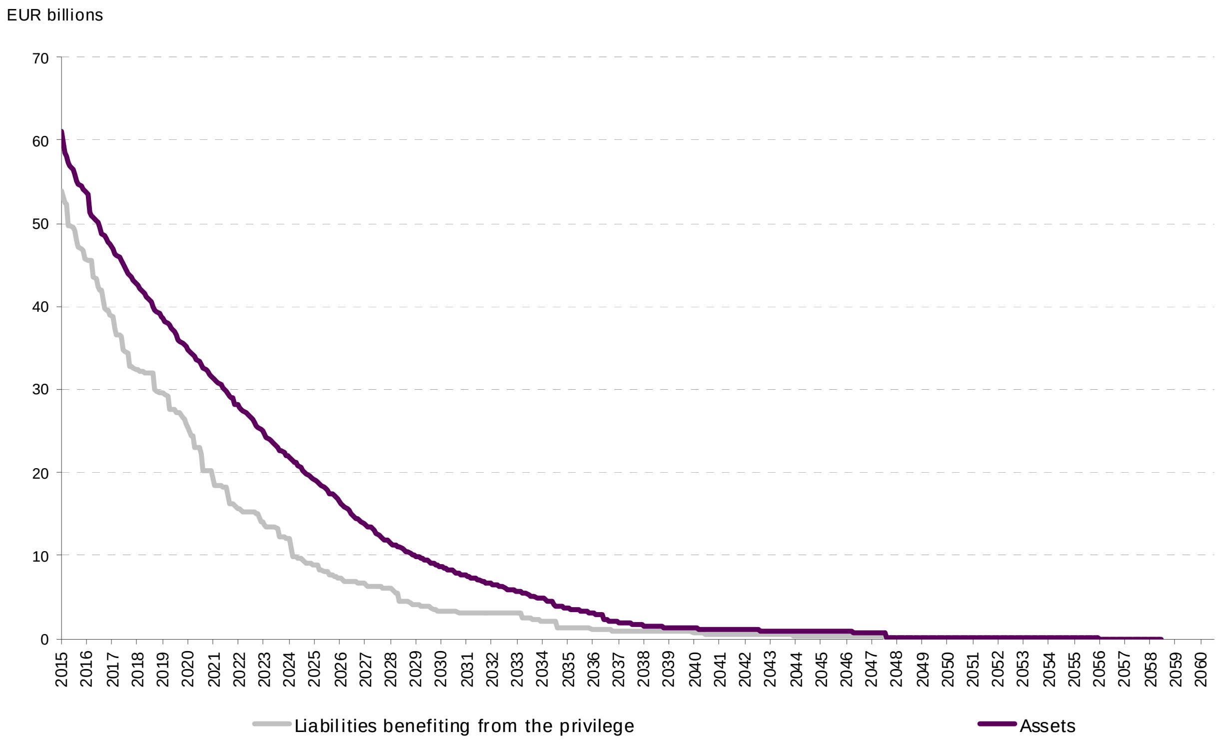


Regulatory over-collateralization may differ from nominal over-collateralization. In fact, it is calculated on the basis of the rules determined by the Autorité de contrôle prudentiel et de résolution (ACPR). In particular, these rules require different weighting levels according to the assets. The assets in Caisse Française de Financement Local's cover pool are generally weighted at 100%.

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

Over–collateralization may also be illustrated by the gap between the amortization curves of the assets and issues benefiting from the privilege. The following graph presents the curves as of June 30, 2015.

Amortization of assets and liabilities as of June 30, 2015



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

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

Such financing is generally obtained through the parent company. At the end of June 2015, the funds borrowed from SFIL within the framework of the financing agreement were made up of different loans with maturities that could initially run from one day to seven years borrowed with an Euribor or Eonia index.

Temporary financing may also be obtained from the Banque de France. These funds do not benefit from the privilege stipulated in the law on *sociétés de crédit foncier*, but they are guaranteed by loans and securities assigned for this purpose in the account of Caisse Française de Financement Local at the central bank. Caisse Française de Financement Local had already used such financing in the past. In 2014 and 2015, Caisse Française de Financement Local did not contract any loans from the Banque de France, except when it used small sums to test the access procedure for such funding. Neither did it contract any loans from credit institutions other than its parent company.

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

EUR billions	12/31/2014	3/31/2015
Parent company	6.2	5.6
Banque de France	-	-
Total	**6.2**	**5.6**

The decrease in debt not benefiting from the legal privilege was primarily the result of the change in the level of over-collateralization during the first half of 2015.

8. Risk management

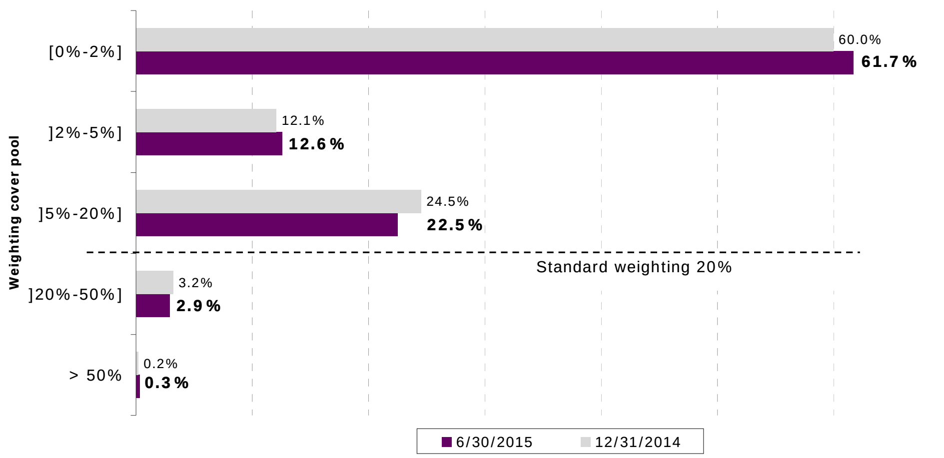
8.1 – CREDIT RISK

Credit risk represents the potential loss that Caisse Française de Financement Local may incur as the result of the decline in a counterparty's solvency.

a. Breakdown of exposures according to risk weighting

The quality of Caisse Française de Financement Local's portfolio can also be seen in the weighting of its assets within the framework of the calculation of the solvency ratio.
The Company chose the advanced method within the framework of the calculation of the solvency ratio and capital adequacy. Banking regulators authorized the Company and its parent company to use the advanced internal models developed for the calculation and reporting of capital requirements for credit risk. This enables Caisse Française de Financement Local to present an analysis of its exposures as of June 30, 2015, broken down by risk weighting, such as used for the calculation of capital requirements for credit risk. The calculation of such weighting in particular combines the probability of default (PD) and loss given default (LGD) of the counterparty.

Risk weighting of Caisse Française de Financement Local's portfolio as of June 30, 2015



This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio, since only 3.2% of the portfolio has a weighting of more than 20%. The average weighting of the cover pool risk is 6.6%, versus 20% for European local governments in the Basel II / III standard model.

Combined with its high level of regulatory equity, Caisse Française de Financement Local's credit quality enabled the Company to post a phased-in Basel III solvency ratio of 23.3% as of June 30, 2015, compared with 23.3% as of December 31, 2014. The phased-in Common Equity Tier One in Basel III was 22.6% as of June 30, 2015.

b. Concentration by customer

The risk of concentration refers to exposure to a limited number of counterparties. Diversification can make it possible to avoid this problem, and it is a risk management tool to protect from any loss in capital.

The table below presents the concentration on large counterparty portfolios (amounts and percentages of the portfolios). It confirms the great diversity of Caisse Française de Financement Local's portfolio of assets.

EUR millions	% cover pool	Top 5	Top 20	Top 100
Sovereigns	2%	1,178	1,178	1,178
		100%	100%	100%
French SPE	77%	2,352	5,356	12,315
		5.5%	12.5%	28.7%
Non French SPE	21%	2,951	6,473	9,937
		25.5%	56.0%	86.0%
Total	100%	3,069	8,942	20,911
		5.0%	14.7%	34.3%

As of June 30, 2015, in all categories, the 20 largest exposures (excluding replacement assets and cash investments) represented 14.7% of the global cover pool (compared with 14.4% as of December 31, 2014). The largest exposure accounted for only 1.4% of the cover pool and the twentieth exposure 0.4%.

c. Non-performing loans, litigious loans, provisions

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

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

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

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

Non-performing loans & litigious loans (number of customers)	**12/31/2014**		**6/30/2015**	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
Beginning of the year	47	53	90	52
New	53	13	20	10
Outgoing	10	14	31	18
End of the year	**90**	**52**	**79**	**44**

In 2015, four litigious files were resolved after the payment of the sums due and 14 litigious files were reclassified as non-performing.

At the end of June 2015, non-performing and litigious loans totaled EUR 657 million, approximately 1.1% of the total cover pool (EUR 61 billion). These commitments can be broken down as follows.

- EUR 590 million of commitments qualified as non-performing, corresponding to loans to customers with total unpaid amounts of EUR 53 million (of which EUR 47 millions were unpaid on structured loans);
- EUR 67 million of commitments qualified as litigious, corresponding to unpaid interest on structured loans that are subject to litigation.

Non-performing loans & litigious loans EUR millions	**12/31/2014**		**6/30/2015**	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
FRANCE				
State	-	-	-	-
Regions	-	-	-	-
Departments	-	4	-	5
Groups of municipalities	85	30	131	33
Municipalities	189	31	299	27
Public sector entities	122	2	160	2
Total	**396**	**67**	**590**	**67**

The total amount of provisions at the end of June 2015 is presented in the following table.

EUR millions	12/31/2014	6/30/2015
Specific impairment	47	75
Collective impairment	63	65
Total	**110**	**139**

Specific provisions for non-performing loans increased by EUR 28 million in the first half of 2015. This rise corresponds, for an amount of EUR +32 million, to the mandatory impairment of unpaid or accrued interest on non-performing loans, the outstanding amount of which increased, and for EUR -4 million to the reversal of provisions on non-performing loans outstanding.

The review of the portfolio and its associated risks entailed an increase of collective impairment in the amount of EUR 2 million.

The provisions were determined by taking into account the comprehensive set of measures decided by the French government to provide a solution to the problem of structured loans. The hypotheses adopted are presented at the end of section 2 of this management report.

At the end of June 2015, the cost of risk represented a gain of EUR 2 million, reflecting a reversal on specific impairment attenuated by a rise in collective impairment.

d. Bank counterparty risk

Counterparty risk refers to the risk of loss on an exposure linked to the default of a counterparty. It is naturally in function of the amount of the exposure, of the probability of default on the part of the counterparty, and the portion of the loan that cannot be recovered in the event of default.

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

- loans to SFIL, the parent company of Caisse Française de Financement Local, which are considered as replacement assets in the amount of EUR 2.6 billion (cf. 4.2.b);
- bank account balances in euros and other currencies, representing EUR 13 million, excluding cash deposited on the Banque de France account;
- its derivative contracts, entered into within the framework of its management of interest rate and foreign exchange risks.

All of Caisse Française de Financement Local's derivative operations are conducted within the framework of standard ISDA or FBF (Fédération bancaire française) contracts with major international banks. These contracts have particular characteristics, since they must meet the standards set by rating agencies for *sociétés de crédit foncier* (and other issuers of covered bonds). These interest rate and currency swaps all benefit from the same legal privilege as *obligations foncières*. For this reason, Caisse Française de Financement Local does not pay its derivative counterparties any collateral, whereas they have to pay Caisse Française de Financement Local unless they benefit from the agencies' highest short-term rating.

At the end of June 2015, Caisse Française de Financement Local was exposed (positive fair value of the swaps) on 12 banking counterparties. Eleven of these paid collateral for EUR 1.4 billion, offsetting total exposure, and one paid no collateral because of its very good short-term rating. This counterparty represented an exposure of less than EUR 0.01 billion.
All derivative exposures as of June 30, 2015, are listed below.

EUR billions	ST notional amounts	LT notional amounts	% LT notional amounts	Mark to Market		Collateral received	Number of counterparties
				-	+		
SFIL	0.3	22.3	22.6%	(3.0)	-	-	1
Other counterparties	53.4	76.1	77.4%	(4.9)	1.4	1.4	29
Total	**53.7**	**98.3**	**100.0%**	**(8.0)**	**1.4**	**1.4**	**30**

The swaps negotiated with external counterparties represented 77.4% of outstanding long-term swaps and those signed with SFIL 22.6%. Long-term swaps signed with the five largest counterparties represented a total of 35.0% of notional amounts.

Short-term swaps (Eonia) were principally contracted with external counterparties (99.4%).

8.2 – OTHER BALANCE SHEET RISKS

a. Interest rate risk

1. Definition

Interest rate risk corresponds to the risk of financial loss that may occur in the case of interest rate fluctuations in the market that would lead to a loss in value of certain items on the bank's balance sheet (or off-balance sheet).

Three types of interest rate risk can be distinguished:

- the risk related to long-term interest rates, which results from the gap in volume and maturity between the fixed rate assets and liabilities, the initial maturity of which is greater than a year;
- the basis risk, which results from the gap that may exist in the backing of assets and liabilities with a floating rate in the same currency but with different tenors;
- the fixed rate risk, which results from the variation in the rate of an asset or a liability with a floating interest rate pre-fixed over the period in which the adjustable index is fixed.

These risks are generally hedged using derivative instruments.

2. Hedging strategy

The policy applied by Caisse Française de Financement Local makes it possible to be protected from interest rate risk because any acquisition of assets or issue of liabilities is systematically hedged in a variable rate from the beginning.
There are two steps in the hedging process of interest rate risk.

- In the first stage, all the assets and the liabilities benefiting from the privilege which do not naturally have a floating rate are hedged against Euribor until maturity as soon as they are recorded on the balance sheet. In practice, acquisitions of loan portfolios (in which the unit amount is generally small) are usually macro-hedged whereas loans granted individually or bond issues are micro-hedged. Hedging of assets is more often obtained in using interest rate swaps, but the same effect may be obtained whenever possible by the cancelation of liability swaps.
- In the second step, Euribor lending and borrowing flows (naturally or after hedges) are swapped against Eonia over a sliding period of two years in order to eliminate the basis risk generated by differences in the tenor (Eurbor 1, 3, 6 or 12 months) and the fixing risk due to refixing dates of reference indices that differ for the assets and the liabilities.

Non-privileged debt is not concerned by these hedging operations. In fact, debt contracted by Caisse Française de Financement Local with its shareholder to finance over-collateralization is borrowed either directly with a monetary index and does not need to be swapped, or with a Euribor index and thus finances assets also indexed on Euribor. Short-term debt owed the Banque de France with a fixed rate (if any) is not hedged, but also finances fixed rate assets.

3. Limits on interest rate risk

The sensitivity of residual positions that remain after the first step and after the second level of hedges is monitored carefully and kept within strict limits.

Limits on interest rate risk were calibrated in order to guarantee, with 99% probability, a maximum one year loss of less than EUR 80 million in the event of a change in interest rates of 200 basis point (bp), equivalent to a maximum loss set at EUR 40 million (3% of equity) for a fluctuation in interest rates of 100 bp. This calibration was based on a directional shift in rates corresponding to a 1% probability at one year observed over the period 2005-2013, which was approximately 200 bp.

A set of three limits makes it possible to have a grasp of the slope risk, as well as the directional risk. These limits control the sensitivity of the fixed rate risk and together guarantee the maximum losses mentioned above. The limits are as follows.

Limiting directional risk

The limit in total sensitivity for a shift in rates of 100 bp of all points in the yield curve is set at EUR 25 million. The measurement of sensitivity at the end of each quarter is presented below.

Directional risk
Total sensitivity

EUR millions, end of quarter	Limit	3Q 2014	4Q 2014	1Q 2015	2Q 2015
Sensitivity	25.0	0.3	0.6	4.9	10.5

This measurement of total sensitivity incorporates premiums for acquisition and rescheduling of loans.

Limiting the slope risk

The slope risk benefits from specific limits which are applied to four segments of maturity on the yield curve (short, medium, long and very long).

- *Limiting the slope risk between two points of maturity distant from one another on the curve:* sensitivity to a shift in rates of 100 bp is limited to EUR 10 million by segment of maturity. Measurement of sensitivity at the end of each quarter is presented below.

Risk of slope between two distant points on the rate curve
Sum of sensitivities

EUR millions, end of quarter	Limit	3Q 2014	4Q 2014	1Q 2015	2Q 2015
Short term	10.0	-0.5	-1.6	0.3	2.0
Medium term	10.0	2.4	3.8	5.2	5.6
Long term	10.0	5.3	6.4	6.8	6.3
Very long term	10.0	-6.8	-8.0	-7.3	-3.4

- *Limiting the slope risk between two points of maturity close to one another on the curve:* in each segment, the sum in absolute value of the sensitivities of points on the yield curve (grouped in several points of reference) is limited to EUR 20 million per segment. Measurement of sensitivity at the end of each quarter is presented below.

Risk of slope between two close points on the rate curve
Sum of sensitivities in absolute value

EUR millions, end of quarter	Limit	3Q 2014	4Q 2014	1Q 2015	2Q 2015
Short term	**20.0**	**2.3**	**4.2**	**1.0**	**7.6**
Medium term	**20.0**	**5.1**	**6.3**	**7.8**	**13.4**
Long term	**20.0**	**5.1**	**4.7**	**4.1**	**8.9**
Very long term	**20.0**	**6.8**	**8.0**	**7.3**	**7.6**

4. Outstanding derivatives

The strategies employed to hedge interest rate risk and foreign exchange risk are illustrated by notional outstanding swaps analyzed in the following table, broken down between external counterparties and an internal counterparty (SFIL), as of June 30, 2015.

Breakdown of outstanding swaps	**Notional *** (EUR billions)	**SFIL (%)**	**Other counterparties (%)**
Euribor against Eonia			
Macro-hedges	53.7	0.6%	99.4%
Total short-term swaps	**53.7**	**0.6%**	**99.4%**
Fixed rate swaps against Euribor			
Micro-hedges on *obligations foncières*	46.6	17.3%	82.7%
Micro-hedges on loans and debt securities	24.3	12.7%	87.3%
Macro-hedges on loans	18.9	36.5%	63.5%
Subtotal	**89.9**	**20.1%**	**79.9%**
Currency swaps			
Micro-hedges on *obligations foncières*	5.3	50.0%	50.0%
Micro-hedges on loans	2.2	45.8%	54.2%
Micro-hedges on debt securities	1.0	56.1%	43.9%
Subtotal	**8.5**	**49.6%**	**50.4%**
Total long-term swaps	**98.3**	**22.6%**	**77.4%**

** Absolute value*

b. Foreign exchange risk

The foreign exchange risk is defined as the risk of volatility in result, be it observed or latent, linked to a change in the exchange rate of currencies vis-à-vis a reference currency. The reference currency of Caisse Française de Financement Local is the euro. The foreign exchange risk reflects a change in the value of assets and liabilities denominated in a currency other than the euro by reason of fluctuations of this same currency vis-à-vis the euro.
Its risk management policy consists in not taking any foreign exchange risk: all issues and assets denominated in foreign currencies are hedged as soon as they are recognized on the balance sheet and until their final due date, by a cross-currency swap against the euro. Floating rate exposures generated by this management policy are incorporated into interest rate risk management.

c. Transformation risk

The transformation risk arises from the fact that the assets are financed in part by resources with a different maturity.

1. Duration gap

The difference in maturity or amortization profile between the assets and the liabilities may create a liquidity risk.
With the interest rate risk under control as presented above, Caisse Française de Financement Local manages the congruence of maturities between the assets and the liabilities by maintaining the duration gap between the assets and the liabilities within a maximum limit of three years.
From the point of view of the method, since both the assets and the resources benefiting from the privilege have a floating rate after swaps, Caisse Française de Financement Local's balance sheet appears to indicate that there is a single loan vis-à-vis a single borrowing. Duration (D) is calculated as follows: "sum of the periods weighted by the cash flows and discounted at the interest rate of the zero coupon curve for period (t) / sum of the cash flows discounted at the interest rate of the zero coupon curve for period (t)".

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

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

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

Duration in years	**6/30/2014**	**9/30/2014**	**12/31/2014**	**3/31/2015**	**6/30/2015**
Cover pool	7.21	7.05	7.24	7.36	**7.08**
Privileged liabilities	5.26	5.12	5.40	5.61	**5.40**
Gap in asset-liability duration	**1.95**	**1.93**	**1.84**	**1.75**	**1.68**
Duration gap limit	*3*	*3*	*3*	*3*	*3*

2. Weighted average life gap

The gap in the weighted average life changes less than the duration over the same period, for the rise in the duration gap is partly attributable to movements in the interest rate curve.
The gap in the weighted average life of the cover pool and the liabilities benefiting from the legal privilege is presented below.

Weighted average life (in years)	**6/30/2014**	**9/30/2014**	**12/31/2014**	**3/31/2015**	**6/30/2015**
Cover pool	8.17	7.86	7.84	7.71	**7.81**
Privileged liabilities	5.65	5.43	5.71	5.83	**5.86**
Gap in asset-liability weighted average life	**2.52**	**2.43**	**2.13**	**1.88**	**1.95**

3. Regulatory limit

The regulatory changes in May 2014 imposed a limit of one and a half years on the weighted average life gap between the cover pool, considered on the basis of the minimum amount required to satisfy the legal over-collateralization ratio of 105% and the resources benefiting from the privilege. This limit must be respected as of December 31, 2015. Caisse Française de Financement Local already respects the new limit.

d. Liquidity risk

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

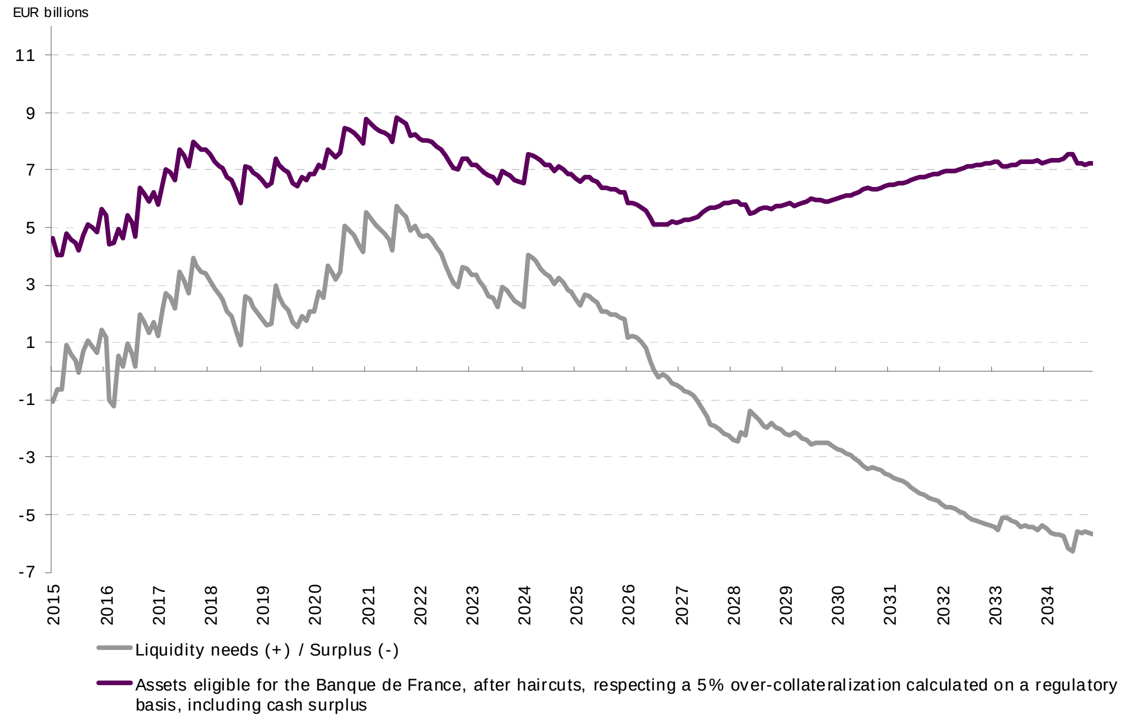
By limiting the duration gap between assets and resources to three years, Caisse Française de Financement Local maintains control over its future needs for liquidity.

To meet its liquidity needs, Caisse Française de Financement Local makes use of the following resources:
- first of all, the cash flows from the amortization of the assets in the cover pool or from the issue of new *obligations foncières* to replace those that arrive at maturity and the reimbursement of which creates the need for liquidity;
- funds granted by its parent company. Caisse Française de Financement Local has at its disposal in any case the support of its parent company formalized in a “declaration of support” (the full text is incorporated into the EMTN program and Caisse Française de Financement Local’s annual financial report). This debt is contracted with SFIL through financing agreements between Caisse Française de Financement Local and its parent company.
- pledges of assets with the central bank or with other banks through repurchase agreements.

Because of the nature of the assets that make up its cover pool, Caisse Française de Financement Local has a large number of assets that are directly eligible for refinancing by the central bank, so that its need for cash can be easily covered.
Since it is a credit institution, Caisse Française de Financement Local can post these eligible assets:
  - either by using, in its own name, the refinancing possibilities offered by the European Central Bank through the Banque de France;
  - or by using interbank financing in the form of repurchase agreements.

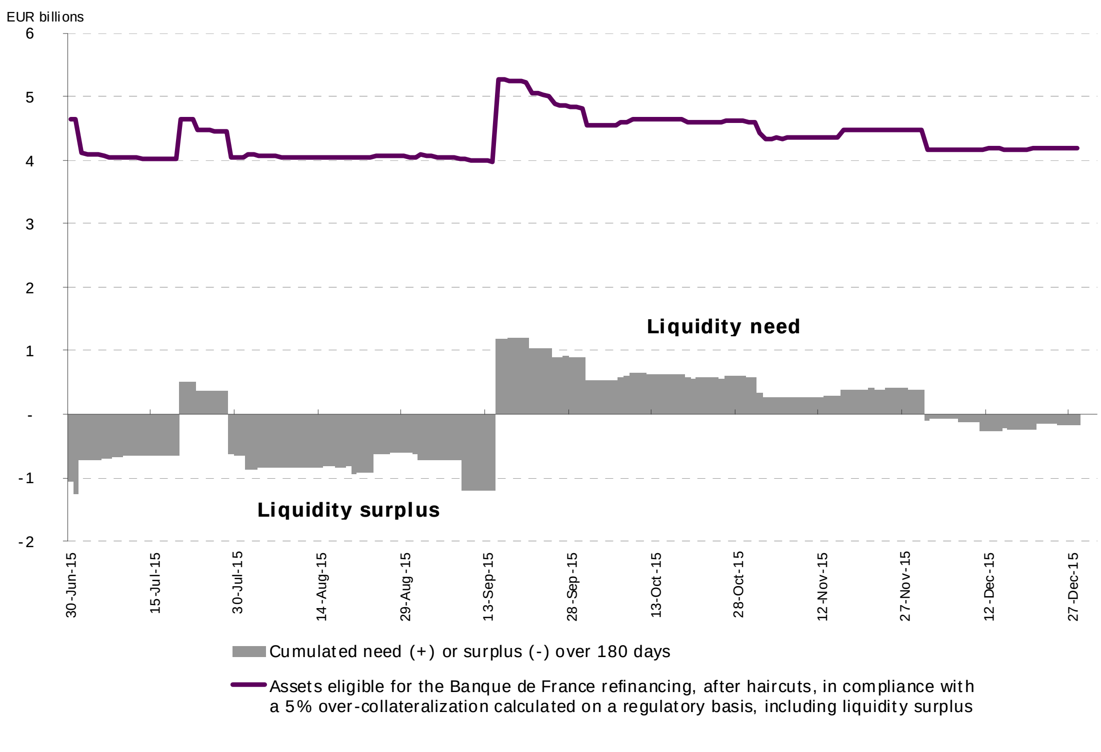
Caisse Française de Financement Local has its own autonomous resources that enable it to cover its temporary liquidity needs, even in the event of the default of its parent company, since any legal proceedings engaged for the bankruptcy or liquidation of its parent company cannot be extended to Caisse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

The maximum cumulated liquidity that Caisse Française de Financement Local might need in the future, in a run-off situation and if it was not able to issue new *obligations foncières*, is less than the maximum financing already occasionally obtained from Banque de France in the past. This need is also less than Caisse Française de Financement Local’s capacity to obtain refinancing from the Banque de France, measured by the amount of eligible assets after haircuts that would be available respecting the level of over-collateralization required by the regulation.
The forecast of cumulative liquidity needs, and eligible assets to cover those needs as defined above, is presented in the following graph.



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

- the liquidity ratio for one month and the Liquidity Coverage Ratio (LCR) (regulatory reporting to the Autorité de contrôle prudentiel et de résolution);
- the duration gap between the assets and the resources benefiting from the legal privilege (limited to three years), which is published quarterly, and the new regulatory limit on weighted average life gap;
- projected cash needs over the next 180 days: Caisse Française de Financement Local ensures that at any time, its cash needs over a period of 180 days are covered by replacement assets and assets eligible for credit operations with the Banque de France. Cash needs are defined as repayments of obligations foncières and RCB, of debt that does not benefit from the legal privilege and forecasts of repayment of the cash collateral received, after deduction of cash flows from amortization of assets. This forecast is published quarterly in the Asset Quality Report and is presented below.



As of June 30, 2015, the liquidity situation for the next 180 days showed a surplus in liquidity most of the time. The movements observed correspond to cash flows from amortization of *obligations foncières*, cash collateral, non-privileged liabilities and assets. However, a liquidity need appeared principally as of September 15, 2015, rising to a high of EUR 1.2 billion. Caisse Française de Financement Local will cover this need *via* the issue new covered bonds, the use of funds lent by SFIL, or the negotiation of repurchase agreements with banks or with the central bank.

8.3. MANAGEMENT OF OTHER RISKS

a. Legal risks

Legal risk is the risk of any litigation with a counterparty resulting from any misunderstanding, lack or insufficiency that may be attributed to the Company in the exercise of its activities.

Caisse Française de Financement Local is involved in no litigation or suit other than those described in the quarter's highlights (2.3).

b. Operating risks and permanent control

Operational risk is the risk of direct or indirect loss due to an inadequacy or lack in the bank's procedures (absent or incomplete analysis or control, procedures not secured), in its staff (errors, bad intention and fraud), in internal systems (computer crash, etc.) or external risks (flood, fire, etc.).

Caisse Française de Financement Local delegates to SFIL the functions of internal control, within the framework of a management agreement. The management processes applied to operational risks and permanent control are described in the section of the 2014 annual financial report entitled Supplemental information – Report of the Chairman of the Supervisory Board.

c. Security and means of payment

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

9. Income for the half-year period

9.1 – INCOME IN IFRS

Caisse Française de Financement Local publishes its financial statements according to IFRS, as adopted by the European Commission in order to allow for a better understanding and a better comparability of its financial statements by international investors.

Since the year 2013, the application of IFRS 13 to the hedging of the balance sheet items by derivatives produces very significant effects that make it difficult to compare net banking income from one period to another.

The income statement for the period ended June 30, 2015 is presented in a synthetic form as follows.

EUR millions - **IFRS**	**1H 2014**	**2014**	**1H 2015**	**Var 1H 2015 / 1H 2014**
Interest margin	41	103	31	(24)%
Net commissions	(16)	(28)	(14)	
Net result of assets at fair value	(30)	(14)	(15)	
Net result of financial assets available for sale	4	8	2	
Other income and expense	0	-	(0)	
NET BANKING INCOME	**(1)**	**69**	**4**	**(502)%**
General operating expenses	(40)	(90)	(52)	
Taxes	(2)	(3)	(1)	
OPERATING INCOME BEFORE COST OF RISK	**(43)**	**(24)**	**(49)**	**14%**
Cost of risk	(46)	(18)	2	
PRE-TAX INCOME	**(89)**	**(42)**	**(47)**	**(47)%**
Income tax	31	13	13	
NET INCOME	**(58)**	**(29)**	**(34)**	**(41)%**

Income in 2014 and first half of 2015 was strongly influenced by two exceptional factors that should be mentioned in this analysis:

- adjustments in fair value concerning interest rate risk hedges: the application of these changes in accounting standards or methods is a source of volatility in net banking income. The impact was negative in 2014 (EUR -40 million) and negative in 2015 (EUR -18 million);
- the contribution to the support funds created by the French State to solve the problem of sensitive structured loans. This contribution was totally covered by a provision and had an impact on the cost of risk of EUR -18 million (public hospital fund) in the first half of 2014.

Corrected for these items, half year net banking income went from EUR +39 million in 2014 to EUR +22 million in 2015, and half year net income from EUR -20 million to EUR -22 million.

a. Net banking income

Net banking income as of June 30, 2015, amounted to EUR +4 million from EUR -1 million for the same period in 2014. This trend was due to variations in the Interest margin as well as in the Net result from assets at fair value.

- Net result from assets at fair value

Whereas this item previously corresponded to the inefficiency of interest risk hedges (absent or very low given the strict hedging rules applied by the Company), since 2013 it includes the impact of the Credit Value Adjustment/Debit Value Adjustment (CVA / DVA) introduced by the application of IFRS 13. The effect on the net banking income of the application of this standard in first half of 2014 and of 2015 was, respectively, EUR -27 million and EUR -19 million for CVA/DVA.

Two other causes of accounting inefficiency in interest rate hedges exist since the implementation of the following changes in method in the second half of 2013:

• valuation of collateralized derivatives: to account for developments in French banks' best practices, the Company chose a valuation against Eonia for derivatives for which it receives cash collateral while the other derivatives remain valued against Euribor. This change in the valuation of hedging derivatives, whereas the valuation of hedged items is not modified, creates inefficiency in hedging relations. The inefficiency observed for that reason in net banking income of the first half of 2014 and of 2015 totaled respectively EUR -4 million and EUR -8 million.

• evaluation of the hedged risk of certain assets and liabilities that are swapped against an Euribor index different from that in the standard curve that serves to value instruments on the balance sheet. The value of the derivative and that of the hedged item follow independent trends, thereby creating hedging inefficiency, accounting for a loss of EUR -2 million in the first half of 2015 compared with EUR -9 million in the first half of 2014.

In addition, a second effect linked to the choice of the amortization curve for the hedged risk was recognized in the first half of 2015 in the amount of EUR 12.3 million. It materializes changes in the basis for six-month Euribor versus three-month Euribor applied to the valuation of the risks declared as hedged against six-month Euribor.

- Interest margin

Corrected for the adjustments in fair value observed in the first half of 2014 and of 2015, half year net banking income was down EUR 17 million, from EUR 39 million to EUR 22 million. This decline was mainly due to a decrease in the Interest margin, which corresponds to the difference between income from the assets and the cost of the liabilities (with comprehensive hedging of interest rate and foreign exchange risks). In particular, interest income on assets declined as a result of a rise in the number of customers classified in the non-performing loan category, for which it is not allowed to account for accrued interest not yet due

- Other changes

The item Net result of financial assets available for sale mainly represents the results on early reimbursements of loans or issues, and if such is the case on sales of portfolio securities. There was a slight decline (EUR -2 million) compared with the first half of 2014. This effect was compensated by the decrease in net commissions paid, which mainly correspond to invoices presented by SFIL within the framework of its management agreement, as specified in article L.513-15 of the Monetary and Financial Code.

b. Other items

Most of the General operating expenses are also made up of billing by the parent company for the operational management of the Company in the framework of the article L.513-15 of the Monetary and Financial Code.

The increase of the general operating expenses corresponds to :

- the progressive constitution of SFIL teams in charge of the company's management in 2014 and 2015, as well as the end of synergies with the previous servicer ;
- the accounting, for the first time, for the contribution to the European single resolution fund.

The Cost of risk totaled EUR +2 million as of June 30, 2015, reflecting a decrease in specific provisions attenuated by an increase in statistical provisions. The change observed compared with the first half of 2014 (cost of risk EUR -46 million) can be explained by accounting for the voluntary contributions of Caisse Française de Financement Local to the Hospitals support funds in the amount of EUR 18 million in 2014 and by an effort to bolster specific and collective provisions in the first half of 2014 for EUR 28 million (cf. 8.1.c Non-performing loans, litigious loans, provisions).

Net income as of June 30, 2015, totaled EUR -34 million in 2015 as compared with EUR -58 million for the same period in 2014. Corrected for adjustments in fair value and extraordinary contributions to support funds, net income went from EUR -20 million in the first half of 2014 to EUR -22 million for the same period in 2015.

9.2 – INCOME IN FRENCH GAAP

Net income for the first half of 2015 is presented below in a synthetic manner.

EUR millions - French GAAP	1H 2014	2014	1H 2015	Var 1H 2015 / 1H 2014
Interest margin	41	158	82	100%
Net commissions	(16)	(28)	(14)	
Provisions and income on trading portfolio	-	-	-	
Provisions and income on securities	(0)	(2)	9	
Other income and expense	-	-	-	
NET BANKING INCOME	**25**	**128**	**77**	**209%**
General operating expenses	(40)	(90)	(52)	
Taxes	(2)	(3)	(1)	
OPERATING INCOME BEFORE COST OF RISK	**(17)**	**35**	**24**	**(240)%**
Cost of risk	(46)	(18)	2	
OPERATING INCOME	**(63)**	**17**	**26**	**(141)%**
Income (loss) on fixed assets	-	-	-	
Income tax	-	(9)	(3)	
Regulated provision on long- and medium- term loans	-	-	-	
NET INCOME	**(63)**	**8**	**23**	**(136)%**

Net banking income increased by 209%, up EUR 52 million, as compared with the same period in 2014, increasing from EUR 25 million to EUR 77 million.

This trend was mainly due to the item Interest margin, which reported a change of EUR +41 million and stood at EUR 82 million for the first half of 2015. Due to their specific accounting treatment in French Gaap (see below), payments received for the cancellation of derivatives explain most of the change in the margin.

The Interest margin corresponds to the difference between income from the assets and the cost of the liabilities (including the effect of comprehensive hedging of interest rate and foreign exchange risks). The Interest margin varies differently when it is presented in IFRS (economic presentation) or in French GAAP (tax presentation). The way debt management is accounted for is, in certain cases, asymmetrical in French GAAP (see below), a fact that can make it difficult to interpret the changes, especially the years in which local government debt management (including reduction in loan sensitivity) is very active.

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

Most of the General operating expenses are made up of billing by the parent company for the operational management of the Company in the framework of the article L.513-15 of the Monetary and Financial Code.
The increase of the general operating expenses corresponds to :

- higher amounts invoiced for the servicing, due to the progressive constitution of SFIL teams in 2014 and 2015, as well as the end of synergies with the previous servicer ;
- the accounting for the first time for the contribution to the single resolution fund.

The Cost of risk totaled EUR +2 million as of June 30, 2015, reflecting a decrease in specific provisions attenuated by an increase in statistical provisions. The change observed compared with the first half of 2014 (cost of risk EUR -46 million) can be explained by accounting for the voluntary contributions of Caisse Française de Financement Local to the Hospitals support funds in the amount of EUR 18 million in 2014 and by an effort to bolster specific and collective provisions in the first half of 2014 for EUR 28 million (cf. 8.1.c Non-performing loans, litigious loans, provisions).

As of June 30, 2015, Net income was up from EUR -63 million to EUR +23 million.

10. Outlook for 2015

For the year 2015, Caisse Française de Financement Local plans to issue between EUR 5.0 billion and EUR 6.0 billion of *obligations foncières*, in order to refinance:

- the new loans to the French local public sector, acquired from La Banque Postale or granted directly within operations of sensitivity reduction,
- but also loans to SFIL benefiting from the guarantee of the French State via Coface in the framework of the its new activity of refinancing large export credits.

On May 5, 2015, the European Commission authorized the creation of new public structure to refinance large export credits. The agreement of the European Commission was the final step before the operational launch of the new organization encouraged and announced by the President of the French Republic in early February 2015.

This new mission was entrusted to SFIL, which will refinance credits-buyers contracts insured by Coface and will thus contribute to improve the export competitiveness of companies established in France. The objective is to raise funds on international financial markets for amounts and maturities that fit the refinancing needs of large export credits and for a price which is comparable to the best French covered bond issuers, by relying on the capacities of SFIL and its subsidiary Caisse Française de Financement Local. Refinancing will be available for all banks that work closely with French exporters for their loans insured by Coface on behalf and with the guarantee of the French State.

The average annual volume of export loans to be refinanced by SFIL is expected to be between EUR 1.5 and 2.5 billion.

SFIL, and its subsidiary Caisse Française de Financement Local, can now start their new mission as a development bank. This will come in addition to the current business of lending to the French local public sector and public hospitals. SFIL and its subsidiary Caisse Française de Financement Local will thus diversify their business without changing their risk profile and strengthening their close link with the French Government.

Bonds and public sector loans as of June 30, 2015

EUR millions	6/30/2015					12/31/2014
	Direct exposure		Indirect exposure			
COUNTRY	Loans	Bonds	Loans	Bonds	Total	Total
France						
State		1,750	180		1,930	1,722
Banque de France	1,079				1,079	519
Regions	1,618	105	278		2,001	2,030
Departments	6,135		243		6,378	6,400
Municipalities	15,385	25	599		16,009	16,110
Groups of municipalities	9,583	101	213		9,897	9,371
Public sector entities :					-	
- health	6,052				6,052	6,102
- social housing	1,601				1,601	1,667
- others	916		4		920	931
Credits institutions	2,559				2,559	3,926
Subtotal	**44,928**	**1,981**	**1,517**	**-**	**48,426**	**48,778**
Germany						
Länder		515		102	617	854
Subtotal		**515**		**102**	**617**	**854**
Austria						
Länder			196		196	197
Subtotal			**196**		**196**	**197**
Belgium						
Regions	23		50		73	87
Communities		50			50	50
Public sector entities	65				65	69
Subtotal	**88**	**50**	**50**		**188**	**206**
Canada						
Provinces		22			22	22
Communities	182				182	192
Public sector entities	129				129	129
Subtotal	**311**	**22**			**333**	**343**
Spain						
Regions		232			232	232
Municipalities	246				246	253
Subtotal	**246**	**232**			**478**	**485**
United States						
Federated States		253			253	253
Subtotal		**253**			**253**	**253**
Finland						
Municipalities	1				1	2
Public sector entities	-				-	41
Subtotal	**1**				**1**	**43**

EUR millions	6/30/2015					12/31/2014
	Direct exposure		Indirect exposure			
COUNTRY	**Loans**	**Bonds**	**Loans**	**Bonds**	**Total**	**Total**
Italy						
State		555			555	576
Regions		2,924			2,924	2,967
Provinces		631			631	653
Municipalities	10	2,156			2,166	2,223
Subtotal	**10**	**6,266**		**-**	**6,276**	**6,419**
Japan						
Municipalities		25			25	25
Subtotal		**25**			**25**	**25**
Portugal						
Municipalities	48				48	51
Public sector entities	7				7	7
Subtotal	**55**				**55**	**58**
United Kingdom						
State				443	443	481
Counties			398		398	398
Districts			28		28	28
Municipalities			1,368		1,368	1,368
Public sector entities			56		56	56
Subtotal			**1,850**	**443**	**2,293**	**2,331**
Sweden						
Municipalities	23		11		34	34
Subtotal	**23**		**11**		**34**	**34**
Switzerland						
Cantons	706		373		1,079	1,424
Municipalities	638				638	765
Public sector entities	90				90	91
Subtotal	**1,434**		**373**		**1,807**	**2,280**
Supranational						
International organizations	38				38	39
Subtotal	**38**				**38**	**39**
TOTAL COVER POOL	**47,134**	**9,344**	**3,997**	**545**	**61,020**	**62,345**

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

2 Financial Statements

Half-year 2015 *(IFRS)*

BALANCE SHEET

Assets as of june 30, 2015

EUR millions	Note	6/30/2014	12/31/2014	6/30/2015
Central banks	*2.1*	461	519	1,079
Financial assets at fair value through profit or loss		3	2	2
Hedging derivatives	*4.1*	7,532	8,361	7,112
Financial assets available for sale	*2.2*	1,656	2,770	2,686
Loans and advances due from banks	*2.3*	6,955	6,752	5,297
Loans and advances to customers	*2.4*	61,849	62,242	62,830
Fair value revaluation of portfolio hedge		2,380	3,178	2,648
Financial assets held to maturity		-	-	-
Current tax assets	*2.5*	-	0	0
Deferred tax assets	*2.5*	106	99	117
Accruals and other assets	*2.6*	2	3	1
TOTAL ASSETS		**80,944**	**83,926**	**81,772**

Liabilities as of june 30, 2015

EUR millions	Note	6/30/2014	12/31/2014	6/30/2015
Central banks	*3.1*	-	-	-
Financial liabilities at fair value through profit or loss		9	0	0
Hedging derivatives	*4.1*	12,009	13,512	13,562
Due to banks	*3.2*	6,199	6,228	5,602
Customer borrowings and deposits		-	-	-
Debt securities	*3.3*	57,057	58,501	58,256
Fair value revaluation of portfolio hedge		1,648	1,786	1,466
Current tax liabilities	*3.4*	2	10	1
Deferred tax liabilities	*3.4*	-	-	-
Accruals and other liabilities	*3.5*	2,690	2,532	1,567
Provisions		-	-	-
Subordinated debt		-	-	-
Equity		**1,330**	**1,357**	**1,318**
Capital and related reserve		1,315	1,315	1,315
Reserves and retained earnings		218	218	189
Gains and losses through equity		(145)	(147)	(152)
Net income		(58)	(29)	(34)
TOTAL LIABILITIES		**80,944**	**83,926**	**81,772**

Income statement

EUR millions	Note	6/30/2014	2014	6/30/2015
Interest income	5.1	2,230	4,453	2,083
Interest expense	5.1	(2,189)	(4,350)	(2,052)
Fee and commission income	5.2	0	0	0
Fee and commission expense	5.2	(16)	(28)	(14)
Net result of financial instruments at fair value though profit or loss	5.3	(30)	(14)	(15)
Net result of financial assets available for sale	5.4	4	8	2
Other income		-	0	0
Other expense		0	(0)	(0)
Net banking income		**(1)**	**69**	**4**
Operating expense	5.5	(42)	(93)	(53)
Gross operating income		**(43)**	**(24)**	**(49)**
Cost of risk	5.6	(46)	(18)	2
Operating income		**(89)**	**(42)**	**(47)**
Net gains (losses) on other assets		-	-	-
Income before tax		**(89)**	**(42)**	**(47)**
Income tax	5.7	31	13	13
NET INCOME		**(58)**	**(29)**	**(34)**
Earnings per share (in EUR)				
- Basic		(4)	(2)	(3)
- Diluted		(4)	(2)	(3)

Net income and unrealized or deferred gains and losses through equity

EUR millions	6/30/2014	2014	6/30/2015
Net income	**(58)**	**(29)**	**(34)**
Items will be reclassified subsequently to profit or	**29**	**27**	**(5)**
Unrealized or deferred gains and losses of financial assets availabl	32	39	(8)
Unrealized or deferred gains and losses of cash flow	12	2	1
Taxes on items reclassified subsequently to profit or loss	(15)	(14)	2
Items will not be reclassified subsequently to	**-**	**-**	**-**
Total of unrealized or deferred gains and losses	**29**	**27**	**(5)**
NET INCOME AND GAINS AND LOSSES THROUGH	**(29)**	**(2)**	**(39)**

Equity

(EUR millions)	Capital and reserves			Unrealized or deferred gains and losses			Total equity
	Share capital, additional paid-in capital	Retained earnings and net income for the period	Total	Net change in fair value of avalaible-for-sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax	Total	
EQUITY AS OF DECEMBER 31, 2014	**1,315**	**189**	**1,504**	**(118)**	**(28)**	**(147)**	**1,357**
Shares issued	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Changes in fair value of available-for-sale financial assets through equity	-	-	-	(6)	-	(6)	(6)
Changes in fair value of derivatives through equity	-	-	-	-	1	1	1
Changes in fair value of available-for-sale financial assets through profit and loss	-	-	-	-	-	-	-
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-
Net income for the period	-	(34)	(34)	-	-	-	(34)
Other movements	-	-	-	-	-	-	-
EQUITY AS OF JUNE 30, 2015	**1,315**	**155**	**1,470**	**(124)**	**(28)**	**(152)**	**1,318**

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

Cash flow statement

EUR millions	6/30/2014	12/31/2014	6/30/2015
NET INCOME BEFORE TAXES	**(89)**	**(42)**	**(47)**
+/- Depreciation and write-downs	62	44	30
+/- Expense/income from investing activities	131	110	117
+/- Expense/income from financing activities	(98)	(88)	(44)
+/- Other non-cash items	(47)	(126)	(34)
= Non-monetary items included in net income before tax	***48***	***(60)***	***69***
+/- Cash from interbank operations	(180)	38	837
+/- Cash from customer operations	652	990	119
+/- Cash from financing assets and liabilities	(427)	(1,448)	(670)
+/- Cash from not financing assets and liabilities	0	0	0
- Income tax paid	(1)	(3)	(15)
= Decrease/(increase) in cash from operating activities	***44***	***(423)***	***271***
CASH FLOW FROM OPERATING ACTIVITIES (A)	**3**	**(525)**	**293**
CASH FLOW FROM INVESTING ACTIVITIES (B)	**-**	**-**	**-**
+/- Cash from or for shareholders	-		
+/- Other cash from financing activities	(1,016)	(430)	266
CASH FLOW FROM FINANCING ACTIVITIES (C)	**(1,016)**	**(430)**	**266**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	**-**	**-**	**-**
Increase/(decrease) in cash equivalents (A + B+ C + D)	**(1,013)**	**(955)**	**559**
Cash flow from operating activities (A)	3	(525)	293
Cash flow from investing activities (B)	-	-	-
Cash flow from financing activities (C)	(1,016)	(430)	266
Effect of changes in exchange rates on cash and cash	-	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1,488**	**1,488**	**533**
Cash and balances with central banks (assets & liabilities)	1,471	1,471	519
Interbank accounts (assets & liabilities) and loans/deposits at	17	17	14
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**475**	**533**	**1,092**
Cash and balances with central banks (assets & liabilities)	461	519	1,079
Interbank accounts (assets & liabilities) and loans/deposits at	14	14	13
CHANGE IN NET CASH	**(1,013)**	**(955)**	**559**

Notes to the IFRS financial statements

1. ACCOUNTING POLICIES AND VALUATION METHODS

1.1. CONTEXT OF PUBLICATION

Caisse Française de Financement Local decided to publish a set of individual financial statements according to IFRS. This publication is voluntary.
The financial statements as of June 30, 2015, were examined by the Executive Board on August 24, 2015.

To prepare its financial statements as of June 30, 2015, Caisse Française de Financement Local took into account the effects of the decision of the Swiss National Bank (SNB) on January 15, 2015, and the hypothesis that the solution announced by the government would in fact rapidly be made available so that the support would remain at least as attractive as before the SNB decision (cf. 1.2.c Litigation related to structured loans).

Caisse Française de Financement Local voluntarily contributed EUR 150 million to the local government support fund and EUR 18 million to the hospital support fund, but it did not book in its 2015 semiannual financial statements any provision for a potential new contribution to the increase of these funds given the uncertain existence of such a contribution, its features, and its hypothetical amount.

1.2. HIGHLIGHTS OF THE PERIOD AND POST-CLOSING EVENTS

a. Situation in the covered bond market

In the first half of 2015, business in the euro-denominated primary covered bond market for benchmark transactions remained dynamic but the volume issued slowed down with EUR 62 billion compared to EUR 67 billion for the same period in 2014. The market was sustained by major technical factors during the first quarter (negative net supply, continuation of the Eurosystem's third covered bonds purchase program (CBPP), and the indirect effects of the Public Sector Purchase Program (PSPP)), but market volatility increased during the second quarter due to doubts about the capacity of Greece to fulfill its commitments,. In this context, covered bond issuance activity slowed down sharply in May and June. with investors focused on short maturity (3 to 5 years), and then shut down up to mid July when Greece found an agreement with its creditors. As a consequence, and despite Eurosystem's buying flows, spreads tightening trend stopped, due to lower investor's appetite and the need to offer increased new issue premium versus secondary market.

In this market context, Caisse Française de Financement Local accentuated its particular positioning by successfully completing its euro denominated yield curve when it launched in January a 20-year benchmark issue for EUR 500 million followed in April by an 8 years jumbo transaction (EUR 1 billion). In addition to these public issues, Caisse Française de Financement Local took advantage of investors demand to increase outstanding amounts of existing issues (EUR 150 millions for each of 2019 and 2035 outstanding issues) and to remain active on private placement segment with new issuance of EUR 0.7 billion. The average maturity of the funds raised by Caisse Française de Financement Local in the first half was close to 14 years.

b. Events affecting the rating of *obligations foncières*

The rating of the obligations foncières issued by Caisse Française de Financement Local was not altered in 2015. As of June 30, 2015, the ratings were as follows: AA+ by Standard and Poor's, Aaa by Moody's and AA by Fitch.

c. Litigation related to structured loans

In its portfolio, Caisse Française de Financement Local has structured loans considered as sensitive that were granted to French customers of Dexia Credit Local. Certain of these customers initiated legal proceedings against Dexia Credit Local, Caisse Française de Financement Local and/or SFIL to contest the contractual interest rate.

As of June 30, 2015, the number of customers who had brought suit totaled 185 as compared with 210 at the end of 2014.

Since the law that created a legal basis to secure structured loan agreements subscribed by public entities took effect on July 30, 2014, the reasons linked to the annual rate of charge (TEG), in particular the formal absence of the TEG in the faxes which had preceded the signing of the contract, which had motivated the decision of the Tribunal de grande instance de Nanterre on February 8, 2013, concerning the loans granted to the Département de la Seine-Saint-Denis, can no longer be invoked.

The Département de la Seine-Saint-Denis which had been the cause of this law suit, decided to put a end to the litigation within the framework of a financial agreement that made it possible to eliminate its debt sensitivity.

Two new decisions of the Tribunal de grande instance de Nanterre were handed down since the law that created a legal basis to secure structured loan agreements subscribed by public entities took effect.

According to the terms of the first decision on April 24, 2O15, the Tribunal de grande instance de Nanterre rejected all the claims of the city of Carrières-sur-Seine, particularly as regards responsibility.

According to the terms of the second decision on June 26, 2O15, the Tribunal de grande instance de Nanterre condemned jointly and severally Dexia Credit Local and Caisse Française de Financement Local, to the benefit of the city of Saint-Cast-le-Guildo, for the failure of Dexia Credit Local to provide adequate information and sufficient warning when a loan was negotiated in 2007, while at the same time condemning this borrower to reimburse Caisse Française de Financement Local for all the unpaid sums and to pay the contractual interest rate for the remaining life of the contract.

The creation of the two support funds by the government should lead to a significant reduction in the number of law suits by enabling local governments and public hospitals to finance the cost of disengaging themselves from their structured loans. According to information published in the press, 676 eligible local governments submitted a request for assistance from the support fund. Thirty-one financial agreements have already been signed between Caisse Française de Financement Local and eligible customers.

The capacity for intervention of these funds was massively increased in the first quarter of 2015 in order to cover the additional cost linked to the appreciation of the Swiss franc so that the early reimbursement penalties for which the concerned customers were still responsible, after assistance from the funds, would not be greater than it would have been without the decision of the Swiss National Bank (SNB) in January 2015 to put an end to the floor rate of exchange of its national currency, the Swiss franc (CHF). The fund earmarked for local governments now totals EUR 3.0 billion and the one for pubic hospitals EUR 400 million. Likewise, the ceiling of the assistance made available (initially set at 45% of indemnities due) will be significantly raised for the most fragile local governments.

Caisse Française de Financement Local, which made a voluntary contribution to the local government support fund in the amount of EUR 150 million and to the hospital support fund for EUR 18 million, did not book any provision in its 2015 half year financial statements for a potential supplemental contribution linked to the increase of the total funds (given the uncertainty as to the very existence of such a contribution, its features and possible amount).

To prepare its 2015 half year financial statements, Caisse Française de Financement Local took into account the effects of the decision of the Swiss National Bank (SNB) on January 15, 2015, and the hypothesis that the solution announced by the government (in particular, strengthening the funds' intervention capacity and pushing up the ceiling for assistance to the most vulnerable local governments) would in fact rapidly be made available so that the support funds would remain at least as attractive as before the SNB decision for local governments and hospitals holding loans indexed on the EUR/CHF exchange rate.

1.3. APPLICABLE ACCOUNTING STANDARDS

a. Application of IFRS adopted by the European Commission

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

Since its publication in 2002, regulation EC 1606/2002 has been updated several times. Caisse Française de Financement Local's financial statements have therefore been prepared in accordance with all IFRS as adopted and endorsed by the European Commission up to the accounting closing on June 30, 2015, including the conditions for the application of an interest-rate portfolio hedging and the possibility of hedging deposits.

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

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

Judgments were principally made in the following areas:
- Classification of financial instruments;
- Determination of whether or not the market is active for financial instruments measured at fair value;
- Hedge accounting;
- Existence of a present obligation with probable outflows in the event of litigation;
- Identification of impairment triggers.

These judgments are set out in the corresponding sections of these applicable accounting standards.

Estimates were principally made in the following areas:
- Determination of fair value for financial instruments measured at fair value;
- Determination of the recoverable amount of impaired financial assets;
- Estimate of future taxable profit for the recognition and measurement of deferred tax assets.

b. Changes in accounting standards since the previous annual report that may impact Caisse Française de Financement Local

The following review of changes in accounting standards is based on the situation as of June 30, 2015.

IASB and IFRIC texts endorsed the European Commission and effective as of January, 1, 2015

- IFRIC 21 Levies: this interpretation identifies the obligating event for the recognition of a liability of the levy in accordance with the relevant legislation. Once the obligating event is reached, a liability must be recognized and can not be spread over the period.
  Caisse Française de Financement Local anticipated the application of this interpretation on its 2014 financial statements. The main levies affected by this interpretation are "C3S" (Solidarity Social Contribution), contributions to ACPR monitoring fees and contributions to the Single Resolution

Fund. As of June 30, 2015, the impact on the financial statements amounted to EUR -9 million.
- Annual Improvements of IFRS cycle 2011-2013.

IASB and IFRIC texts endorsed by the European Commission during the year but not applicable as of January 1, 2015
- Annual Improvements of IFRS cycle 2010-2012: they provide small changes to existing standards. They are effective for annual periods beginning on or after February 1, 2015.

1.4. ACCOUNTING PRINCIPLES APPLIED TO THE FINANCIAL STATEMENTS

a. Offsetting financial assets and financial liabilities

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

b. Foreign currency transactions

Foreign currency transactions are accounted for using the exchange rate on the transaction date. Monetary assets and liabilities denominated in foreign currencies are recognized at closing rates. Non-monetary assets and liabilities recognized at fair value and denominated in foreign currencies existing at the closing date are recorded at closing rates, whereas non-monetary assets and liabilities recognized at amortized cost are recorded at their historical rates.

The resulting exchange differences from monetary assets and liabilities are recognized in income, except for the foreign exchange impact of fair value adjustments to securities available for sale, which are recognized in equity. Foreign exchange differences from non-monetary assets and liabilities recognized at fair value are recorded as fair value adjustments.

c. Trade date and settlement date

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

d. Financial assets

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

Loans and advances to banks and customers
Loans are defined as non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than:
- those that the entity intends to sell immediately or in the near future, which should be classified as held for trading, and those that the entity, upon initial recognition, designates at fair value through profit or loss;
- those that the entity, upon initial recognition, designates as available for sale; or
- those for which the holder may not recover substantially all of the initial investment for reasons other than the deterioration of credit, which should be classified as available for sale.

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

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.
Held-to-maturity financial assets are initially recognized at fair value (including transaction costs) and

subsequently at amortized cost, less any allowance for impairment. Interest is recognized in the interest margin using the effective interest rate method.

Financial assets available for sale

Assets intended to be held for an indefinite period of time and which may be sold in response to a need for liquidity or changes in interest rates, exchange rates or equity prices are classified as Financial assets available for sale. These assets are, except for certain cases, intended to be held to maturity.

Available-for-sale assets are initially recognized at fair value (including transaction costs). Interest on fixed-income securities is recognized based on the effective interest rate method in the interest margin. Dividends on variable-income securities are recorded in Net gains (losses) on financial assets available for sale.

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

When available-for-sale financial assets are restated as Loans and advances at a later date on the basis of the October 2008 amendment to IAS 39, the reserve representative of changes in the fair value of available-for-sale financial assets as presented in the financial statements as of June 30, 2015, corresponds to the part of this reserve still to be amortized with regard to the securities restated as of October 1, 2008.

Financial assets held for trading

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

Financial assets designated at fair value through profit or loss

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

Realized gains and losses on sales of financial assets

For financial assets at amortized cost, realized gains and losses on disposals are the differences between the proceeds received (net of transaction costs) and the carrying amount of the assets. The carrying amount is systematically determined based on the “first in, first out” approach.

When an available-for-sale financial asset is sold, the total of gains and losses previously recognized in equity is reversed in the income statement.

Early reimbursement indemnities

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

Several possibilities are considered depending on whether the early reimbursement is recognized as being an early reimbursement with refinancing or without refinancing.

Early reimbursement with refinancing

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

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

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

Early reimbursement without refinancing

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

Sale and repurchase agreements and lending of securities

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

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

The difference between the sale and repurchase price is recognized as interest income or expense and is amortized over the life of the agreement using the effective interest rate method.

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

Impairment of financial assets

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

Financial assets at amortized cost

Caisse Française de Financement Local first assesses whether objective evidence of impairment exists for a financial asset when taken individually. If no such evidence exists, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

- Determination of impairment
  - Specific impairment: if there is objective evidence that loans or other receivables, or financial assets classified as held-to-maturity are impaired, the amount of the provision is calculated as the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, net of any guarantees and collateral, discounted at the financial instrument's original effective interest rate (except for reclassified assets, see below). When an asset is assessed as being impaired, it is excluded from the portfolio on which collective impairment is calculated.
  - Collective impairment: collective impairment covers the risk of loss in value not covered by specific impairment where there is objective evidence that probable losses are present in certain segments of the portfolio or other lending commitments at the balance sheet date. These losses are estimated on the basis of past performance and historical patterns of losses in each segment and the current economic environment in which the borrowers operate. For this purpose, Caisse Française de Financement Local uses a credit risk model based on an approach that combines default probabilities and losses in the event of default. This model is subject to regular back-testing and is based on Basel III data and risk models, consistent with the incurred loss model.

- Accounting treatment of impairment

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

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

Reclassified financial assets

Reclassified financial assets are impaired following the same rules as financial assets measured at amortized cost. If there is objective evidence that reclassified financial assets are impaired, the amount of the impairment on reclassified assets is calculated as the difference between the net carrying amount

of the asset, excluding the amount of revaluations at fair value due to former classification as available-for-sale financial assets, and the net present value of the expected cash flows discounted at the effective interest rate at the time of reclassification. Any existing unamortized reserve of unrealized gains and losses will be taken to the profit or loss account in Cost of risk.
In the event of a positive update to expected cash flows, the impairment amount is reversed through the interest margin over the new schedule of expected cash flows, not by a reversal of impairment.

Financial assets available for sale

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

• Determination of impairment

In the case of interest-bearing debt instruments, impairment is triggered based on the same criteria as those applied to financial assets valued at amortized cost (see above).

• Accounting treatment of impairment

When financial assets available for sale are impaired, the total reserve in other comprehensive income is recycled into profit or loss and Caisse Française de Financement Local reports these impairment losses in the income statement in Cost of risk (for financial asset available for sale with fixed income). Any subsequent decline in fair value constitutes an additional impairment loss, recognized in the income statement.
In the event of an increase in the fair value of an interest-bearing financial instrument that relates objectively to an event occurring after the last impairment was recognized, Caisse Française de Financement Local recognizes a reversal of the impairment loss in the income statement in Cost of risk.

Off-balance sheet commitments

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

e. Financial liabilities

Financial liabilities designated at fair value through profit and loss

Caisse Française de Financement Local does not use this option.

Financial liabilities at amortized cost

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

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

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

Interest related to *obligations foncières* is accounted for as interest expense on debt securities for accrued amounts, due and not yet due, calculated *prorata temporis* on the basis of contractual rates.
Fees and commissions on bond issues are amortized over the life of the bonds to which they are attached. Bonds denominated in other currencies are treated in the same way as foreign exchange transactions (see above b. Foreign currency transactions).

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

f. Derivatives

Derivatives not used in a hedging relationship
Caisse Française de Financement Local is not authorized to conduct derivative transactions that would not be documented in a hedging relationship.
Nevertheless, as of June 30, 2015, transaction derivatives were recorded. They resulted from operations in which hedge ineffectiveness arose after the hedged items were impaired. Gains and losses (realized and unrealized) were recognized as Net result of financial instruments at fair value through profit and loss.

Hedging derivatives
Hedging derivatives can be categorized as either:
- a hedge of the fair value of a recognized asset or liability or a firm commitment (fair value hedge); or
- a hedge of a future cash flow attributable to a recognized asset or liability or a forecast transaction (cash flow hedge).

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

Changes in the fair value of derivatives that are designated and documented in a fair value hedging relationship, and that respect the criteria set out above, are recorded in the income statement, along with the corresponding change in fair value of the hedged assets or liabilities which are attributable to that specific hedged risk.
If at any time the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortized to profit or loss over the residual maturity of the hedged item by adjusting the yield on the hedged item.

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

Hedging of the interest rate risk of a portfolio
Caisse Française de Financement Local makes use of the provisions of IAS 39 as adopted by the European Union (IAS 39 carve-out) because this standard better reflects the way Caisse Française de Financement Local manages its financial instruments.

The objective of hedging relationships is to reduce the interest rate risk exposure stemming from certain categories of assets or liabilities designated as the qualifying hedged items.

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

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

The Company chose to put together homogeneous portfolios of loans and portfolios of bond issues. Based on this gap analysis, which is realized on a net basis, Caisse Française de Financement Local defines at inception the risk exposure to be hedged, the length of the time buckets and the manner and the frequency of testing.
The hedging instruments are portfolios of derivatives, whose positions may be offsetting. The hedging items are recognized at their fair value (including accrued interest expense or income) with adjustments recorded in the income statement.

Revaluation related to the hedged risk is recognized in the balance sheet (in asset or liability depending on positive or negative revaluation) as Fair value revaluation of portfolio hedge.

g. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, either in the principal market, or in its absence, in the most advantageous market Caisse Française de Financement Local can access. The fair value of a liability reflects the effect of the risk of non-performance, which in particular includes Caisse Française de Financement Local's own credit risk.

Quoted prices are used to determine the fair value of financial assets and liabilities when there is an active market, defined as so by the existence, sufficient frequency and volume to provide pricing information on an ongoing basis. Active market prices are not, however, available for a significant number of the financial assets and liabilities held or issued by Caisse Française de Financement Local.

If the financial instrument is not quoted in an active market, valuation techniques are used. Valuation techniques include the use of market date from recent arm's length transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, and valuation models.

A valuation models reflects what the transaction would have been under the market conditions existing on the measurement date. The valuation model should take into account all the factors that market participants would consider when pricing the asset. Within this framework, Caisse Française de Financement Local uses its own valuation models and market assumptions, i.e. present value of cash-flows or any other techniques based on market conditions existing at the closing date.

Financial instruments measured at amortized cost
The following remarks are applicable to the fair value of loans and advances presented in the notes:
- the fair value of fixed-rate loans is estimated by comparing market interest rates when the loans were granted with current market interest rates offered on similar loans;
- caps, floors and early repayment options are included in determining the fair value of loans and advances.

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

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

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

Caisse Française de Financement Local, like other participants in the banking industry, is currently considering to include funding costs in the valuation of uncollateralized derivatives or those with asymmetric collateral. No consensus has yet emerged on the methodology for determining this funding valuation adjustment.
As of June 30, 2015, no funding valuation adjustment was included in the valuation of uncollateralized derivatives or those with asymmetric collateral. Caisse Française de Financement Local continues to investigate this issue and in the future may adopt a funding valuation adjustment in the valuation of uncollateralized derivatives.

In addition, a value adjustment is taken into account in the valuation of derivatives to reflect the impact of a counterparty's credit risk (Credit Value Adjustment) or the counterparty's net exposure to the credit risk of Caisse Française de Financement Local (Debt Value Adjustment). This value adjustment makes it possible to go from a fair value based on the discounting of future cash flows with a risk-free rate, i.e. abstracting from the counterparty risk, to fair value that integrates this risk. It is determined in function of the exposure to risk combined with rates of losses integrating market parameters.

h. Interest income and expense

For all interest-bearing instruments not valued at fair value, interest income and expense are recognized in the income statement using the effective interest rate method.
The effective interest rate is the rate that exactly discounts expected future cash flows through the life of the financial instrument, or when appropriate, a shorter period to determine the net carrying amount of the financial asset. The calculation of this rate includes commissions received or paid that are an integral part of the effective interest rate due to their nature, transaction costs and any premiums and discounts.
Transaction costs are incremental costs that are directly attributable to the acquisition of a financial asset or liability and are used for the calculation of the effective interest rate. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument.
Accrued interest is recognized on the balance sheet in the same item as the related financial asset or liability.
Once an interest-bearing financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognized based on the effective interest rate used to discount the recoverable future cash flows.

i. Commission income and expense

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

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

j. Deferred taxes

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

The tax rates enacted or substantively enacted at the balance-sheet date are used to determine deferred taxes.
Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.
Deferred tax liabilities are recognized to account for temporary differences arising from investments in subsidiaries, jointly controlled companies and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.
Deferred taxes related to fair value re-measurement of assets available for sale and cash flow hedges, and other operations charged or credited directly to other comprehensive income, are also credited or charged directly to other comprehensive income.

k. Provisions

Provisions are mainly for litigation, restructuring and off-balance sheet loan commitments.
A provision is measured at the present value of the expenditures expected to be required to settle the obligation.

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

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

l. Dividends and ordinary shares

Dividends on ordinary shares are recognized in liabilities in the period in which they are authorized. Dividends of the year that are authorized after the balance sheet date are disclosed in the note on post-closing events.

m. Earnings per share

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

n. Related party transactions

Two parties are considered to be related if one has the ability to control the other party or exercise significant influence overt the other party when making financial or operational decisions. The parent company of Caisse Française de Financement Local is SFIL, a *société anonyme* incorporated in France, which is owned by the French State, Caisse des Dépôts et Consignations and La Banque Postale, incorporated in France. Within this framework, related party transactions are those with parent companies and with directors.

o. Segment reporting

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

p. Cash and cash equivalents

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

2 NOTES TO THE ASSETS

2.1 - CENTRAL BANKS

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Mandatory reserve deposits with central banks	-	-	-
Other deposits	461	519	1,079
TOTAL	**461**	**519**	**1,079**

2.2 - FINANCIAL ASSETS AVAILABLE FOR SALE

a. Analysis by nature

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Loans	-	-	-
Bonds	1,656	2,770	2,686
TOTAL	**1,656**	**2,770**	**2,686**

b. Analysis by counterparty

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Public sector	1,313	2,427	2,584
Credit institutions guaranteed by the public sector	343	343	102
Total public sector	**1,656**	**2,770**	**2,686**
Replacement assets	-	-	-
TOTAL	**1,656**	**2,770**	**2,686**
of which eligible for central bank refinancing	*1,391*	*2,481*	*2,410*

c. Impairment

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Public sector	1,656	2,770	2,686
Replacement assets	-	-	-
Total performing assets	**1,656**	**2,770**	**2,686**
Public sector	-	-	-
Replacement assets	-	-	-
Total impaired assets	**-**	**-**	**-**
Specific impairment	-	-	-
TOTAL ASSETS AFTER IMPAIRMENT	**1,656**	**2,770**	**2,686**

d. Analysis by residual maturity : see note 7.4

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

2.3 - LOANS AND ADVANCES DUE FROM BANKS

a. Analysis by nature

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Sight accounts	15	14	13
Other loans and advances due from banks	6,940	6,738	5,284
Performing assets	**6,955**	**6,752**	**5,297**
Impaired loans and advances	-	-	-
Impaired assets	**-**	-	-
Total assets before impairment	**6,955**	**6,752**	**5,297**
Specific impairment	-	-	-
Collective impairment	-	-	-
TOTAL	**6,955**	**6,752**	**5,297**

b. Breakdown by counterparty

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Credit institutions	6	4	2
Swiss cantonal banks benefiting from their cantons' legal guarantee	635	629	572
Banks guaranteed by a local government, *crédits municipaux*	105	91	67
Other credit institutions : loans benefiting from the assignment in guarantee of refinanced public debt	2,102	2,099	2,095
Credit institutions guaranteed by the State	-	-	-
Assets assigned in guarantee to the central bank	-	-	-
Replacement assets	4,107	3,929	2,561
TOTAL	**6,955**	**6,752**	**5,297**
of which eligible for central bank refinancing	-	-	-

c. Replacement assets

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
SFIL - loans secured by public sector assets	4,092	3,915	2,548
Credit institutions - sight accounts	15	14	13
TOTAL	**4,107**	**3,929**	**2,561**

d. Analysis by residual maturity : see note 7.4

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

2-4 LOANS AND ADVANCES TO CUSTOMERS

a. Analysis by counterparty

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Public sector	58,050	57,915	58,909
Other - guaranteed by a State or local government	3,532	3,974	3,403
Performing assets	**61,582**	**61,889**	**62,312**
Impaired loans and advances	395	463	657
Impaired assets	**395**	**463**	**657**
Total assets before impairment	**61,977**	**62,352**	**62,969**
Specific impairment	(41)	(47)	(75)
Collective impairment	(87)	(63)	(64)
TOTAL	**61,849**	**62,242**	**62,830**
of which eligible for central bank refinancing	*41,366*	*41,139*	*41,448*
Assets assigned in guarantee to the central bank	-	-	-

The loans depreciated concern customers that represent an identified credit risk (non-performing loans: EUR 590 million) and customers with unpaid loans corresponding to disagreement on the amount due (compromised non-performing loans : EUR 67 million).
In 2015, Caisse Française de Financement Local maintains a high level of collective impairment which amounted to EUR 64 million.

Assets considered as forborne by Caisse Française de Financement Local concern exposures to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (recognized or to come) that would not have been granted in other circumstances. These concessions may either be a waiver of a part of the debt, a rescheduling of the loan repayment, restructuring measures through an amendment to the loan contract, or a partial or full refinancing of the loan with a new contract, including for transactions aiming at reducing the sensitivity of the loan.
There were 62 forborne contracts as of June 30, 2015, with 43 borrowers, for a total of EUR 528 million.

b. Analysis by residual maturity : see note 7.4

c. Unrealised or deferred gains and losses breakdown by country : see note 4.4

2-5 TAX ASSETS

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

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Current income tax	-	-	-
Other taxes	0	0	0
Current tax assets	**0**	**0**	**0**
Deferred tax assets (see note 4.2)	**106**	**99**	**117**
TOTAL TAX ASSETS	**106**	**99**	**117**

Deferred tax assets were submitted to a recoverability test taking into account the business plans presented to the Supervisory Board according to realistic hypotheses. Deferred taxes as of June 30, 2015, are recoverable on the basis of this analysis within seven years by taking tax rules governing the treatment of past deficits into account.
In application of the 2013 law of Finances (article 24), the assignation of deficits has a ceiling of EUR 1 million plus 50% of the fraction of taxable income in the year in which the ceiling was exceeded. The non-attributable fraction of the deficits can be carried forward to the following years with no time limit and under the same conditions.

2-6 ACCRUALS AND OTHER ASSETS

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Cash collateral paid	-	-	-
Other accounts receivable	-	-	-
Prepaid charges	0	1	0
Other assets	2	2	1
TOTAL ACCRUALS AND OTHER ASSETS	**2**	**3**	**1**

3 NOTES TO THE LIABILITIES

3-1 CENTRAL BANKS

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

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Overnight borrowing	-	-	-
Term borrowing	-	-	-
Accrued interest	-	-	-
TOTAL FUNDING FROM BANQUE DE FRANCE	**-**	**-**	**-**

3-2 DUE TO BANKS

a. Analysis by nature

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Demand deposits	0	0	-
Term deposits	6,199	6,228	5,602
TOTAL	**6,199**	**6,228**	**5,602**

At the end of june 2015, the funding borrowed from SFIL within the framework of the financing agreement was made up of different loans with maturities initially running from one day to seven years borrowed with an Euribor or Eonia index.

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Term borrowing - parent company	6,185	6,212	5,593
Interest accrued not yet due	14	16	9
Sight accounts	0	0	-
TOTAL	**6,199**	**6,228**	**5,602**

b. Analysis by residual maturity : see note 7.4

3-3 DEBT SECURITIES

a. Analysis by nature

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Obligations foncières	50,404	51,444	51,047
Registered covered bonds	6,653	7,057	7,209
TOTAL	**57,057**	**58,501**	**58,256**

b. Analysis by residual maturity : see note 7.4

3-4 TAX LIABILITIES

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Current income tax	-	8	0
Other taxes	2	2	1
Current tax liabilities	**2**	**10**	**1**
Deferred tax liabilities (see note 4.2)	**-**	**-**	**-**
TOTAL TAX LIABILITIES	**2**	**10**	**1**

3-5 ACCRUALS AND OTHER LIABILITIES

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Cash collateral received	2,502	2,351	1,408
Other accrued charges	20	21	16
Deferred income	-	-	-
Contribution to the support fund (1)	168	158	142
Other accounts payable and other liabilities	-	2	1
TOTAL	**2,690**	**2,532**	**1,567**

(1) This item corresponds to the commitment taken in 2014 by Caisse Française de Financement Local to contribute EUR 18 million for hospitals. An additional contribution to the multi-year support fund for local govenments was added in 2013 in the amount of EUR 10 million over 15 years, minus an initial payement of EUR 10 million at the end of 2014 and a second in 2015.

4 OTHER NOTES ON THE BALANCE SHEET

4-1 DERIVATIVES

a. Analysis by nature

(EUR millions)	6/30/2014		12/31/2014		6/30/2015	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss [1]	**3**	**9**	**2**	**0**	**2**	**0**
Derivatives designated as fair value hedges	4,539	8,267	5,304	8,985	4,497	9,700
Derivatives designated as cash flow hedges	5	139	6	146	8	187
Derivatives designated as portfolio hedges	2,992	3,698	3,054	4,482	2,610	3,756
Hedging derivatives	**7,536**	**12,104**	**8,364**	**13,613**	**7,115**	**13,643**
CVA / DVA Impact	**(4)**	**(95)**	**(3)**	**(101)**	**(3)**	**(81)**
TOTAL DERIVATIVES	**7,535**	**12,018**	**8,363**	**13,512**	**7,114**	**13,562**

(1) Caisse Française de Financement Local is only authorized to conduct derivative transactions for reasons of hedging. In its IFRS accounts, a few derivatives are no longer treated as hedging instruments since 2013 because of the uncertainly of future cash flows from the hedged items (non-performing loans). These are interest rate derivatives.

b. Detail of derivatives designated as fair value hedges

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

(EUR millions)	12/31/2014			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	9,168	9,272	460	549
Interest rate derivatives	53,960	53,944	4,844	8,436
TOTAL	**63,128**	**63,216**	**5,304**	**8,985**

(EUR millions)	6/30/2015			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	8,355	8,388	442	506
Interest rate derivatives	56,221	56,197	4,055	9,194
TOTAL	**64,576**	**64,585**	**4,497**	**9,700**

c. Detail of derivatives designated as cash flow hedges

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

(EUR millions)	12/31/2014			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,130	1,228	6	146
Interest rate derivatives	-	-	-	-
TOTAL	**1,130**	**1,228**	**6**	**146**

(EUR millions)	6/30/2015			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,011	1,149	8	187
Interest rate derivatives	-	-	-	-
TOTAL	**1,011**	**1,149**	**8**	**187**

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Amount removed from equity and included in the carrying amount of a non-financial instrument (hedging of cash flows of a highly favorable transaction)	-	-	-

d. Detail of derivatives designated as portfolio hedges

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

(EUR millions)	12/31/2014			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	85,393	85,388	3,054	4,482
Total	**85,393**	**85,388**	**3,054**	**4,482**

(EUR millions)	6/30/2015			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	87,137	87,132	2,610	3,756
Total	**87,137**	**87,132**	**2,610**	**3,756**

4-2 DEFERRED TAXES

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

a. Analysis by nature

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Deferred tax assets before impairment	106	99	117
Impairment on deferred tax assets	-	-	-
Deferred tax assets	**106**	**99**	**117**
Deferred tax liabilities	**-**	**-**	**-**
TOTAL	**106**	**99**	**117**

b. Movements

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
As of January 1	**90**	**90**	**99**
Charge/credit recognized in the income statement	31	23	16
Effect of change in tax rates - impact on the income statement	-	-	-
Movements directly recognized in equity	(15)	(14)	2
Effect of change in tax rates - impact on equity	-	-	-
Translation adjustment	-	-	-
Other movements	-	-	-
As of June 30	**106**	**99**	**117**

c. Deferred taxes from assets on the balance sheet

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Loans and loan loss provisions	174	(123)	(368)
Securities	70	54	67
Derivatives	(10)	81	618
Accruals and other assets	13	13	13
TOTAL	**247**	**25**	**330**

d. Deferred taxes from liabilities on the balance sheet

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Borrowings, deposits and issues of debt securities	(141)	74	(213)
Derivatives	-	-	-
Provisions	-	-	-
Regulatory provisions	-	-	-
Accruals and other liabilities	-	-	-
TOTAL	**(141)**	**74**	**(213)**

4-3 TRANSACTIONS WITH RELATED-PARTY

Analysis by nature

(EUR millions)	Parent company and entities consolidated (1)			Other related parties (2)		
	6/30/2014	12/31/2014	6/30/2015	6/30/2014	12/31/2014	6/30/2015
ASSETS						
Loans and advances	4,092	3,916	2,548	-	-	-
Bonds	-	-	-	-	-	-
LIABILITIES						
Due to banks - sight accounts	-	-	-	-	-	-
Due to banks - term loans	6,199	6,228	5,602	-	-	-
INCOME STATEMENT						
Interest income on loans and advances	13	23	6	(2)	(4)	(4)
Interest income on bonds	-	-	-	-	-	-
Interest expense on borrowings	(33)	(60)	(20)	-	-	-
Fees and commissions	(12)	(22)	(10)	-	-	(0)
OFF-BALANCE SHEET						
Foreign exchange derivatives	5,164	5,039	4,719	-	-	-
Interest rate derivatives	17,606	16,479	18,329	-	-	-
Commitments and guarantees issued by the Group	4,142	3,966	2,598	131	133	140

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

4.4 UNREALIZED OR DEFERRED GAINS AND LOSSES, BREAKDOWN BY COUNTRY

(En (EUR millions))	6/30/2014	12/31/2014	6/30/2015
Unrealized gains and losses on available for sale securities	**(86)**	**(82)**	**(92)**
Canada	0	0	0
Germany	1	1	0
France	3	1	(2)
Italy	(87)	(82)	(81)
United States	(3)	(2)	(9)
Unrealized gains and losses on loans and receivable securities	**(102)**	**(100)**	**(98)**
Spain	(2)	(2)	(2)
France	5	4	4
Italy	(105)	(102)	(100)
Unrealized gains and losses on derivatives designated as cash-flow hedges	**(33)**	**(43)**	**(42)**
TOTAL	**(221)**	**(225)**	**(232)**
Deferred taxes on gains and losses, available for sale securities	30	28	32
Deferred taxes on gains ans losses, loans and receivable securities	35	35	34
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	11	15	14
TOTAL	**(145)**	**(147)**	**(152)**

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

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

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

	12/31/2014					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	599	-	-	599
TOTAL	**-**	**-**	**599**	**-**	**-**	**599**

	6/30/2015					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	582	-	-	582
TOTAL	**-**	**-**	**582**	**-**	**-**	**582**

	12/31/2014					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	-	-	487	-	-	487
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	112	-	-	112
TOTAL	**-**	**-**	**599**	**-**	**-**	**599**
UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES	**-**	**-**	**(82)**	**-**	**-**	**(82)**
UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES	**-**	**-**	**-**	**-**	**-**	**-**

	6/30/2015					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	-	-	470	-	-	470
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	112	-	-	112
TOTAL	**-**	**-**	**582**	**-**	**-**	**582**
UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES	**-**	**-**	**(81)**	**-**	**-**	**(81)**
UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES	**-**	**-**	**-**	**-**	**-**	**-**

5 NOTES TO THE INCOME STATEMENT

5-1 INTEREST INCOME - INTEREST EXPENSE

(EUR millions)	6/30/2014	6/30/2015
INTEREST INCOME	**2,230**	**2,083**
Central banks	-	-
Loans ans advances due from banks	43	31
Loans and advances to customers	855	863
Financial assets available for sale	20	20
Financial assets held to maturity	-	-
Derivatives used for hedging	1,312	1,169
Impaired assets	-	-
Other	0	-
INTEREST EXPENSE	**(2,189)**	**(2,052)**
Accounts with central banks	(0)	(0)
Due to banks	(35)	(20)
Customer borrowings and deposits	-	-
Debt securities	(1021)	(952)
Subordinated debt	-	-
Derivatives used for hedging	(1133)	(1080)
Other	(0)	-
INTEREST MARGIN	**41**	**31**

5-2 FEES AND COMMISSIONS

(EUR millions)	6/30/2014			6/30/2015		
	Income	Expense	Net	Income	Expense	Net
Lending activity	0	-	0	0	-	0
Purchase and sale of securities	-	(0)	(0)	-	(1)	(1)
Financial engineering	-	-	-	-	-	-
Services on securities other than custodian services	-	(4)	(4)	-	(3)	(3)
Custodian services	-	-	-	-	-	-
Issuance and underwriters of securities	-	(0)	(0)	-	(0)	(0)
Rebilling by parent company	-	(12)	(12)	-	(10)	(10)
TOTAL	**0**	**(16)**	**(16)**	**0**	**(14)**	**(14)**

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

(EUR millions)	6/30/2014	6/30/2015
Net trading income	3	(0)
Net result of hedge accounting	(33)	(15)
Net result of foreign exchange transactions	(0)	(0)
TOTAL	**(30)**	**(15)**

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

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

Analysis of net result of hedge accounting :

(EUR millions)	6/30/2014	6/30/2015
Fair value hedges (1)	**(1)**	**8**
Fair value changes in the hedged item attributable to the hedged risk	129	1,670
Fair value changes in the hedging derivatives	(130)	(1662)
Cash flow hedges	**-**	**-**
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
Portfolio hedge (1)	**(5)**	**(3)**
Fair value changes in the hedged item	519	(197)
Fair value changes in the hedging derivatives	(524)	194
CVA / DVA Impact (2)	**(27)**	**(20)**
TOTAL	**(33)**	**(15)**

(1) The accounts of the first half of the year 2014 integrate an hedging ineffectiveness of EUR 19 millions on operations of the first half of the year. These operations were the object of a new documentation on the second half-year cancelling this effect.

(2) As of June 30, 2015, the application of IFRS 13 shows a net impact of EUR 20 million comprised of EUR -20 million for DVA and EUR -0.4 million for CVA.

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

(EUR millions)	6/30/2014	6/30/2015
Net result of disposals of loans and securities available for sale	-	0
Net result of disposals of debt securities	8	(1)
Net result of the sale or cancellation of loans and advances	(4)	3
TOTAL	**4**	**2**

5-5 - OPERATING EXPENSE

(EUR millions)	6/30/2014	6/30/2015
Payroll costs	-	-
Other general and administrative expense (1)	(40)	(52)
Taxes	(2)	(1)
TOTAL	**(42)**	**(53)**

(1) Of which EUR 50 million paid to SFIL at June 30, 2015.

Caisse Française de Financement Local has no salaried employees in accordance with article L.515-22 of the Monetary and Financial Code.

The general management of the operations of Caisse Française de Financement Local has been entrusted by an agreement to its parent company, a credit institution. This management was carried out by Dexia Credit Local until the end of January 2013. It has been ensured by SFIL since January 31, 2013.

Specific agreements were also drawn up with entities that transferred assets to the société de crédit foncier and continue to provide management services for their national customers. At the end of 2013, operative agreements were signed with the following entities : Kommunalkredit (Austria), Belfius Banque et Assurances (Belgium) and Dexia Crediop (Italy). The management agreements already existed in the past.

5-6 - COST OF RISK

(EUR millions)	6/30/2014				6/30/2015			
	Collective impairment	Specific impairment and losses	Contribution to support fund	Total	Collective impairment	Specific impairment and losses	Contribution to support fund	Total
Credit (loans, commitments and securities held to maturity)	(17)	(11)	(18)	(46)	(2)	4	0	**2**
Fixed income securities available for sale	-	-	-	-	-	-	-	**-**
TOTAL	**(17)**	**(11)**	**(18)**	**(46)**	**(2)**	**4**	**0**	**2**

Detail of collective and specific impairments

Collective impairment (EUR millions)	6/30/2014			6/30/2015		
	Charges	Recoveries and uses	Total	Charges	Recoveries and uses	Total
Loans and borrowings	(71)	54	(17)	(2)	0	**(2)**
Off-balance sheet commitments	-	-	-	-	-	**-**
TOTAL	**(71)**	**54**	**(17)**	**(2)**	**0**	**(2)**

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

Specific Impairment (EUR millions)	6/30/2015				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	**-**
Loans and advances to customers	(6)	10	(0)	-	**4**
Financial assets held to maturity	-	-	-	-	**-**
Off-balance sheet commitments	-	-	-	-	**-**
Total credit	**(6)**	**10**	**(0)**	**-**	**4**
Fixed income securities	-	-	-	-	**-**
TOTAL	**(6)**	**10**	**(0)**	**-**	**4**

5-7 CORPORATE INCOME TAX

a. Detail of tax expense

(EUR millions)	6/30/2014	6/30/2015
Current taxes	-	(3)
Deferred taxes	31	16
Tax on prior years' income	-	-
Deffered taxes on prior years	-	-
Provisions for tax litigation	-	-
TOTAL	**31**	**13**

b. Effective tax expense as of June 30, 2015

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

(EUR millions)	6/30/2014	6/30/2015
INCOME BEFORE INCOME TAXES	**(89)**	**(47)**
Net income from associates	-	-
TAX BASE	**(89)**	**(47)**
Applicable tax rate at end of the period	38.00%	38.00%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	**(34)**	**(18)**
Tax effect of non-deductible expenses	-	3
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Other additional taxes or tax savings	3	2
Liability method	-	-
Provisions for tax litigation	-	-
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	**(31)**	**(13)**
EFFECTIVE TAX RATE	**34.4%**	**28.1%**

c. Tax consolidation

As of January 1, 2014, Caisse Française de Financement Local has been a member of the SFIL tax group.

6 NOTE ON OFF-BALANCE SHEET ITEMS

6-1 - REGULAR WAY TRADE

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Assets to be delivered	-	-	-
Liabilities to be received (1)	439	500	577

(1) In the 1st half-year 2015, the amount corresponds to loans to SFIL for EUR 547 million and some registered covered bonds for EUR 30 .

6-2 - GUARANTEES

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Guarantees received from credit institutions (1)	4,276	4,103	2,731
Guarantees received from customers (2)	6,712	6,870	6,932

(1) At the end of June 2015, this amount was mainly composed of pledges of assets with benefits to Caisse Française de Financement Local, received as guarantee for loans granted to SFIL.

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

6-3 - FINANCING COMMITMENTS

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Loan commitments granted to credit institutions	0	0	0
Loan commitments granted to customers (1)	178	150	297
Loan commitments received from credit institutions (2)	50	50	50
Loan commitments received from customers	-	-	-

(1) The financing commitments on loans and lines of credit corresponded to contracts issued but not paid out as of June 30, 2015.
(2) This item concerned a firm and irrevocable commitment by SFIL to make avalaible to Caisse Française de Financement Local the funds required to reimburse the obligations foncières that will mature in the next 12 months. As of June 30, 2015 the amount of the overdraft authorized on the current account with SFIL totaled EUR 50 million.

6-4 - OTHER COMMITMENTS

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
Commitments received	274	272	269

7 NOTES ON RISK EXPOSURE

7-1 - FAIR VALUE

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

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

Some parameters and the production process of this note have been adjusted since December 2014. If these changes had been applied in December 2014, the unrecognized fair value adjustment at this date would have been EUR -1.8 billion for the assets and EUR +0.3 billion for the liabilities.

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

a. Composition of the fair value of the assets

	12/31/2014		
(EUR millions)	Book value	Fair value	Unrecognized fair value adjustment
Central banks	519	519	-
Loans and advances due from banks	6,752	6,760	8
Lons and advances tro customers	62,242	59,832	(2410)
Financial assets available for sale	2,770	2,770	-
Hedging derivatives	8,363	8,363	-
TOTAL	**80,646**	**78,244**	**(2402)**

	6/30/2015		
(EUR millions)	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1,079	1,079	-
Loans and advances due from banks	5,297	5,334	37
Lons and advances tro customers	62,830	61,480	(1350)
Financial assets available for sale	2,686	2,686	-
Hedging derivatives	7,114	7,114	-
TOTAL	**79,006**	**77,693**	**(1313)**

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

	12/31/2014		
(EUR millions)	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	6,228	6,318	90
Hedging derivatives	13,512	13,512	-
Debt securities	58,501	57,191	(1310)
TOTAL	**78,241**	**77,021**	**(1220)**

	6/30/2015		
(EUR millions)	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	5,602	5,614	12
Hedging derivatives	13,562	13,562	-
Debt securities	58,256	59,184	928
TOTAL	**77,420**	**78,360**	**940**

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

Fair value of financial assets (EUR millions)	12/31/2014			
	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
Financial assets available for sale	2,246	181	343	2,770
Hedging derivatives	-	6,332	2,031	8,363
TOTAL	**2,246**	**6,513**	**2,374**	**11,133**

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

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

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

Fair value of financial assets (EUR millions)	6/30/2015			
	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
Financial assets available for sale	2,397	186	103	2,686
Hedging derivatives	-	5,559	1,555	7,114
TOTAL	**2,397**	**5,745**	**1,658**	**9,800**

Fair value of financial liabilities (EUR millions)	12/31/2014			
	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
Hedging derivatives	-	8,284	5,228	13,512
TOTAL	**-**	**8,284**	**5,228**	**13,512**

Fair value of financial liabilities (EUR millions)	6/30/2015			
	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
Hedging derivatives	-	7,399	6,163	13,562
TOTAL	**-**	**7,399**	**6,163**	**13,562**

d. Transfer between Level 1 and 2

(En (EUR millions)	12/31/2014	6/30/2015
Level 1 to Niveau 2	-	-
TOTAL	**-**	**-**

e. Level 3 : analyses of flow

(EUR millions)	12/31/2014	Total gains and losses through profit and loss	Total unrealized or deferred gains and losses	Unrealized or deferred gains and losses through OCI	Purchase	Sale	Direct Origination	Settlement	Transfer to activities to be sold	Transfer to level 3	Transfer out of level 3	Others variations	6/30/2015
Financial assets available for sale	343	-	-	-	-	-	-	(240)	-	-	-	-	103
Hedging derivatives	2,031	8	(267)	-	65	-	-	-	-	-	(342)	60	1,555
TOTAL FINANCIAL ASSETS	**2,374**	**8**	**(267)**	**-**	**65**	**-**	**-**	**(240)**	**-**	**-**	**(342)**	**60**	**1,658**
Hedging derivatives	5,228	(157)	1,379	-	30	-	-	-	-	30	(411)	64	6,163
TOTAL FINANCIAL LIABILITIES	**5,228**	**(157)**	**1,379**	**-**	**30**	**-**	**-**	**-**	**-**	**30**	**(411)**	**64**	**6,163**

Sensitivity to alternative hypotheses for valuation in level 3

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

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

When there is no active market or observable market data, the securities are classified in level 3 and valued by using the mark-to-model approach.
The spreads required for the internal valuation model take credit and liquidity risk into account. Credit risk is estimated on the basis of the specific characteristics of the securities under consideration (rating, probability of default (PD), loss in the event of default (LGD), investors' profitability requirement, etc.) and on the basis of a sector-related cash bond index. Liquidity risk is estimated on the basis of a market refinancing cost.

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

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

7.2 - OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

(EUR millions)	12/31/2014					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net Amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net Amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	8,363	-	8,363	(5914)	(2333)	116
Loans and advances due from banks	6,752	-	6,752	-	(1856)	4,896
Loans and advances to customers	62,242	-	62,242	-	-	62,242
TOTAL	**77,357**	**-**	**77,357**	**(5914)**	**(4189)**	**67,254**

(EUR millions)	6/30/2015					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net Amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net Amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	7,114	-	7,114	(5663)	(1321)	130
Loans and advances due from banks	5,297	-	5,297	-	(1855)	3,442
Loans and advances to customers	62,830	-	62,830	-	-	62,830
TOTAL	**75,241**	**-**	**75,241**	**(5663)**	**(3176)**	**66,402**

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

(EUR millions)	12/31/2014					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net Amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net Amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments pledged	
Derivatives (including hedging instruments)	13,512	-	13,512	(5914)	-	7,598
Due to banks	6,228	-	6,228	-	-	6,228
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	**19,740**	**-**	**19,740**	**(5914)**	**-**	**13,826**

(EUR millions)	6/30/2015					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net Amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net Amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments pledged	
Derivatives (including hedging instruments)	13,562	-	13,562	(5663)	-	7,899
Due to banks	5,602	-	5,602	-	-	5,602
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	**19,164**	**-**	**19,164**	**(5663)**	**-**	**13,501**

7-3 - EXPOSURE TO CREDIT RISK

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

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

Breakdown of exposure to credit risks :

Analysis of exposure by geographic region

(EUR millions)	Amount as of 06/30/2015
France	51,593
Belgium	195
Italy	6,730
Spain	468
Germany	629
United Kingdom	2,322
Switzerland	2,682
Other European Union countries	95
United States and Canada	651
Japan	26
Other	232
TOTAL EXPOSURE	**65,623**

Analysis of exposure by category of counterparty

(EUR millions)	Amount as of 06/30/2015
States	4,883
Local public sector	56,978
ABS	129
Financial institutions	3,633
TOTAL EXPOSURE	**65,623**

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

As of June 2015, the Caisse Française de Financement Local has no asset backed securities.

Analysis of exposure by category of instrument

(EUR millions)	Amount as of 06/30/2015
Debt securities	2,686
Loans and advances	62,616
Financing commitments on loans	296
Hedging derivatives	25
TOTAL EXPOSURE	**65,623**

Evaluation of asset credit quality

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

This enables Caisse Française de Financement Local to present on June 30, 2015 below an analysis of its exposures, broken down by risk weighting, as used to calculate equity requirements. Credit weighting is mainly calculated on the basis of the probability of default of the counterparty and of the loss incurred in the event of default.

This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio. More than seventy four percent of the portfolio has a weighting of less than 5% and ninety six percent of the portfolio has a weighting that is less than or equal to 20%.

(EUR millions)	Risk weighting (Basel III)				
	from 0 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	Total
Debt securities	1,877	178	631	-	2,686
Loans and advances	46,579	14,597	1,249	191	62,616
Financing commitments on loans	272	24	-	0	296
Hedging derivatives	-	-	23	2	25
TOTAL EXPOSURE	**48,728**	**14,799**	**1,903**	**193**	**65,623**
SHARE	**74.3%**	**22.6%**	**2.9%**	**0.3%**	**100.0%**

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

7-4 LIQUIDITY RISK : ANALYSIS BY TERM TO MATURITY

a. Analysis of assets

(EUR millions)	6/30/2015						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central banks	1,079	-	-	-	-	-	1,079
Hedging derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	1,750	102	82	557	-	2,491
Loans and advances due from banks	13	245	323	3,319	1,352	-	5,252
Loans and advances to customers	5	2,001	3,460	15,779	34,258	-	55,503
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	117	117
Accruals and other assets	-	1	-	-	-	-	1
TOTAL	**1,097**	**3,997**	**3,885**	**19,180**	**36,167**	**117**	**64,443**

(EUR millions)	6/30/2015				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	1,079	-	-	-	1,079
Hedging derivatives	-	547	6,567	-	7,114
Financial assets available for sale	2,491	7	188	-	2,686
Loans and advances due from banks	5,252	18	27	-	5,297
Loans and advances to customers	55,503	795	6,671	(139)	62,830
Fair value revaluation of portfolio hedge	-	-	2,648	-	2,648
Financial assets held to maturity	-	-	-	-	-
Tax assets	117	-	-	-	117
Accruals and other assets	1	-	-	-	1
TOTAL	**64,443**	**1,367**	**16,101**	**(139)**	**81,772**

b. Analysis of liabilities, excluding equity

(EUR millions)	6/30/2015						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central banks	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-
Due to banks	-	988	-	2,879	1,726	-	5,593
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	4,070	4,085	19,948	25,407	-	53,510
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	1	-	-	-	1
Accruals and other liabilities	-	1,567	-	-	-	-	1,567
Provisions	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-
TOTAL	**-**	**6,625**	**4,086**	**22,827**	**27,133**	**-**	**60,671**

(EUR millions)	6/30/2015			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	**-**
Hedging derivatives	-	836	12,726	**13,562**
Due to banks	5,593	9	-	**5,602**
Customer borrowings and deposits	-	-	-	**-**
Debt securities	53,510	969	3,777	**58,256**
Fair value revaluation of portfolio hedge	-	-	1,466	**1,466**
Tax liabilities	1	-	-	**1**
Accruals and other liabilities	1,567	-	-	**1,567**
Provisions	-	-	-	**-**
Subordinated debt	-	-	-	**-**
TOTAL	**60,671**	**1,814**	**17,969**	**80,454**

c. Net liquidity gap

(EUR millions)	As of June 30, 2015							
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total not broken down	Total
Amount	1,097	(2628)	(201)	(3647)	9,034	117	(2454)	**1,318**

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

7-5 - CURRENCY RISK

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

Classification by original currency EUR millions	12/31/2014				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	76,158	3,813	1,996	1,959	83,926
Total liabilities	76,158	3,813	1,996	1,959	83,926
NET BALANCE SHEET POSITION	**0**	**0**	**0**	**0**	**0**

Classification by original currency EUR millions	6/30/2015				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	74,384	3,494	1,898	1,986	81,762
Total liabilities	74,384	3,494	1,898	1,986	81,762
NET BALANCE SHEET POSITION	**0**	**0**	**0**	**0**	**0**

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

7-6 - SENSITIVITY TO INTEREST RATE RISK

The policy applied by the group SFIL makes it possible to be protected from interest rate risk because any acquisition of assets or issue of liabilities is systematically hedged in a variable rate from the beginning.
There are two steps in the hedging of interest rate risk.
• In the first stage, all the assets and the liabilities benefiting from the privilege which do not naturally have a floating rate are hedged against Euribor until maturity as soon as they are recorded on the balance sheet. In practice, acquisitions of loan portfolios (in which the unit amount is generally small) are usually macro-hedged whereas loans granted individually or bond issues are micro-hedged.

Hedging is more often done by interest rate swaps, but the same effect may be obtained whenever possible by the cancelation of liabilities swaps.

the basis risk generated by differences in Euribor fixing dates (1, 3, 6 or 12 months) and the fixing risk due to refixing dates based on different reference indices in the assets and the liabilities.

The possibility of hedging a purchased portfolio of loans by unwinding swaps of liabilities with an adequate profile rather than contracting new swaps is a change in hedging policy and was applied for the first time when loans were acquired in the second half of 2014. This made it possible to protect the bank from interest rate risk by backing the new assets by liabilities already on the balance sheet. Derivative hedging these liabilities up to that point were unwound on this occasion. This policy makes it possible to limit the use of derivatives, of which the regulatory and accounting cost has significantly increased in the last few years.

Non-privileged debt is not concerned by these hedging operations. In fact, debt contracted by Caisse Française de Financement Local with its shareholder to finance over collateralization is borrowed either directly with a monetary index and needs no swapping, or with a Euribor index and thus finances assets also indexed on Euribor. In this case, short term debt owed the Banque de France with a fixed rate is not hedged, but also finances fixed rate assets.

The sensitivity of residual positions that remain after the first step and after the second level of hedges is monitored carefully and kept within strict limits. In addition to the control of directional risks which existed previously, risk monitoring was bolstered this year with the introduction of supplementary limits focused on the control of the slope risk. Without modifying the Company's risk appetite, limits on interest rate risk were adapted and strengthened. The new set of limits guarantees, with 99% probability, a maximum one year loss of less than EUR 80 million in the event of a change in interest rates of 200 basis point (bp), equivalent to the maximum loss that could have been incurred with the sensitivity limit previously set at EUR 40 million (3% of equity) for a fluctuation in interest rates of 100 bp. This calibration is based on a directional shift in rates corresponding to the 1% at one-year decile observed over the period 2005-2013, which was approximately 200 bp.

The measures of sensitivity at the end of quarters for a change of 100 bp in interest rates are presented below:

Directional risk

global sensitivity

(EUR millions), end of quarter	Limit	3Q	4Q	1Q	2Q
Sensitivity	25.0	0.3	0.6	4.9	10.5

Risk of slope between two distant points on the rate curve

Sum of sensitivities

(EUR millions), end of quarter	Limit	3Q	4Q	1Q	2Q
Short term	10.0	(0.5)	(1.6)	0.3	2.0
Medium term	10.0	2.4	3.8	5.2	5.6
Long term	10.0	5.3	6.4	6.8	6.3
Very long term	10.0	(6.8)	(8.0)	(7.3)	(3.4)

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

(EUR millions), end of quarter	Limit	3Q	4Q	1Q	2Q
Short term	20.0	2.3	4.2	1.0	7.6
Medium term	20.0	5.1	6.3	7.8	13.4
Long term	20.0	5.1	4.7	4.1	8.9
Very long term	20.0	6.8	8.0	7.3	7.6

3 Statutory auditor’s report

Half-year 2015 *(IFRS)*

Statutory Auditors' review report on the intermediate financial statements established under IFRS standards

For the period from January 1st to June 30th, 2015

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

Ladies and Gentlemen,

In our capacity as Statutory Auditors of Caisse Française de Financement Local (the "Company") and pursuant to your request, in the context of the wish of your Company to provide more extensive financial information to investors, we have conducted a review on the accompanying intermediate financial statements of Caisse Française de Financement Local for the six-month period ended June 30th, 2015.

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

We conducted our review in accordance with professional standards applicable in France. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.
Based on our review, we did not identify any material misstatements that would cause us to believe that the accompanying intermediate financial statements do not present fairly, in all material respects, the results of operations for the six-month period ended June 30th, 2015 and the financial position of Caisse Française de Financement Local and its assets at that date, in accordance with IFRS as adopted by the European Union.

Without qualifying our opinion, in respect with this matter, we draw your attention to the matters set out in the note 1.1 that outlines the context of publication of the financial statements.

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

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

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

Courbevoie and Neuilly-sur-Seine, August 27th, 2015

The statutory auditors
French original signed by

MAZARS	DELOITTE & ASSOCIES
Anne VEAUTE	Charlotte VANDEPUTTE

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Financial Statements
Half-year 2015 *(French Gaap)*

BALANCE SHEET

Assets as of June 30, 2015

(EUR millions)	Notes	6/30/2014	12/31/2014	6/30/2015
Central banks	*2.1*	461	519	1,079
Government and public securities, eligible for central bank financing	*2.2*	5,467	6,025	6,087
Loans ans advances due from banks	*2.3*	6,952	6,755	5,298
Loans and advances to customers	*2.4*	46,672	46,311	46,469
Bonds and other fixed income securities	*2.5*	4,187	4,590	4,257
Equities and other variable income securities		-	-	-
Investments in non-consolidated companies and other long-term investments		-	-	-
Investments in consolidated companies		-	-	-
Intangible assets		-	-	-
Property and equipment		-	-	-
Unpaid capital		-	-	-
Treasury stock		-	-	-
Other assets	2.6	0	0	1
Accruals and other assets	2.7	3,390	3,438	3,345
TOTAL ASSETS	**2.8**	**67,129**	**67,638**	**66,536**

Liabilities as of June 30, 2015

(EUR millions)	Notes	6/30/2014	12/31/2014	6/30/2015
Central banks	3.1	-	-	-
Due to banks	3.2	6,199	6,228	5,602
Customer borrowings and deposits		-	-	-
Debt securities	3.3	52,937	53,752	54,342
Other liabilities	3.4	2,672	2,520	1,551
Accruals and other liabilities	3.5	3,846	3,614	3,502
Provisions	3.6	159	137	130
General banking risks reserve		-	-	-
Subordinated debt		-	-	-
Equity		**1,316**	**1,387**	**1,409**
Share capital	3.7	1,315	1,315	1,315
Additional paid-in capital	3.7	-	-	-
Reserves and retained earnings	3.7	64	64	71
Net income	3.7	(63)	8	23
TOTAL LIABILITIES	**3.8**	**67,129**	**67,638**	**66,536**

Off-balance sheet items as of June 30, 2015

(EUR millions)	Notes	6/30/2014	12/31/2014	6/30/2015
COMMITMENTS GRANTED	4.1	**178**	**150**	**297**
Financing commitments		178	150	297
Guarantees granted		-	-	-
Other commitments granted		-	-	-
COMMITMENTS RECEIVED	**4.2**	**11,752**	**11,795**	**10,558**
Financing commitments		489	550	627
Guarantees received		11,263	11,245	9,931
Forward commitments		-	-	-
Other commitments received		-	-	-
OTHER COMMITMENTS		**157,088**	**160,349**	**162,441**
Foreign currency transactions	4.3	20,861	20,799	18,903
Interest rate derivatives	4.4	136,227	139,550	143,538

Income statement

(EUR millions)	Notes	2Q2014	2014	2Q2015
Interest income	5.0	818	1,955	862
Interest expense	5.0	(777)	(1797)	(780)
Income from variable income securities		-	-	-
Commission income	5.1	-	0	-
Commission expense	5.1	(16)	(28)	(14)
Net gains (losses) on held for trading portfolio	5.2	-	-	-
Net gains (losses) on *placement* portfolio	5.2	(0)	(2)	9
Other banking income	5.6	-	-	0
Other banking expense		-	(0)	(0)
NET BANKING INCOME		**25**	**128**	**77**
General operating expense	5.3	(42)	(93)	(53)
Depreciation and amortization		-	-	-
OPERATING INCOME BEFORE COST OF RISK		**(17)**	**35**	**24**
Cost of risk		(46)	(18)	2
INCOME FROM OPERATIONS		**(63)**	**17**	**26**
Income (loss) on fixed assets	5.4	-	-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		**(63)**	**17**	**26**
Non-recurring items		-	-	-
Income tax	5.5	-	(9)	(3)
NET INCOME		**(63)**	**8**	**23**
Basic earnings per share		(4.80)	0.59	1.72
Diluted earnings per share		(4.80)	0.59	1.72

Equity

(EUR millions)	Amount
AS OF 12/31/2014	
Share capital	1,315
Additional paid-in capital (APIC)	0
Commitments to increase share capital and APIC	0
Reserves and retained earnings	64
Net income for the year	8
Interim dividends	0
EQUITY AS OF 12/31/2014	**1,387**
MOVEMENTS FOR THE PERIOD	
Changes in share capital	0
Changes in APIC	0
Changes in commitments to increase share capital and APIC	0
Changes in reserves and retained earnings	0
Dividends paid (-)	0
Net income for the period	23
Other movements	0
AS OF 6/30/2015	
Share capital	1,315
Additional paid-in capital (APIC)	0
Commitments to increase share capital and APIC	0
Reserves and retained earnings	71
Net income for the period	23
EQUITY AS OF 6/30/2014	**1,409**

Cash flow statement

(EUR millions)	6/30/2014	12/31/2014	6/30/2015
NET INCOME BEFORE TAXES	**(63)**	**17**	**26**
+/- Depreciation and write-downs	62	44	30
+/- Expense/income from operating activities	74	28	28
+/- Expense/income from financing activities	(98)	(88)	(44)
+/- Other non cash items	(16)	(103)	(18)
= Non monetary elements included in net income before tax and other adjustments	***22***	***(119)***	***(4)***
+/- Cash from interbank operations	(180)	38	837
+/- Cash from customer operations (loans)	652	990	119
+/- Cash from customer financing assets	(315)	(1,183)	308
+/- Cash from hedging financial instruments	(112)	(265)	(978)
- Income tax paid	(1)	(3)	(15)
= Decrease/(increase) in cash from operating activities	***44***	***(423)***	***271***
CASH FLOW FROM OPERATING ACTIVITIES (A)	**3**	**(525)**	**293**
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-	-
+/- Cash from or for shareholders	-	-	-
+/- Other cash from financing activities	(1,016)	(430)	266
CASH FLOW FROM FINANCING ACTIVITIES (C)	**(1,016)**	**(430)**	**266**
EFFECT OF EXCHANGE RATES CHANGES ON CASH (D)	-	-	-
Increase/(decrease) in cash equivalents (A + B+ C + D)	**(1,013)**	**(955)**	**559**
Cash flow from operating activities (A)	3	(525)	293
Cash flow from investing activities (B)	-	-	-
Cash flow from financing activities (C)	(1,016)	(430)	266
Effect of exchange rates on cash (D)	-	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1,488**	**1,488**	**533**
Central banks (assets & liabilities)	1,471	1,471	519
Interbank accounts (assets & liabilities) and loans/deposits at sight	17	17	14
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**475**	**533**	**1,092**
Central banks (assets & liabilities)	461	519	1,079
Interbank accounts (assets & liabilities) and loans/deposits at sight	14	14	13
NET CASH	**(1,013)**	**(955)**	**559**

Notes to the French GAAP financial statements

1. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

1.1. CONTEXT OF PUBLICATION

The financial statements as of June 30, 2015, were examined by the Executive Board on August 24, 2015.

To prepare its financial statements as of June 30, 2015, Caisse Française de Financement Local took into account the effects of the decision of the Swiss National Bank (SNB) on January 15, 2015, and the hypothesis that the solution announced by the government would in fact rapidly be made available so that the support would remain at least as attractive as before the SNB decision (cf. 1.2.c Litigation related to structured loans).

Caisse Française de Financement Local voluntarily contributed EUR 150 million to the local government support fund and EUR 18 million to the hospital support fund, but it did not book in its 2015 semiannual financial statements any provision for a potential new contribution to the increase of these funds given the uncertain existence of such a contribution, its features, and its hypothetical amount.

1.2. 1HIGHLIGHTS OF THE PERIOD AND POST-CLOSING EVENTS

a. Situation in the covered bond market

In the first half of 2015, business in the euro-denominated primary covered bond market for benchmark transactions remained dynamic but the volume issued slowed down with EUR 62 billion compared to EUR 67 billion for the same period in 2014. The market was sustained by major technical factors during the first quarter (negative net supply, continuation of the Eurosystem's third covered bonds purchase program (CBPP), and the indirect effects of the Public Sector Purchase Program (PSPP)), but market volatility increased during the second quarter due to doubts about the capacity of Greece to fulfill its commitments,. In this context, covered bond issuance activity slowed down sharply in May and June. with investors focused on short maturity (3 to 5 years), and then shut down up to mid July when Greece found an agreement with its creditors. As a consequence, and despite Eurosystem's buying flows, spreads tightening trend stopped, due to lower investor's appetite and the need to offer increased new issue premium versus secondary market.

In this market context, Caisse Française de Financement Local accentuated its particular positioning by successfully completing its euro denominated yield curve when it launched in January a 20-year benchmark issue for EUR 500 million followed in April by an 8 years jumbo transaction (EUR 1 billion). In addition to these public issues, Caisse Française de Financement Local took advantage of investors demand to increase outstanding amounts of existing issues (EUR 150 millions for each of 2019 and 2035 outstanding issues) and to remain active on private placement segment with new issuance of EUR 0.7 billion. The average maturity of the funds raised by Caisse Française de Financement Local in the first half was close to 14 years.

b. Events affecting the rating of *obligations foncières*

The rating of the obligations foncières issued by Caisse Française de Financement Local was not altered in 2015. As of June 30, 2015, the ratings were as follows: AA+ by Standard and Poor's, Aaa by Moody's and AA by Fitch.

c. Litigation related to structured loans

In its portfolio, Caisse Française de Financement Local has structured loans considered as sensitive that were granted to French customers of Dexia Credit Local. Certain of these customers initiated legal proceedings against Dexia Credit Local, Caisse Française de Financement Local and/or SFIL to contest the contractual interest rate.

As of June 30, 2015, the number of customers who had brought suit totaled 185 as compared with 210 at the end of 2014.

Since the law that created a legal basis to secure structured loan agreements subscribed by public entities took effect on July 30, 2014, the reasons linked to the annual rate of charge (TEG), in particular the formal absence of the TEG in the faxes which had preceded the signing of the contract, which had motivated the decision of the Tribunal de grande instance de Nanterre on February 8, 2013, concerning the loans granted to the Département de la Seine-Saint-Denis, can no longer be invoked.

The Département de la Seine-Saint-Denis which had been the cause of this law suit, decided to put a end to the litigation within the framework of a financial agreement that made it possible to eliminate its debt sensitivity.

Two new decisions of the Tribunal de grande instance de Nanterre were handed down since the law that created a legal basis to secure structured loan agreements subscribed by public entities took effect.

According to the terms of the first decision on April 24, 2O15, the Tribunal de grande instance de Nanterre rejected all the claims of the city of Carrières-sur-Seine, particularly as regards responsibility.

According to the terms of the second decision on June 26, 2O15, the Tribunal de grande instance de Nanterre condemned jointly and severally Dexia Credit Local and Caisse Française de Financement Local, to the benefit of the city of Saint-Cast-le-Guildo, for the failure of Dexia Credit Local to provide adequate information and sufficient warning when a loan was negotiated in 2007, while at the same time condemning this borrower to reimburse Caisse Française de Financement Local for all the unpaid sums and to pay the contractual interest rate for the remaining life of the contract.

The creation of the two support funds by the government should lead to a significant reduction in the number of law suits by enabling local governments and public hospitals to finance the cost of disengaging themselves from their structured loans. According to information published in the press, 676 eligible local governments submitted a request for assistance from the support fund. Thirty-one financial agreements have already been signed between Caisse Française de Financement Local and eligible customers.

The capacity for intervention of these funds was massively increased in the first quarter of 2015 in order to cover the additional cost linked to the appreciation of the Swiss franc so that the early reimbursement penalties for which the concerned customers were still responsible, after assistance from the funds, would not be greater than it would have been without the decision of the Swiss National Bank (SNB) in January 2015 to put an end to the floor rate of exchange of its national currency, the Swiss franc (CHF). The fund earmarked for local governments now totals EUR 3.0 billion and the one for pubic hospitals EUR 400 million. Likewise, the ceiling of the assistance made available (initially set at 45% of indemnities due) will be significantly raised for the most fragile local governments.

Caisse Française de Financement Local, which made a voluntary contribution to the local government support fund in the amount of EUR 150 million and to the hospital support fund for EUR 18 million, did not book any provision in its 2015 half year financial statements for a potential supplemental contribution linked to the increase of the total funds (given the uncertainty as to the very existence of such a contribution, its features and possible amount).

To prepare its 2015 half year financial statements, Caisse Française de Financement Local took into account the effects of the decision of the Swiss National Bank (SNB) on January 15, 2015, and the hypothesis that the solution announced by the government (in particular, strengthening the funds' intervention capacity and pushing up the ceiling for assistance to the most vulnerable local governments) would in fact rapidly be made available so that the support funds would remain at least as attractive as before the SNB decision for local governments and hospitals holding loans indexed on the EUR/CHF exchange rate.

1.3. APPLICABLE ACCOUNTING STANDARDS: RULES ADOPTED THE FRENCH ACCOUNTING STANDARDS BOARD (AUTORITÉ DES NORMES COMPTABLES – ANC)

Caisse Française de Financement Local prepares its annual and semiannual financial statements in compliance with ANC rule 2014-07 of November 26, 2014, related to the annual accounts for the banking sector.

The financial statements as of June 30, 2015, were prepared using the same accounting principles as those used in the financial statements as of December 31, 2014.

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:

- Ongoing 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 APPLIED TO THE FINANCIAL STATEMENTS

a. Loans and advances to banks and to customers

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

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

Interest on loans is recorded as Interest income *prorata temporis* for accrued amounts as is interest on past-dues.

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

Early loan reimbursement indemnities recorded up to December 31, 2004, continue to be amortized, on a tax and accounting basis, over the residual maturity of the repaid loans, in function of the amount of interest that would have been paid on these loans. The remaining indemnities to be amortized over time are recorded in accruals and other liabilities.
Since January 1, 2005, early loan reimbursement penalties have been recorded in the income statement at the date they occur.

A loan is considered as non-performing when it presents one of the following characteristics:

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

Compromised non-performing loans are loans to borrowers whose recovery outlook is so downgraded that they are written off. Loans unpaid for more than one year are recorded in this category. Interest on these loans no longer contributes to the interest margin once they have been transferred to the category of compromised non-performing loans.

Impairment charges are recognized for non-performing and compromised non-performing loans. Risk management determines the percentage of impaired capital in function of expected losses. Interest income is fully impaired.
Impairment charges and reversals for credit risk are recognized as Cost of risk as well as the losses on non-recoverable loans and recoveries on amortized loans.

b. Securities

The securities held by Caisse Française de Financement Local are recorded in the assets as:
Government and public entity securities eligible for central bank refinancing;
Bonds and other fixed income securities.

The item “Government and public entity securities eligible for central bank refinancing” includes debt securities issued by public sector entities that May be refinanced through the European system of central banks.
The item “Bonds and other fixed income securities” includes the following categories of securities:

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

They are recognized for accounting purposes as investment securities or placement securities.

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

Securities considered as Investment securities are recorded on the date of purchase at acquisition clean price excluding fees.
Accrued interest at the date of acquisition is recorded as other assets. Interest on these securities is recorded in income as Interest income on bonds and fixed income securities.

The positive or negative difference between the redemption value and the acquisition cost (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

At the end of the reporting 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 their obligations;
- The probability that the company will not hold these securities until maturity due to new circumstances.

Placement securities
Securities that do no fit in any existing category are recognized as placement securities.
They are recorded on the date of purchase at acquisition cost excluding fees. Accrued interest at the date of acquisition is recorded as other assets. Interest on these securities is recorded as Interest income on bonds and fixed income securities.

The positive or negative difference between the redemption value and the acquisition cost (discount or premium) is amortized according to a quasi- actuarial method over the residual maturity of the security.

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

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

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

Placement securities transferred to investment securities are recorded at their acquisition cost and previously recognized impairment is reversed over the residual maturity of the securities concerned.

c. Debt due to banks

Debt due to banks is broken down according to the type of debt (sight accounts, current accounts, long-term loans or non-allocated securities) and the initial maturity (sight or term debt).
Interest accrued on this debt is recorded in liabilities offsetting net income.

d. Debt securities

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

Obligations foncières
These debt securities are recorded at nominal value. Redemption and issue premiums are amortized on a straight-line basis over the maturity of the securities *prorata temporis*. They are recorded on the balance sheet in the same categories as the corresponding debt.

Amortization of these premiums is recorded in the income statement as Interest expense on bonds and other fixed income securities. If bonds are issued above par, amortization of issue premiums is deducted from interest expense on bonds and other fixed income securities.

Interest on bonds is recorded as Interest expense for accrued amounts calculated *prorata temporis.*

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

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

Registered covered bonds
They are private placements that are recorded at their nominal value. The accounting principles applied are identical to those used for *obligations foncières* (see above).

e. Provisions

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

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

f. Derivative transactions

Caisse Française de Financement Local engages in derivative transactions to hedge the interest rate and foreign exchange risks to which it is exposed in its activity.
Depending on their purpose, these transactions are assigned to micro-hedge or macro-hedge portfolios. Valuation methods and accounting principles are determined according to the portfolio to which they are assigned.

Pursuant to article L.513-10 of the Monetary and Financial Code, these transactions benefit from the privilege defined in article L.513-11 of the Monetary and Financial Code provided that their purpose is to hedge the assets or debt benefiting from the privilege and the overall risk on the assets, liabilities and off-balance sheet items.
The law stipulates that derivative transactions do not benefit from the privilege

when related to sources of financing that do not benefit from the privilege. For Caisse Française de Financement Local, the only resources that do not benefit from the privilege comprise the debt with SFIL, which is not hedged.

The notional amount of these hedging instruments is recorded as an off-balance sheet item over the maturity of the contract, i.e. from the date the contract is signed (including forward contracts) up to maturity. The amount recorded is adjusted to reflect any changes in notional amounts so as to represent the maximum current or future commitment.

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

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

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

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

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

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

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

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

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

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

ment at cancellation.

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

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

The policy of Caisse Française de Financement Local is to avoid any foreign exchange risk. Market risks related to foreign exchange transactions are eliminated from the start by currency swaps when an asset or liability that is not denominated in euros is recorded on the balance sheet. General accounting verifies that at each end of reporting period there is no foreign exchange risk.

The market back office and market accounting units regularly control the symmetry of micro-hedge swaps.

g. Foreign currency transactions

Caisse Française de Financement Local records foreign currency transactions in accounts opened and denominated in each of the currencies used.

Specific foreign exchange position accounts and foreign exchange position equivalent accounts are opened in each currency.

At the end of each reporting period, differences between the amounts resulting from a market price valuation of the foreign exchange position accounts and the amounts recorded in the foreign exchange position equivalent accounts are recorded in the income statement.

h. Foreign exchange transactions

In the course of systematic hedging of its foreign exchange risk, Caisse Française de Financement Local enters into currency swaps. These currency swaps are initiated to eliminate the risk of foreign exchange rate fluctuations that might affect an asset or liability as soon as such a risk is recognized. They are mainly used to hedge certain bond issues, debt securities and customer loans.

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

i. Non-recurring income and expense

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

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

j. Tax consolidation

Since January 1, 2014, Caisse Française de Financement Local belongs to the tax group headed up by SFIL. This entity pays the total income tax owed by the

group. Caisse Française de Financement Local records in its accounts the amount of tax for which it would be liable if it were not a member of the tax group.
Tax savings realized by the tax group are recorded in the accounts of SFIL.

k. Offices and activities in uncooperative states and territories

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

Identity of the parent company consolidating the accounts of Caisse Française de Financement Local as of June 30, 2015

SFIL
1-3 rue du Passeur de Boulogne
92130 Issy-les-Moulineaux

2. NOTES TO THE ASSETS (EUR millions)

2.1 - CENTRAL BANKS

	6/30/2014	12/31/2014	6/30/2015
Mandatory reserves	-	-	-
Other deposits	461	519	1,079
TOTAL	**461**	**519**	**1,079**

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

a. Accrued interest included in this item: 42

b. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
1,878	140	411	3,616	6,045

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

	Amount as of 6/30/2014	Amount as of 12/31/2014	Amount as of 6/30/2015	Impairment as of 6/30/2015	Unrealized capital gain or loss as of 6/30/2015 (2)
Listed securities (1)	5,090	5,629	5,728	(0)	(517)
Other securities	334	326	317	-	(13)
TOTAL	**5,424**	**5,955**	**6,045**	**(0)**	**(530)**

(1) Listed securities are registered for trading on a stock exchange.
(2) The unrealized capital gain or loss is the difference between accounting value and market value.

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

Portfolio	Net amount as of 6/30/2014	Net amount as of 12/31/2014	Increases (1)	Decreases	Transfers	Conversion differences	Impairment as of 6/30/2015	Net amount as of 6/30/2015	Unrealized capital loss as of 6/30/2015 (2)
Trading	-	-	-	-	-	-	-	-	-
Placement	1,313	2,363	1,500	(1300)	-	(0)	(0)	2,563	(35)
Investment	4,111	3,592	-	(121)	-	11	-	3,482	(495)
TOTAL	**5,424**	**5,955**	**1,500**	**(1421)**	**-**	**11**	**(0)**	**6,045**	**(530)**

(1) French Treasury bills with short maturity.
(2) The unrealized capital gain or loss is the difference between accounting value and market value.

e. Impairment breakdown by country

See note 2.9

2.3 - LOANS AND ADVANCES DUE FROM BANKS

a. Sight loans and advances due from banks

	6/30/2014	12/31/2014	6/30/2015
Sight accounts	15	14	13
Unallocated sums	-	-	-
TOTAL	**15**	**14**	**13**

b. Term loans and advances due from banks

b.a. Accrued interest included in this item: 18

b.b. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
246	322	3,318	1,381	**5,267**

b.c. Analysis by initial maturity excluding accrued interest

	Net amount as of 6/30/2014	Net amount as of 12/31/2014	Gross amount as of 6/30/2015	Decrease in value as of 6/30/2015	Net amount as of 6/30/2015
Loans of less than 1 year	-	-	-	-	-
Loans of more than 1 year	6,914	6,724	5,267	-	5,267
TOTAL	**6,914**	**6,724**	**5,267**	-	**5,267**

b.d. Breakdown by counterparty

	6/30/2014	12/31/2014	6/30/2015
Swiss cantonal banks benefiting from their cantons' legal guarantee	594	598	536
Banks guaranteed by a local government, *crédits municipaux*	108	92	67
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	2125	2122	2,118
Loans to SFIL	4,087	3,912	2,546
TOTAL	**6,914**	**6,724**	**5,267**
- of which replacement assets	*4,087*	*3,912*	2,546

2.4 - CUSTOMER LOANS AND ADVANCES

a. Accrued interest included in this item: 745

b. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
1,075	3,007	14,099	27,543	**45,724**

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

Economic sector	6/30/2014	12/31/2014	6/30/2015
Public sector	44,082	42,605	42,818
Other sectors (1)	3,403	3,025	2,906
TOTAL	**47,485**	**45,630**	**45,724**

(1) Social Housing: Office public de l'habitat (OPH) *and* Entreprises sociales pour l'habitat (ESH) *and other loans guaranteed by local governments.*

d. Analysis by initial maturity excluding accrued interest

	Net amount as of 6/30/2014	Net amount as of 12/31/2014	Gross amount as of 6/30/2015	Impairment as of 6/30/2015	Net amount as of 6/30/2015
Loans of less than 1 year	2	5	5	-	5
Loans of more than 1 year	45,982	45,625	45,794	(75)	45,719
TOTAL	**45,984**	**45,630**	**45,799**	**(75)**	**45,724**

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

	Net amount as of 6/30/2014	Net amount as of 12/31/2014	Gross amount as of 6/30/2015	Impairment as of 6/30/2015	Net amount as of 6/30/2015
Performing commitments	45,598	45,224	45,165	-	45,165
Non-performing loans	262	290	329	(17)	312
Compromised non-performing loans	83	116	305	(58)	247
TOTAL	**45,943**	**45,630**	**45,799**	**(75)**	**45,724**

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

	6/30/2014	12/31/2014	Allocations	Reversals	Transfers	6/30/2015
For non-performing loans						
On loans	(9)	(9)	(1)	6	-	(4)
On interest	(11)	(12)	(10)	9	-	(13)
For compromised non-performing loans						
On loans	(7)	(4)	(4)	3	-	(5)
On interest	(14)	(22)	(33)	2	-	(53)
TOTAL	**(41)**	**(47)**	**(48)**	**20**	-	**(75)**

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

g. Impairment breakdown by country

See note 2.9

2.5 - BONDS AND OTHER FIXED INCOME SECURITIES

a. Accrued interest included in this item: 15

b. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
1	109	676	3,456	**4,242**

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

	6/30/2014	12/31/2014	6/30/2015
Public sector	3,294	3,710	3,622
Other sectors (guaranteed by a State or by a local government)	877	856	620
TOTAL	**4,171**	**4,566**	**4,242**
- of which eligible for central bank refinancing	*394*	*394*	*154*

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

	6/30/2014	12/31/2014	6/30/2015	Impairment as of 6/30/2015	Unrealized capital gain or loss as of 6/30/2015 (1)
Listed securities	1,734	2,208	1,966	-	(98)
Other securities	2,437	2,358	2,276	-	(157)
TOTAL	**4,171**	**4,566**	**4,242**	**-**	**(255)**

(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 6/30/2014	Net amount as of 12/31/2014	Increases	Decreases	Transfers	Conversion differences	Impairment as of 6/30/2015	Net amount as of 6/30/2015	Unrealized capital loss as of 6/30/2015 (1)
Trading	-	-	-	-	-	-	-	-	-
Placement	950	947	-	(280)	-	56	-	723	7
Investment	3,221	3,619	-	(123)	-	23	-	3,519	(262)
	4,171	**4,566**	**-**	**(403)**	**-**	**79**	**-**	**4,242**	**(255)**

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

f. Impairment breakdown by country

See note 2.9

2.6 - OTHER ASSETS

	6/30/2014	12/31/2014	6/30/2015
Other receivables	0	0	1
TOTAL	**0**	**0**	**1**

2.7 - ACCRUALS AND OTHER ASSETS

	6/30/2014	12/31/2014	6/30/2015
Deferred losses on hedging transactions	2,000	1,997	1,933
Deferred charges on bond issues	44	41	41
Deferred charges on hedging transactions	156	197	186
Premiums on acquisition of loans	120	136	165
Other prepaid charges	-	1	1
Accrued interest not yet due on hedging transactions	1,069	1,064	1,019
Translation adjustments	-	-	-
Other deferred income	-	-	-
Other accruals	1	2	-
TOTAL	**3,390**	**3,438**	**3,345**

2.8 - TOTAL ASSETS

Analysis by original currency	Amount in original currency as of 6/30/2014	Amount in euros as of 6/30/2014	Amount in original currency as of 12/31/2014	Amount in euros as of 12/31/2014	Amount in original currency as of 6/30/2015	Amount in euros as of 6/30/2015
EUR	60,467	60,467	60,841	60,841	60,128	60,128
AUD	531	365	530	358	530	365
CAD	1,020	699	1,019	725	1,018	731
CHF	2,642	2,175	2,643	2,197	1,921	1,846
GBP	643	803	637	818	643	906
HKD	206	19	201	21	206	24
JPY	95,434	689	95,837	661	94,721	693
NOK	1,012	121	1,039	115	1,012	115
PLN	36	9	37	9	38	9
SEK	1,338	146	1,334	141	335	36
USD	2,237	1,636	2,125	1,752	1,882	1,683
TOTAL		**67,129**		**67,638**		**66,536**

2.9 - IMPAIRMENT BREAKDOWN BY COUNTRY

	Amount as of 6/30/2014	Amount as of 12/31/2014	Amount as of 6/30/2015
Government and public entity securities eligible for central bank	**-**	**-**	**-**
Bonds and other fixed income securities - *placement* securities	**-**	**0**	**0**
France	-	0	0
Bonds and other fixed income securities - investment securities	-	-	-
Loans and advances to customers	**(41)**	**(47)**	**(75)**
France	(41)	(47)	(75)

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

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

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

	12/31/2014					
	Spain	**Ireland**	**Italy**	**Portugal**	**Greece**	**Total**
Government bonds	-	-	599	-	-	599
Securities guaranteed by State	-	-	-	-	-	-
TOTAL	-	-	**599**	-	-	**599**

	6/30/2015					
	Spain	**Ireland**	**Italy**	**Portugal**	**Greece**	**Total**
Government bonds		-	585	-	-	585
Securities guaranteed by State	-	-	-	-		-
TOTAL	-	-	**585**	-	-	**585**

	12/31/2014					
	Spain	**Ireland**	**Italy**	**Portugal**	**Greece**	**Total**
Investment securities	-	-	487	-	-	487
Placement securities	-	-	112	-	-	112
TOTAL	-	-	**599**	-	-	**599**
IMPAIRMENT	-	-	(8)	-	-	(8)

	6/30/2015					
	Spain	**Ireland**	**Italy**	**Portugal**	**Greece**	**Total**
Investment securities	-	-	470	-	-	470
Placement securities	-	-	115	-	-	115
TOTAL	-	-	**585**	-	-	**585**
IMPAIRMENT	-	-	**-**	-	-	**0**

3. NOTES TO THE LIABILITIES (EUR millions) :

3.1 CENTRAL BANKS

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

	6/30/2014	12/31/2014	6/30/2015
Overnight borrowing	-	-	-
Term borrowing	-	-	-
Accrued interest	-	-	-
TOTAL BANQUE DE FRANCE	-	-	-

3.2 DUE FROM BANKS

At the end of June 2015, funding obtained from Sfil, within the framework of the financing agreement, was comprised of different loans with maturities initially between twenty-one days and seven years, indexed on Euribor or Eonia.

	6/30/2014	12/31/2014	6/30/2015
Sight accounts	0	0	-
Current account parent company	-	-	-
Interest accrued not yet due	-	-	-
Term borrowing parent company	6,184	6,212	5,593
Interest accrued not yet due	15	16	9
Unallocated sums	-	-	-
TOTAL	**6,199**	**6,228**	**5,602**

Analysis by residual maturity excluding accrued interest

	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Sight	-	-	-	-	-
Term	987	0	2,880	1,726	5,593
TOTAL	**987**	**0**	**2,880**	**1,726**	**5,593**

3.3 - DEBT SECURITIES

A. Debt securities (*obligations foncières*) :

a. Accrued interest included in this item: 842

b. Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Obligations foncières	4,070	4,089	19,601	19,675	47,435
of which issue premiums (1)	(3)	-	(8)	(49)	(60)

(1) The gross amount of issue premiums, before amortization, totaled EUR 202 million.

c. Changes during the year excluding accrued interest

12/31/2014	Increases	Decreases	Translation adjustment	6/30/2015
47,249	2,032	(2,344)	498	47,435

B. Other bonds (registered covered bonds)

a. Accrued interest included in this item: 127

b. Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Registered covered bonds	-	-	325	5,613	5,938
of which issue premiums (1)	-	-	-	50	50

(1) The gross amount of issue premiums totaled EUR - 49,8 million.

c. Analysis by residual maturity excluding accrued interest

12/31/2014	Increases	Decreases	Translation adjustment	6/30/2015
5,486	450	2	-	5,938

3.4 - OTHER LIABILITIES

	6/30/2014	12/31/2014	6/30/2015
Cash collateral received	2,502	2,351	1,408
Accrued interest not yet due on cash collateral received	0	(0)	(0)
Taxes	2	10	1
Balances to pay on unwound hedging contracts	-	-	-
Contribution to the support fund (1)	168	158	142
Other creditors	-	1	0
TOTAL	**2,672**	**2,520**	**1,551**

(1) This item corresponds to the commitment of Caisse Française de Financement Local to contribute to EUR 18 million for hospitals. An additional contribution to the multi-year support fund for local governments was added in 2013 in the amount of EUR 10 million over 15 years, minus an initial payment of EUR 10 million at the end of 2014 and a second one in 2015.

3.5 - ACCRUALS AND OTHER LIABILITIES

	6/30/2014	12/31/2014	6/30/2015
Deferred gains on hedging transactions	-	-	-
Deferred income on hedging transactions	2,322	2,301	2,227
Deferred income on loans	183	172	165
Accrued interest not yet due on hedging transactions	998	916	923
Other accrued charges	20	22	16
Translation adjustments	323	202	170
Other accruals	-	1	1
TOTAL	**3,846**	**3,614**	**3,502**

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

	Amount as of 6/30/2014	Amount as of 12/31/2014	Increases	Decreases	Translation adjustments	Amount as of 6/30/2015
Loans commitments	87	63	3	(1)	-	65
Financial instruments	43	45	-	(9)	-	36
Regulated provision	-	-	-	-	-	-
Other provisions	29	29	-	-	-	29
TOTAL	**159**	**137**	**3**	**(10)**	**-**	**130**

Caisse Française de Financement Local increase its provisions on loan portfolio to EUR 65 million.

3.7 EQUITY

	6/30/2014	12/31/2014	6/30/2015
Share capital	1,315	1,315	1,315
Legal reserve	46	46	46
Retained earnings (+/-)	18	18	25
Net income (+/-)	(63)	8	23
TOTAL	**1,316**	**1,387**	**1,409**

On May 26, 2015, the Ordinary and Extraordinary Shareholders' Meeting decided to allocate the 2014 net income of EUR 8 million to retained earnings, constituing income for distribution of EUR 25 million after affectation to legal reserve.

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

3.8 - TOTAL LIABILITIES

Analysis by original currency	Amount in original currency as of 6/30/2014	Amount in euros as of 6/30/2014	Amount in original currency as of 12/31/2014	Amount in euros as of 12/31/2014	Amount in original currency as of 6/30/2015	Amount in euros as of 6/30/2015
EUR	60,467	60,467	60,841	60,841	60,128	60,128
AUD	531	365	530	358	530	365
CAD	1,020	699	1,019	725	1,018	731
CHF	2,642	2,175	2,643	2,197	1,921	1,846
GBP	643	803	637	818	643	906
HKD	206	19	201	21	206	24
JPY	95,434	689	95,837	661	94,721	693
NOK	1,012	121	1,039	115	1,012	115
PLN	36	9	37	9	38	9
SEK	1,338	146	1,334	141	335	36
USD	2,237	1,636	2,125	1,752	1,882	1,683
TOTAL		**67,129**		**67,638**		**66,536**

3.9 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Parent company (1)			Other related parties (2)		
	6/30/2014	12/31/2014	6/30/2015	6/30/2014	12/31/2014	6/30/2015
ASSETS						
Loans and advances due from banks - sight	-	-	-	-	-	-
Loans and advances due from banks - time	4,092	3,916	2,548	-	-	-
Bonds and other fixed income securities	-	-	-	-	-	-
LIABILITIES						
Due to banks - sight	-	-	-	-	-	-
Due to banks - time	6,199	6,228	5,602	-	-	-
INCOME STATEMENT						
Interest income on loans and advances	13	23	6	(1)	(4)	(3)
Interest income on debt securities	-	-	-	-	-	-
Interest expense on borrowings	(33)	(61)	(21)	-	-	-
Net commissions	(12)	(22)	(10)	0	-	
OFF-BALANCE SHEET						
Interest rate derivatives	17,608	16,492	18,347	-	-	-
Foreign exchange derivatives	4,624	4,606	4,354	-	-	-
Commitments and guarantees received	4,581	4,366	3,145	131	133	140

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

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

4.1 - COMMITMENTS GRANTED

	6/30/2014	12/31/2014	6/30/2015
Financing commitments granted to credit institutions	-	-	-
Financing commitments granted to customers (1)	178	150	297
Other commitments given, assets assigned in guarantee	-	-	-
TOTAL	**178**	**150**	**297**

(1) Financing commitments on loans and advances correspond to contracts signed for loans not yet paid out to customers as of June 30, 2015.

4.2 - COMMITMENTS RECEIVED

	6/30/2014	12/31/2014	6/30/2015
Financing commitments received from credit institutions (1)	489	550	627
Currencies borrowed	-	-	-
Guarantees received from credit institutions (2)	4,276	4,103	2,731
Guarantees received from local governments and asset transfers as guarantees of commitments on local governments	6,987	7,142	7,200
Other commitments received	-	-	-
TOTAL	**11,752**	**11,795**	**10,558**

(1) As of June 30, 2015, this item corresponded to :

- to loans granted by SFIL in the amount of EUR 547 million

- to registered covered bonds waiting for settlement for EUR 30 million

- to the amount of the overdraft, authorized in the current account agreement set up with SFIL, totaling EUR 50 million.

(2) As of June 30, 2015, the total was mainly composed of pledges of securities to the benefit of Caisse Française de Financement Local as a guarantee for the reimbursement of loans granted to Sfil.

4.3 - FOREIGN CURRENCY TRANSACTIONS

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

	6/30/2014	12/31/2014	6/30/2015	Fair value as of 6/30/2015
Currencies to receive	10,269	10,298	9,366	491
Currencies to deliver	10,592	10,501	9,537	(564)
TOTAL	**20,861**	**20,799**	**18,903**	**(73)**

4.4 - COMMITMENTS ON INTEREST RATE DERIVATIVES

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

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

Type of transaction	12/31/2014	Less than 1 year	1 year to 5 years	More than 5 years	Total
Unconditional transactions	139,550	62,414	22,647	58,477	143,538
of which deferred start	1,130	4,000	-	1,886	5,886

These hedging transactions include micro- and macro-hedges.

b. Analysis of interest rate transactions by product type

	6/30/2014	12/31/2014	6/30/2015
Interest rate swaps	136,227	139,550	143,538
Term contracts	-	-	-
Interest rate options	-	-	-
TOTAL	**136,227**	**139,550**	**143,538**

c. Analysis of interest rate swap transactions

	6/30/2014	12/31/2014	6/30/2015	Fair value as of 6/30/2015
Micro-hedge	69,269	69,999	70,959	(2,827)
Macro-hedge	66,958	69,551	72,579	(3,455)
TOTAL	**136,227**	**139,550**	**143,538**	**(6,282)**

d. Analysis of interest rate transactions by counterparty

	6/30/2014	12/31/2014	6/30/2015
Related parties	17,608	16,492	18,347
Counterparties with equity interests	-	-	-
Other counterparties	118,619	123,058	125,191
TOTAL	**136,227**	**139,550**	**143,538**

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

5.0. - INTEREST AND RELATED INCOME / EXPENSE

	12/31/2014	6/30/2015
INTEREST AND RELATED INCOME	**818**	**862**
Due from banks	43	31
Due from customers	599	737
Bonds and other fixed income securities	59	48
Macro-hedge transactions	117	46
Other commitments	-	-
INTEREST AND RELATED EXPENSE	**(777)**	**(780)**
Due to banks	(36)	(22)
Due to customers	(136)	(326)
Bonds and other fixed income securities	(197)	(97)
Macro-hedge transactions	(408)	(335)
Other commitments	-	-
INTEREST MARGIN	**41**	**82**

5.1 - ANALYSIS OF COMMISSIONS PAID

	12/31/2014	6/30/2015
Commission for business brokerage and securities portfolio management billed by Dexia Crediop	(3)	(3)
Commission paid on securities transactions	(1)	(1)
Commission recharge to *SFIL*	(12)	(10)
TOTAL	**(16)**	**(14)**

5.2 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS

	12/31/2014	6/30/2015
Transactions on *placement* securities (1)	(0)	9
Transactions on investments securities	-	-
Transactions on interest rate derivatives	-	-
Foreign exchange transactions	0	0
TOTAL	**(0)**	**9**

(1) This item regroups capital gains and losses on sales and provisions and reversals on this portfolio. Amount after swap.

5.3 - GENERAL EXPENSES

Caisse Française de Financement Local has no salaried employees in accordance with article L.513-15 of the Monetary and Financial Code. Through an agreement, the general management of the operations of Caisse Française de Financement Local is entrusted to its parent company, SFIL, a credit institution.

Particular agreements were also drawn up with the following entities: Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium) and Dexia Crediop (Italy). These management contracts already existed in previous years.
General operating expense can be broken down as follows:

	12/31/2014	6/30/2015
Taxes	(2)	(1)
Other general operating expense (1)	(40)	(52)
TOTAL	**(42)**	**(53)**

(1) of which EUR 50 million with SFIL.

5.4 - COST OF RISK

	12/31/2014	6/30/2015
Contribution to the support fund	(18)	-
Collective and specific impairments	(28)	2
TOTAL	**(46)**	**2**

5.5 - CORPORATE INCOME TAX

	12/31/2014	6/30/2015
Income tax for the year	-	(3)
Deffered tax	-	-
TOTAL	**-**	**(3)**

The tax rate applicable in France in 2015 is 38.00%.

5 Statutory auditor's report

Half-year 2015 *(French Gaap)*

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

Period from January 1st, 2015 to June 30th, 2015

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

To the shareholders,

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

- the review of the accompanying half-year financial statements of the Caisse Française de Financement Local, for the period from January 1st, 2015 to June 30th, 2015;
- the verification of the information contained in the interim management report.

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

1. Conclusion on the financial statements

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

Based on our review, we did not identify any material misstatements that would cause us to believe that the interim financial statements do not present fairly, in all material aspects, the results of operations for the six-month period ended June 30th, 2015 and the financial position of the Caisse Française de Financement Local and its assets at that date, in accordance with accounting rules and principles applicable in France.

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

2. Specific verification

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

Courbevoie and Neuilly-sur-Seine, August 27th, 2015

The Statutory Auditors

French original signed by

MAZARS	DELOITTE & ASSOCIES
Anne VEAUTE	Charlotte VANDEPUTTE

6 Statement by the person responsible for the half-year financial report

Caisse Française de Financement Local

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

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

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

Issy-les-Moulineaux, August 27, 2015

Gilles GALLERNE
Chairman of the executive board

Caisse Française de Financement Local
1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux - France

Tél. : +33 (0) 1 73 28 90 90
www.caissefrancaisedefinancementlocal.fr

Société anonyme à directoire et conseil de surveillance au capital de 1 315 000 000 euros
RCS Nanterre 421 318 064
N° TVA : FR 69 421 318 064