

## Financial report Half-year 2016

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 2016

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## Management report

For the period January 1 to June 30, 2016

# 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 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 or shares of similar entities considered as exposures to public sector entities as defined in article L.513-5 of the Monetary and Financial Code;
  - to hold securities and other 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 THE COMPANY

Caisse Française de Financement Local and its parent company SFIL (formerly Société de Financement Local) are key elements in the financing of local governments and public hospitals in France introduced by the French State in 2013. This organization is based on a commercial activity developed by La Banque Postale with refinancing provided by Caisse Française de Financement Local.

In 2015, the French State entrusted SFIL and Caisse Française de Financement Local with the responsibility to refinance large export credits with the guarantee of the State (see 1.3.d). The objective is to enable large export credits as well as French local governments and public hospitals to benefit from optimal financing conditions through a high rating and irreproachable risk management.

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 missions 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’s and SFIL’s ongoing financial transactions if so required.

## 1.3 – ECONOMIC MODEL OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

### a. Servicing and financing provided by SFIL

The role of SFIL primarily involves the following:

- to 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), as defined by the regulations applicable to *sociétés de crédit foncier*, in particular article L.513-15 of the Monetary and Financial Code;
- to provide Caisse Française de Financement Local with the derivatives and non-privileged funding it needs to carry out its activities.

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 its shareholders:

- Caisse des Dépôts et Consignations (CDC) for all the needs linked to operations booked prior to the date of acquisition (Janu-

- ary 31, 2013) and to the new export refinancing activity;
- La Banque Postale (LBP) for all the needs related to loans to French local governments and public hospitals that it originates.

In addition to commitments of the French State as the reference shareholder, on January 31, 2013, SFIL signed a declaration of support of Caisse Française de Financement Local, which is reproduced in this 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. Other management agreements

Specific individual agreements have been established with entities that have transferred assets to the *société de crédit foncier*, and continue to ensure management for their national clientele. At the end of 2015, there were agreements with the following entities: Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium), and Dexia Crediop (Italy). These agreements already existed in previous years.

The management of registered covered bonds (RCB) for German investors is entrusted to Landesbank Baden-Württemberg (LBBW) for contract issued since 2015 while Dexia Kommunalbank Deutschland continues to manage registered covered bonds issued prior to 2015.

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

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

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

This partnership enables Caisse Française de Financement Local to maintain its control of the credit risk through a two-stage analysis:

- 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 and eligibility 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 loans originated by La Banque Postale are sold 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.

As required by law, the acquisition of loans by Caisse Française de Financement Local is carried out by using a transfer form (*bordereau*) that is specific to *sociétés de crédit foncier*.

## d. Refinancing of export credit

All of the authorizations required to expand the activities of SFIL and Caisse Française de Financement Local to include the refinancing of large export credits were obtained in 2015. Since then, Caisse Française de Financement Local may grant loans to SFIL in order to refinance its export credits. Such loans benefit from an irrevocable and unconditional 100% guarantee by the French State.

This new business will bring Caisse Française de Financement Local closer to the French State 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 covered by the export credit insurance guaranteed by the State<sup>(1)</sup>. Then, these banks will sell all or part of the loans (and the attached rights) to SFIL and will keep at least the share of the export credit not covered by the insurance (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 by the French State, referred to as an "enhanced guarantee"<sup>(2)</sup>. Loans granted by Caisse Française de Financement Local to SFIL to refinance the purchased export credits will thus constitute exposures that are totally guaranteed by the French State and eligible for the cover pool of a *société de crédit foncier*. These loans will also comply with the European CRR regulation (article 129, which specifies the assets authorized for inclusion in a cover pool to ensure that the covered bonds will benefit from the best prudential treatment).

These new loans, like the new French public sector loans marketed by La Banque Postale, will be added to the portfolio of Caisse Française de Financement Local, which is financed by the issue of *obligations foncières*. Given the current size of the cover pool and the growth of its traditional line of business, the percentage share of these activities will increase little by little and will only become significant in several years. This share should reach 11% based on an annual production of export credit refinancing between EUR 1.5 billion and EUR 2.0 billion.

<sup>1</sup>Public guarantees for foreign trade, which in particular cover export credit insurance operations, are granted by the Minister in charge of the Economy, once approved by the Guarantees and Foreign Trade Credit Commission. They were formerly managed by Coface, but since the amended 2015 finance law, they are entrusted to an entity the State has asked to manage and deliver these guarantees, under the State's control, on its behalf and in its name. This public entity also manages and delivers enhanced guarantees under the State's control, on its behalf and in its name.

<sup>2</sup>The enhanced guarantee was introduced by law 2012-1510 of December 29, 2012, and the decree 2013-693 of July 30, 2013.

On June 29, 2016, Caisse Française de Financement Local signed its first two export refinancing contracts. These loans were granted to SFIL in order to refinance the export credits granted to an American cruise line to finance the purchase of two innovative, high-end vessels which will be constructed by STX at the Saint Nazaire shipyards. SFIL's participation in the loan granted by the banking pool will represent almost half of the EUR 1.3 billion export credit. The loans will be drawn down gradually during the construction phase. As a reminder, the loans granted by CAFFIL to SFIL benefit from an irrevocable and unconditional 100% guarantee by the French State, referred to as an "enhanced guarantee".

#### **1.4 – RATINGS OF THE *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 ratings of the bonds issued by Caisse Française de Financement Local are 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 more notches in function of the current safeguards (legal framework, quality of assets, asset/liability management, over-collateralization, etc.).

The rating of SFIL 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 public service responsibilities SFIL has been entrusted with, State commitments and the State's influence on SFIL's governance.

The close relationship between Caisse Française de Financement Local and the French State, because of its shareholding structure and support, but also of 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 2016 and post-closing events**

### **2.1 – THE COVERED BOND MARKET**

The market for public issues of covered bonds in euros was extremely active in the first half of 2016, with an offering volume in the primary market of EUR 92 billion versus EUR 62 billion in the first half of 2015. Business was basically concentrated in the beginning of the year, at which time the abundant offer encouraged investors to be more selective and demanding in terms of issue premiums. After a period in which spreads widened, the market returned to a positive dynamic, beginning in February, as the relative value of the covered bond product improved, thereby making it possible to attract the buying interests of traditional investors. The market continued to benefit during this period from the strong support contributed by the Eurosystem's covered bonds purchase program. The end of the first quarter was marked by a significant and rapid tightening of secondary spreads after the announcement of a reinforcement of non-standard monetary policy measures at Eurosystem central banks. This tightening lasted until the end of the first half boosted by a decline in primary offer volumes.

In such a market environment, CAFFIL was regularly active in the market for public issues in euros. Altogether, four new *souches* were created in the last six months, thereby making it possible to complete the reference yield curve. In January, CAFFIL launched an issue for a total amount of EUR 1.5 billion made up of two *tranches* offering a maturity of six years and 15 years. In April a ten-year benchmark issue of EUR 1.25 billion was launched, and in June a nine-year benchmark issue of EUR 1 billion completed recent initiatives.

In addition to these benchmark public issues, CAFFIL benefited from investor demand for long maturities to carry out private placements of EUR 266 million and to increase the amount of existing *souches* (2026 and 2035). The average maturity of financing raised by CAFFIL in the first half is close to 10.5 years.

### **2.2 – EVENTS AFFECTING THE RATINGS OF *OBLIGATIONS FONCIÈRES***

The ratings of the *obligations foncières* issued by Caisse Française de Financement Local were not altered in 2016. As of June 30, 2016, 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 (see 4.2.d.1 for definition) that were granted to French customers of Dexia Credit Local. Some of these customers initiated legal proceedings against Dexia Credit Local, Caisse Française de Financement Local and/or SFIL.

### a. Decrease in outstanding sensitive structured loans

The policy applied by SFIL since its creation at the beginning of 2013 made it possible to effect a significant reduction in the size of the portfolio of sensitive structured loans of Caisse Française de Financement Local (see 4.2.d.2).

### b. Creation of support funds contributing to the cost of sensitivity reduction

The two support funds created by the French government in 2013 and 2014 allow local governments and public hospitals eligible for this arrangement to finance the cost of eliminating their structured loans. These funds were fully operational as of 2015. In the second half of the year 2015, notifications of the amounts of assistance provided by the funds began to be sent to local governments and public hospitals that had requested such help. This made it possible to maintain a sustained pace of sensitivity reduction and resulted in a major decrease in the number of lawsuits.

The capacity for intervention of these funds was significantly 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 borne by customers holding loans indexed on the EUR/CHF exchange rate would not be greater, after assistance from the funds, than they would have been before the decision of the Swiss National Bank (SNB) in January 2015 to put an end to the floor rate of exchange of the Swiss franc (CHF). The fund earmarked for local governments now totals EUR 3.0 billion and the one for public hospitals EUR 400 million. Likewise, the ceiling of the assistance made available was significantly raised from 45% to 75% of penalties owed by the most fragile local governments.

Caisse Française de Financement Local 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 38 million.

To prepare its 2014, 2015 and 2016 annual financial statements, Caisse Française de Financement Local took into account the hypothesis that the solutions announced by the government would in fact rapidly be made available. It was notably a question of defining a legal base for other structured loan agreements contracted by public sector entities (which took effect on July 30, 2014), creating a support fund for local governments and then for public hospitals and finally the measures taken in 2015 to counter the major rise in the exchange value of the Swiss franc decided by the Swiss National Bank 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 (rise in the two support funds and increase in the maximum rate of assistance granted).

### c. Significant decline in the number of lawsuits

As of June 30, 2016, the number of borrowers who had brought suit totaled 54, down from 131 as of December 31, 2015 and 210 as of December 2014.

The law that created a legal basis to secure structured loan agreements subscribed by public sector entities took effect on July 30, 2014. Since then, a bank can no longer be condemned for reasons linked to the annual rate of charge (TEG) of structured loan agreements, in particular for the formal absence of the TEG in the fax preceding the signing of the contract, reasons which had motivated the decision of the Tribunal de Grande Instance de Nanterre (TGI) on February 8, 2013, concerning the loans granted to the Département de la Seine-Saint-Denis.

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

Since this first ruling in February 2013, a limited number of disputes were the subject of court decisions: four rulings in 2014 before the law creating a legal basis to secure structured loan agreements subscribed by public entities took effect, which Dexia Credit Local and Caisse Française de Financement Local appealed, three in 2015 and four in 2016.

Of the three rulings of the Tribunal de Grande Instance de Nanterre handed down in 2015, one ruling gave rise to a conviction in solidum against Dexia Credit Local and Caisse Française de Financement Local for the failure of Dexia Credit Local to provide adequate information and sufficient warning when it marketed the loan. This same ruling condemned the 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.

Concerning the four rulings handed down in 2016, the first one concerning vanilla loans condemned both Dexia Credit Local and CAFFIL in application of case-law following the February 8, 2013, decision on the TEG and the other three concerning structured loans, dismissed all the claims of the borrower.

As of June 30, 2016, all these rulings were being heard in appeal before the Cour d'Appel de Versailles, except for litigation in which a financial agreement had been reached. At the same time, 166 borrowers who had brought suit signed a financial settlement agreement with SFIL, Caisse Française de Financement Local and Dexia Credit Local, thereby putting an end to legal litigation.

### 3. Changes in main balance sheet items

EUR billions - value after currency swaps	12/31/2014	12/31/2015	6/30/2016	Change Jun. 2016 / Dec. 2015
<b>Cover pool</b>	<b>62.3</b>	<b>60.0</b>	<b>61.0</b>	<b>1.6%</b>
Loans	51.6	50.5	51.3	1.5%
Securities	10.2	7.0	7.5	7.0%
Cash deposit in central bank	0.5	2.5	2.2	(11.5)%
<b>Assets assigned in guarantee to Banque de France</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Privileged debt</b>	<b>54.6</b>	<b>53.0</b>	<b>54.1</b>	<b>2.1%</b>
Obligations foncières *	52.2	51.6	52.8	2.4%
Cash collateral received	2.4	1.4	1.3	(9.5)%
<b>Non-privileged debt</b>	<b>6.2</b>	<b>5.5</b>	<b>5.5</b>	<b>(0.7)%</b>
Parent company	6.2	5.5	5.5	(0.7)%
Banque de France	-	-	-	-
<b>Equity IFRS (excluding unrealized gains and losses)</b>	<b>1.5</b>	<b>1.5</b>	<b>1.4</b>	<b>(1.6)%</b>

\*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 for a total amount of EUR 2.2 billion at the end of June 2016 versus EUR 2.5 billion as of the end of 2015.

As of June 30, 2016, the cover pool amounted EUR 61.0 billion, excluding accrued interest not yet due. As of December 31, 2015, the total was EUR 60.0 billion; the increase was therefore EUR 1.0 billion (+1.6%). At that time, 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 54.1 billion, which increased (+2.1%) in comparison with December 2015.

The debt vis-à-vis the parent company totaled EUR 5.5 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 2016

The net change in the cover pool in the first half of 2016 corresponded to a increase in assets in the amount of EUR 1.0 billion. This change is explained by the following items.

(EUR billions)	H1 2016	
<b>1- Acquisition of loans from La Banque Postale</b>		<b>1.8</b>
Loans to the French public sector (vanilla loans in euros)	1.8	
<b>2- Reduction of loan sensitivity</b>		<b>1.3</b>
Sensitive structured loans removed	-1.1	
Refinancing loans (vanilla loans in euros)	1.1	
New loans (vanilla loans in euros)	1.3	
<b>3- Amortization of portfolio of loans and securities</b>		<b>-2.4</b>
<b>4- Early reimbursements</b>		<b>-0.1</b>
<b>5- Changes in treasury</b>		<b>0.3</b>
Change in short maturity securities investments (French sovereign)	0.6	
Change in Banque de France cash deposit	-0.3	
<b>6- Other changes</b>		<b>0.1</b>
Other loans to the French public sector	0.1	
Divestments	0.0	
Impairment and currency adjustment	0.0	
<b>Net change in the cover pool</b>		<b>1.0</b>

In 2016, Caisse Française de Financement Local has so far acquired a total of EUR 1.8 billion in loans to the French local public sector originated by La Banque Postale.

In application of the policy of reduction of loan sensitivity in effect since the beginning of 2013, the operations conducted by SFIL with an effective date in the first half of 2016 made it possible to decrease outstanding loans considered as sensitive by EUR 1.1 billion by replacing them with fixed rate loans. They were accompanied by new fixed rate loans in the amount of EUR 1.3 billion. After amortization, outstanding loans considered as sensitive diminished by EUR 1.2 billion in the first half of 2016.

The natural amortization of the portfolio of loans and securities represented EUR 2.4 billion in the first half of 2016, and early reimbursements EUR 0.1 billion.

There was no divestment in the first half of 2016.

Available cash deposited at the Banque de France or invested in short-term bank bonds increased by EUR 0.3 billion.



## 4.2 – OUTSTANDING ASSETS AS OF JUNE 30, 2016

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

EUR billions	12/31/2015	6/30/2016
Loans and bonds to the public sector	55.2	56.1
Treasury (sight accounts and short-term investments)	2.5	2.2
Replacement assets	2.3	2.7
<b>Total</b>	<b>60.0</b>	<b>61.0</b>

Surplus cash is deposited in an account opened by Caisse Française de Financement Local at the Banque de France or invested in public sector and bank (replacement assets) fixed income securities, respectively amounting to EUR 2.2 billion, and EUR 0.6 billion as of June 30, 2016.

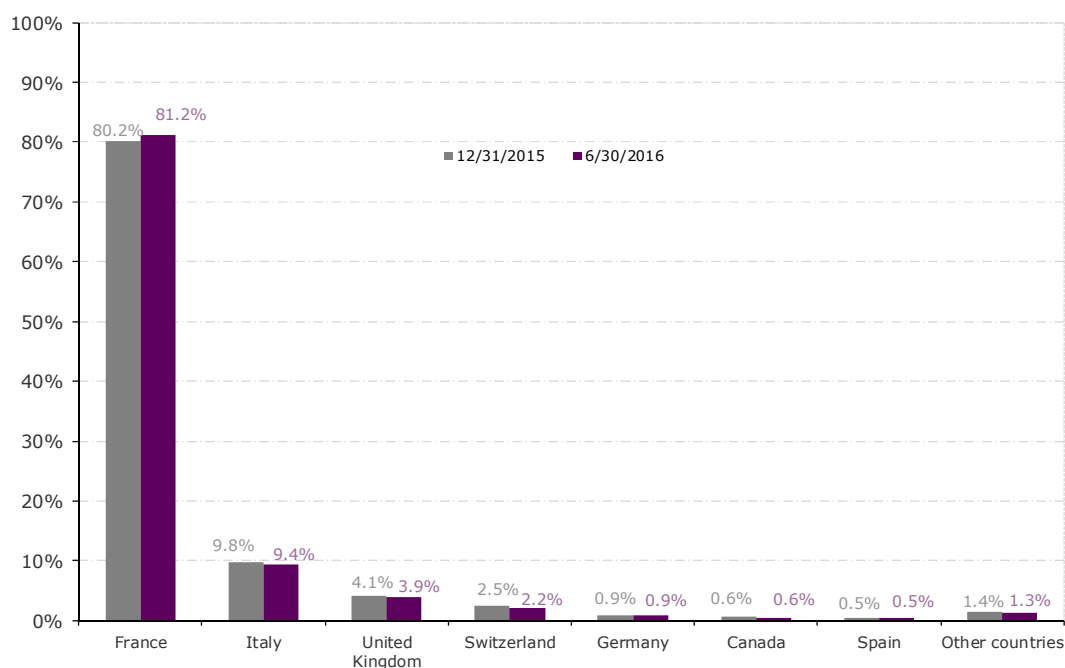
### a. Public sector loans and securities (excluding replacement assets and treasury)

#### 1. Geographic breakdown

French assets are predominant in the cover pool (81.2%), and their percentage is expected to rise in the future. Loans acquired through La Banque Postale since 2013 accounted for EUR 7.3 billion as of June 30, 2016, representing 15.8% 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 to 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.



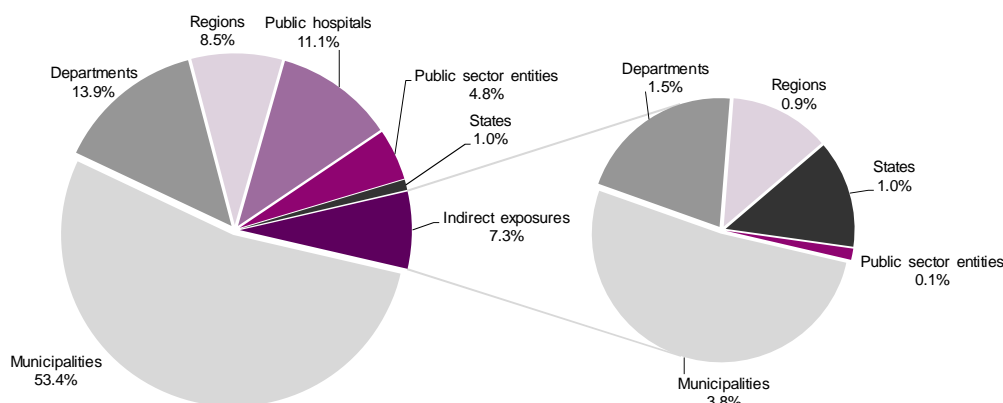
A major share of the exposure on the British public sector will mature in July 2016, and the contribution of this country will then move from 3.9% to 0.6%.

Exposures to Other countries as of June 30, 2016, 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 of the following items:

- for 82%, direct or indirect exposures to municipalities, departments or regions;
- for 11%, exposures to public hospitals;
- for 7%, sovereign exposures or commitments to other public sector entities (including public social housing).



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 1, 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 to sovereign countries

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

EUR millions	Ratings **	12/31/2015	6/30/2016	in % of the cover pool ***
France*	AA/Aa1/AA+	189	185	0.3%
United Kingdom	AAA/Aa1/AA+	403	362	0.6%
Italy	BBB/Baa2/BBB+	568	556	1.0%
<b>TOTAL</b>		<b>1,160</b>	<b>1,103</b>	<b>2.0%</b>

\* Excluding treasury (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 treasury and replacement assets

Most of these exposures are concentrated on countries that benefit from very good ratings as of June 30, 2016, and which guarantee these loans.

#### b. Replacement assets

Assets considered by law as replacement assets correspond to exposures to credit institutions benefiting from at least a Step 1 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, 2016, the replacement assets of Caisse Française de Financement Local were comprised of a long-term loan to SFIL, which benefits from a Step 1 rating (rated AA by S&P, Aa3 by Moody's and AA- by Fitch) and will be early repaid in July 2016, as well as exposures on banks generally rated in the Step 2 credit rating category (current account balances and short term bank bonds – maturity inferior to 100 days - as certificates of deposit). Replacement assets represented 5.1% of the privileged debt (*obligations foncières* and registered covered bonds) of Caisse Française de Financement Local at the end of June 2016.

Replacement assets	Country	Issuer	EUR millions	
			12/31/2015	6/30/2016
<b>Step 1 credit rating</b>				
Loans to parent company	France	SFIL	2,339	2,129
<b>Step 2 credit rating</b>				
Bank account balances	Other	Other	4	9
Bank securities	Other	Other	-	600
<b>TOTAL</b>			<b>2,343</b>	<b>2,738</b>

#### 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. Loans or securities that are pledged as collateral to 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 has mobilized or pledged no such 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 are qualified as structured loans. To define this notion, Caisse Française de Financement Local refers to the charter of good practices signed by banks and local governments (the Gissler charter), which can be consulted on the website of the French Ministry of the Interior<sup>(3)</sup>. This document, prepared at the request of the Government by Eric Gissler, Inspector General of Finance, 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 loans whose structures fall into categories B to E of the Gissler charter;
- all loans "outside the charter", the commercialization of which is excluded by the charter, either because of their structure (i.e. leverage > 5, etc.), their underlying index(es) (i.e. foreign exchange), or the currency of the exposure (loans denominated in CHF, JPY, etc.);
- excluding all 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

Since the beginning of 2016, outstanding loans to the French public sector are on the rise, with an increase of EUR 2.7 billion in non-structured loans (vanilla) and a decrease of EUR 1.5 billion in structured loans (see the definition above).

EUR billions	31/12/2015	6/30/2016	% cover pool	Number of customers*
Sensitive loans not in the charter	2.4	1.5	2.5%	174
Sensitive loans (3E/4E/5E)	2.2	1.9	3.1%	275
<b>SENSITIVE LOANS</b>	<b>4.6</b>	<b>3.4</b>	<b>5.5%</b>	<b>449</b>
Other structured loans	4.6	4.3	7.1%	1,382
<b>STRUCTURED LOANS</b>	<b>9.2</b>	<b>7.7</b>	<b>12.7%</b>	<b>1,831</b>
Vanilla loans	34.4	37.1	60.8%	14,710
<b>TOTAL French public sector loans</b>	<b>43.6</b>	<b>44.8</b>	<b>73.5%</b>	<b>16,541</b>
<b>COVER POOL</b>	<b>60.0</b>	<b>61.0</b>		

\* considering the customer in the category with its most highly structured loan.

As of June 30, 2016, structured loans on the balance sheet of Caisse Française de Financement Local represented EUR 7.7 billion (compared to EUR 9.2 billion at the end of 2015).

The most structured loans according to the Gissler classification (categories 3E, 4E and 5E as well as loans outside the charter) 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 3.4 billion at the end of June 2016 compared to EUR 4.6 billion at the end of 2015. The EUR 1.2 billion decrease in these outstanding loans was due to proactive efforts to reduce the sensitivity of the outstanding loans for EUR 1.1 billion and to the contractual amortization of these loans for EUR 0.1 billion.

As of June 30, 2016, the most sensitive structured loans (loans not in the charter) represented 2.5% of the cover pool and 174 customers (270 customers as of December 31, 2015). 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	0.1	19
Municipalities with more than 10,000 inhabitants and groups of municipalities	0.7	97
Regions and departments	0.2	12
Public hospitals	0.4	35
Other customers	0.1	11
<b>TOTAL</b>	<b>1.5</b>	<b>174</b>

### 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

<sup>3</sup>[http://www.interieur.gouv.fr/content/download/3021/30417/file/Charte\\_de\\_bonne\\_conduite\\_entre\\_les\\_etablissements\\_bancaires\\_et\\_les\\_collectivites\\_territoriales.pdf](http://www.interieur.gouv.fr/content/download/3021/30417/file/Charte_de_bonne_conduite_entre_les_etablissements_bancaires_et_les_collectivites_territoriales.pdf)

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 penalties and for new loans granted at market price.

These measures made it possible to eliminate entirely the sensitivity of outstanding loans to 430 customers between SFIL's date of creation and June 30, 2016. The number of customers holding sensitive loans decreased from 879 to 449, and the outstanding sensitive loans dropped from EUR 8.5 billion to EUR 3.4 billion.

The two support funds created by the government have accelerated this process of reduction in loan sensitivity in 2015 and 2016, by helping local governments and public hospitals to finance the cost of disengaging themselves from their structured loans.

## 5. Debt benefiting from the legal privilege

As of June 30, 2016, 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 derivative counterparties.

EUR billions	12/31/2015	6/30/2016
Cash collateral received	1.4	1.3
<i>Obligations foncières</i> and registered covered bonds	51.6	52.8
<b>Total</b>	<b>53.0</b>	<b>54.1</b>

### 5.1 – CHANGE IN CASH COLLATERAL IN 2016

Cash collateral received by Caisse Française de Financement Local decreased compared to the situation at the end of December 2015. Its level stood at EUR 1.3 billion at the end of June 2016.

### 5.2 – CHANGE IN ISSUES IN 2016

Within the recurrent annual program of EUR 5 billion to EUR 7 billion, the issuance policy of Caisse Française de Financement Local primarily aimed to construct a coherent yield curve in the euro market while keeping an eye on the good performance of its benchmarks in the secondary market. The diversification of its sources of financing is necessary to achieve long maturities coherent with its needs. This is achieved by an active presence in the private placement market within the framework of the EMTN program or by issuing registered covered bonds.

#### a. New issues in 2016

In the first half of 2016, Caisse Française de Financement Local achieved a volume of issues of EUR 4.8 billion by enhancing its reference curve with four new points, by increasing the amount of existing *souches* through tap operations and continuing to work in the private placement segment..

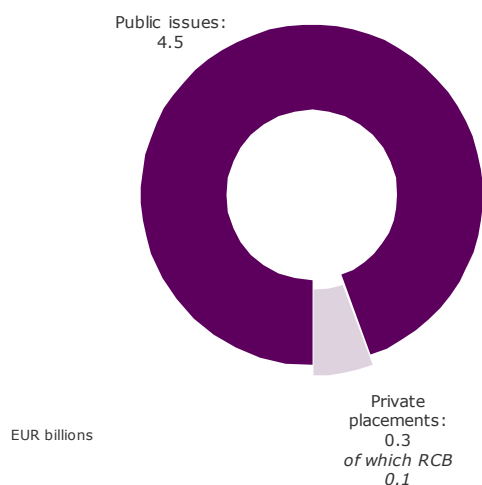
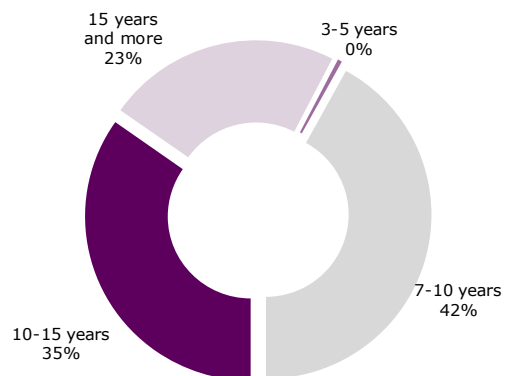
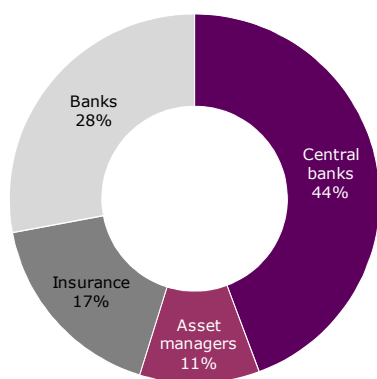
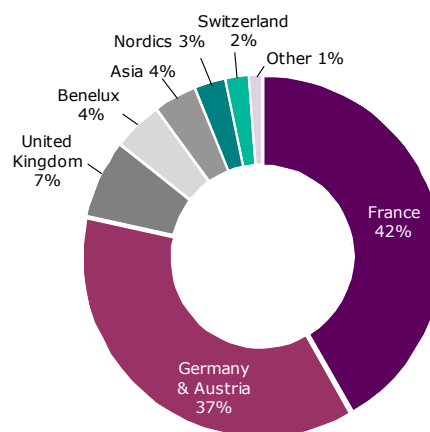
Caisse Française de Financement Local came to the primary market on three occasions for a total amount of EUR 3.8 billion:

- a dual *tranche* issue (6 and 15 years) in January for a total amount of EUR 1.5 billion;
- a 10-year issue in April for EUR 1.3 billion;
- a 9-year issue in June for EUR 1 billion.

At the same time, Caisse Française de Financement Local provided additional liquidity for several of its reference issues via three taps for a cumulated amount of EUR 750 million.

In addition to these public transactions, Caisse Française de Financement Local remained active in the private placement segment and especially under the registered covered bond (RCB) format, thus making it possible to respond to investors' search for long and very long maturities. Altogether EUR 266 million was raised in this market segment.

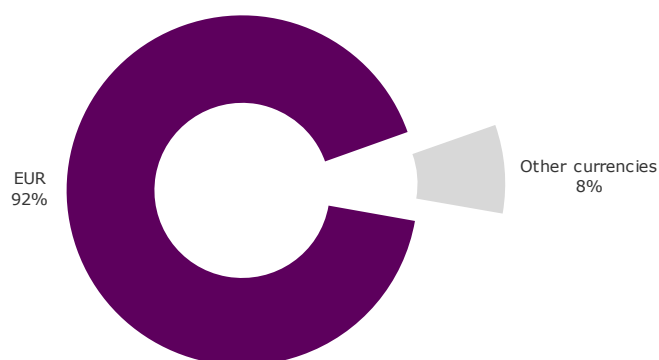
The breakdown of new issues by public/private format and maturity is presented below.

**2016 issues by format****2016 issues by maturity****2016 public issues by investor category****2016 public issues by geographic zone****b. Outstanding debt as of June 2016**

Outstanding *obligations foncières* and registered covered bonds totaled EUR 52.8 billion in swapped value at the end of June 2016. This include new issues of *obligations foncières* for EUR 4.8 billion and amortization of issues maturing in the first half of 2016 for EUR 3.5 billion.

EUR billions - swapped value	2015	1H 2016
<b>Beginning of the year</b>	<b>52.2</b>	<b>51.6</b>
Issues	6.2	4.8
Amortizations	-6.8	-3.6
Buyback	0.0	0.0
<b>End of period</b>	<b>51.6</b>	<b>52.8</b>

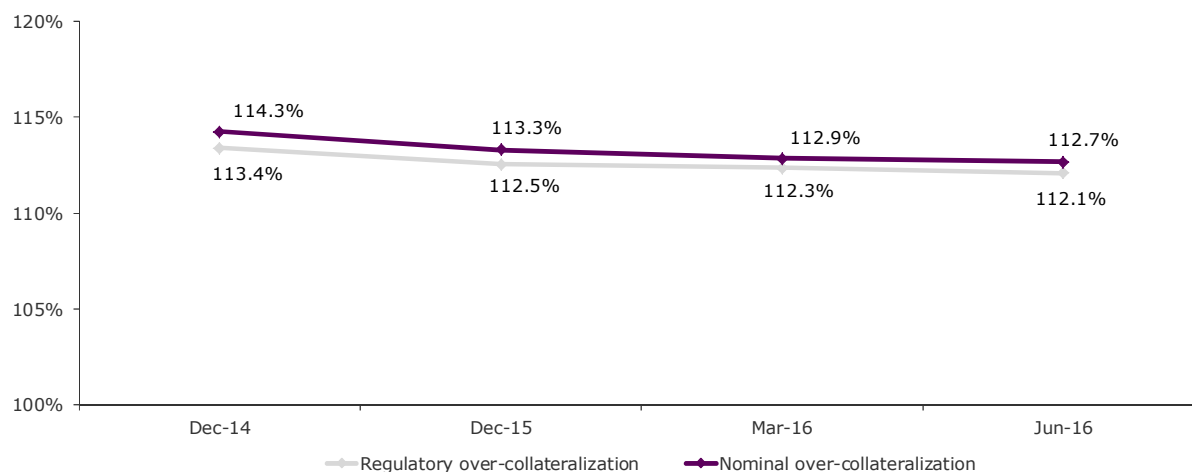
As of June 30, 2016, issues can be broken down by currency as follows.



## 6. Changes in the over-collateralization ratio in 2016

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

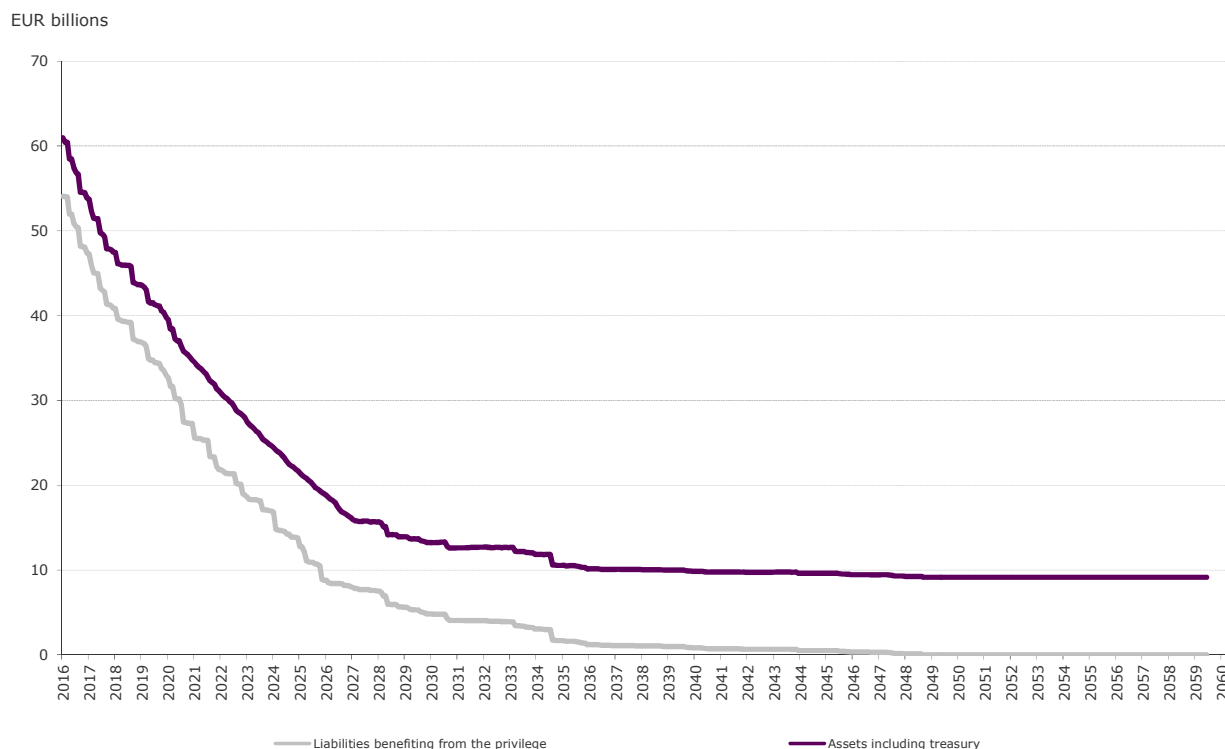


Regulatory over-collateralization may differ from nominal over-collateralization. In fact, it is calculated in accordance with the rules determined by the Autorité de contrôle prudentiel et de résolution (ACPR). In particular, these rules require different weighting levels according to the assets. The 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 been pledged as collateral to borrow funding 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. Cash deposits are included in the asset curve, with a very short term maturity. Besides, cash flows resulting from the cover pool amortization are not taken into account in the asset profile. The following graph presents the curves as of June 30, 2016.

## Amortization of assets and liabilities as of June 30, 2016



## 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 obtained through the parent company. At the end of June 2016, 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 ten years with an Euribor or Eonia index.

Temporary financing may also be obtained from the Banque de France. These debts do not benefit from the privilege stipulated in the law on *sociétés de crédit foncier*, but they are guaranteed by loans and/or 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. Since the creation of SFIL, Caisse Française de Financement Local has not contracted 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	12/31/2015	6/30/2016
Parent company	5.5	5.5
Banque de France	-	-
<b>Total</b>	<b>5.5</b>	<b>5.5</b>

The stability in debt not benefiting from the legal privilege in spite of a slight decrease of the over-collateralization rate was the result of the increase in the cover pool in the first half of 2016.

## 8. Risk management

### 8.1 – CREDIT RISK

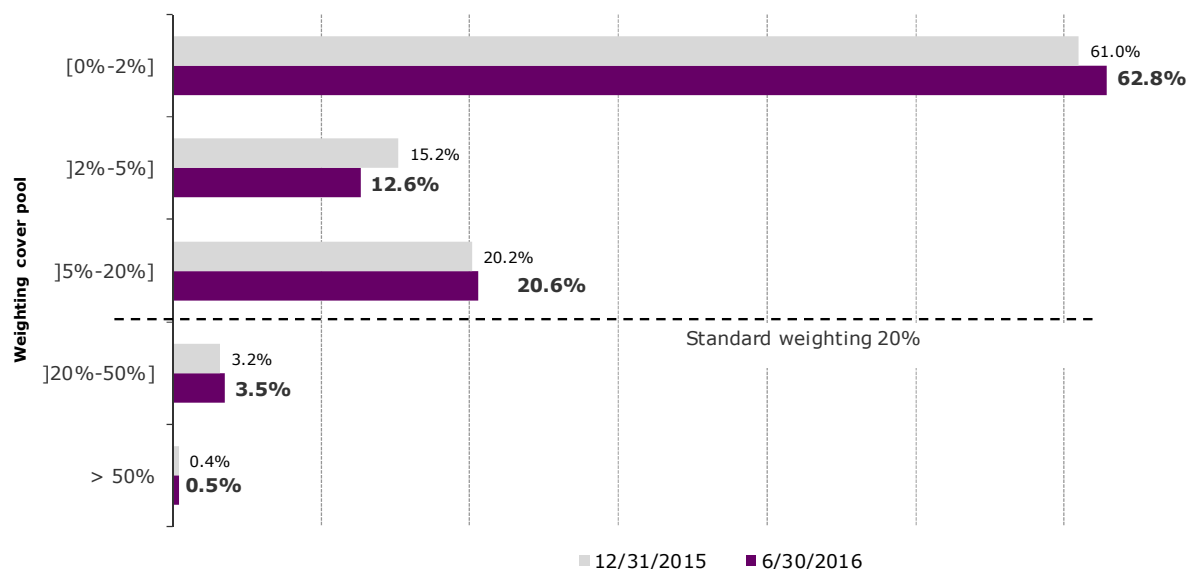
Credit risk represents the potential loss that Caisse Française de Financement Local may incur as the result of a decline in a counterparty's solvency.

#### a. Breakdown of cover pool 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. SFIL chose the advanced method within the framework of the calculation of the solvency ratio and capital adequacy. The banking regulator authorized the Company to use the advanced internal models developed for the consolidated calculation and reporting 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.

This enables Caisse Française de Financement Local to present an analysis of its exposure as of June 30, 2016, broken down by risk weighting, such as used for the calculation of capital requirements for credit risk.

#### Risk weighting of Caisse Française de Financement Local's portfolio as of June 30, 2016



This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio:

- the average risk weighting of the cover pool assets is 6.4%, versus 20% for European local governments according to the Basel II / III standard method;
- only 4% of the portfolio has a weighting of more than 20%;
- 75% of the portfolio has a weighting of less than 5%.

Combined with its high level of regulatory equity, the credit quality of Caisse Française de Financement Local's assets enabled the Company to post a phased-in Basel III solvency ratio of 23.9% as of June 30, 2016, compared to 24.0% as of December 31, 2015. The phased-in Common Equity Tier One ratio in Basel III was 23.1% as of June 30, 2016.

#### 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
<b>Sovereigns</b>	2%	1,103	1,103	1,103
		100%	100%	100%
<b>French Local Authorities</b>	81%	2,246	5,498	12,945
		5.0%	12.1%	28.6%
<b>Non French Local Authorities</b>	17%	2,325	5,174	7,744
		22.8%	50.8%	76.1%
<b>Total</b>	100%	2,784	8,190	20,134
		4.6%	13.4%	33.0%



As of June 30, 2016, all categories combined, the 20 largest exposures (excluding replacement assets and cash investments) represented 13.4% of the global cover pool (compared to 13.6% as of December 31, 2015). The largest exposure accounted for only 1.0% 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 plus, if necessary, 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 portfolio's overall high quality. Nonetheless, non-performing loans have increased significantly in recent years. The reason for this rise lies in the growth of unpaid commitments linked to litigation on sensitive structured loans, but also reflects a more conservative approach since the change in Caisse Française de Financement Local's shareholder. Thus, from 2013 to 2015, there was a rise in the number of customers the Company classified in default. With several of them, there was already litigation concerning their structured loans and in addition they 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.

The growing number of financial settlement agreements signed with local governments within the framework of the strategy to reduce loan sensitivity made it possible to settle many debt non-payments and thus reduce the amounts and number of non-performing and litigious loans in the first half of 2016.

As of June 30, 2016, non-performing and litigious loans totalled EUR 607 million, approximately 1.0 % of the total cover pool (EUR 61 billion). The increasing number of agreements signed with local communities resulted in a decrease in the amount and number of non-performing and litigious loans. These loans can be broken down as follows:

- EUR 542 million in loans qualified as non-performing, corresponding to loans to customers with total unpaid amounts of EUR 33 million;
- EUR 65 million in loans qualified as litigious, corresponding to unpaid interest on structured loans that are subject to litigation.

Non-performing and litigious loans EUR millions	12/31/2015		6/30/2016	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
<b>FRANCE</b>				
State	-	-	-	-
Regions	-	1	-	2
Departments	-	11	-	12
Groups of municipalities	104	42	40	35
Municipalities	352	19	345	13
Public sector entities	140	4	157	4
<b>Total Non-performing and litigious loans</b>	<b>596</b>	<b>77</b>	<b>542</b>	<b>65</b>
<i>of which arrears on structured loans</i>	<i>48</i>	<i>77</i>	<i>33</i>	<i>65</i>
<i>of which arrears on other loans</i>	<i>8</i>	<i>-</i>	<i>8</i>	<i>-</i>

The number of customers with non-performing loans or with a part of their commitments in litigation (installment amounts for their sensitive loans totally or partially unpaid) decreased significantly during the first six months of the year. The trend is presented in the table that follows.

Non-performing loans and litigious loans (number of customers)	12/31/2015		06/30/2016	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
Beginning of the year	90	52	74	35
New	29	14	9	6
Outgoing	45	31	28	19
<b>End of period</b>	<b>74</b>	<b>35</b>	<b>55</b>	<b>22</b>

The number of customers with non-performing and litigious loans concerned 77 customers as of June 30, 2016, compared with 109 at the end of 2015, representing a unit decrease of 32 customers.

The total amount of provisions at the end of June 2016 is presented in the following table.

EUR millions	12/31/2015	6/30/2016
Specific impairment	66	45
Collective impairment	63	58
<b>Total</b>	<b>129</b>	<b>103</b>

As of June 30, 2016, specific provisions for non-performing loans decreased by EUR 21 million since the beginning of the year. This decline corresponds to the repayment of overdue interests and to the drop in non-performing and litigious loans,

From the beginning of this year, the review of the portfolio and its associated risks result in a adjustment of collective impairment by a EUR 5.7 million reversal of provisions.

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 in section 2.3 of this management report.

At the end of the first half of 2016, the cost of risk presented a profit of EUR 6.7 million resulting from a reversal of collective provisions for EUR 5.7 million and a reversal of specific provisions for EUR 1.0 million.

#### 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, 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 two types of exposure to banks:

- replacement assets in the amount of EUR 2.7 billion (see 4.2.b);
- 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 some of them have to pay Caisse Française de Financement Local unless they benefit from the agencies' highest short-term rating.

At the end of June 2016, Caisse Française de Financement Local was exposed (positive fair value of the swaps) on 11 banking counterparties. 10 of these paid cash collateral of EUR 1.3 billion, offsetting total exposure, and one paid no collateral because of its very good short-term rating. This counterparty represented a limited exposure (EUR 10 million).

All derivative exposures as of June 30, 2016, are listed below.

EUR billions	ST notional amounts	LT notional amounts	% LT notional amounts	Mark to Market		Collateral received	Number of counterparties
				-	+		
SFIL	0.0	18.2	19.3%	(2.1)	-	-	1
Other counterparties	53.0	75.9	80.7%	(4.0)	1.3	1.3	28
<b>Total</b>	<b>53.0</b>	<b>94.1</b>	<b>100.0%</b>	<b>(6.1)</b>	<b>1.3</b>	<b>1.3</b>	<b>29</b>

The swaps negotiated with external counterparties represented 80.7% of outstanding long-term swaps and those signed with SFIL 19.3%. Long-term swaps signed with the five largest counterparties represented a total of 39.0% of notional amounts.

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

## 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 stage, Euribor lending and borrowing flows (naturally or after hedges) are swapped against Eonia generally over a sliding period of two years in order to eliminate the basis risk generated by differences in the tenor (Euribor 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 finances fixed rate assets.

## 3. Limits on interest rate risk

The sensitivity of residual positions that remain after the two levels of hedging 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.

### Directional risk management

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	9/30/2015	12/31/2015	3/31/2016	6/30/2016
<b>Sensitivity</b>	<b>25.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.6</b>	<b>-3.7</b>

### Slope risk management

The slope risk benefits from specific limits 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	9/30/2015	12/31/2015	3/31/2016	6/30/2016
<b>Short term</b>	<b>10.0</b>	<b>3.5</b>	<b>0.6</b>	<b>0.0</b>	<b>-1.5</b>
<b>Medium term</b>	<b>10.0</b>	<b>-0.8</b>	<b>-0.4</b>	<b>1.0</b>	<b>-1.8</b>
<b>Long term</b>	<b>10.0</b>	<b>-0.5</b>	<b>1.9</b>	<b>-0.7</b>	<b>-0.5</b>
<b>Very long term</b>	<b>10.0</b>	<b>-2.2</b>	<b>-2.0</b>	<b>0.3</b>	<b>0.1</b>

- *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	9/30/2015	12/31/2015	3/31/2016	6/30/2016
<b>Short term</b>	<b>20.0</b>	<b>5.2</b>	<b>6.2</b>	<b>4.8</b>	<b>4.5</b>
<b>Medium term</b>	<b>20.0</b>	<b>8.4</b>	<b>4.5</b>	<b>10.7</b>	<b>14.5</b>
<b>Long term</b>	<b>20.0</b>	<b>4.9</b>	<b>3.7</b>	<b>5.8</b>	<b>10.7</b>
<b>Very long term</b>	<b>20.0</b>	<b>3.8</b>	<b>3.8</b>	<b>6.5</b>	<b>6.4</b>

#### 4. Outstanding hedging 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, 2016.

Breakdown of outstanding swaps	Notional * (EUR billions)	SFIL (%)	Other counterparties (%)
<b>Euribor against Eonia</b>			
Macro-hedges	53.0	0.0%	100.0%
<b>Total short-term swaps</b>	<b>53.0</b>	<b>0.0%</b>	<b>100.0%</b>
<b>Fixed rate swaps against Euribor</b>			
Micro-hedges on <i>obligations foncières</i>	46.0	15.0%	85.0%
Micro-hedges on loans and debt securities	24.7	11.2%	88.8%
Macro-hedges on loans	16.7	28.0%	72.0%
<b>Subtotal</b>	<b>87.4</b>	<b>16.4%</b>	<b>83.6%</b>
<b>Currency swaps</b>			
Micro-hedges on <i>obligations foncières</i>	4.3	61.0%	39.0%
Micro-hedges on loans	1.6	49.7%	50.3%
Micro-hedges on debt securities	0.8	50.0%	50.0%
<b>Subtotal</b>	<b>6.7</b>	<b>57.0%</b>	<b>43.0%</b>
<b>Total long-term swaps</b>	<b>94.1</b>	<b>19.3%</b>	<b>80.7%</b>

\* 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 as though it consists of one single loan in front of one single borrowing. Duration (D) is calculated as follows: "sum of the periods weighted by the cash flows and discounted at the interest rate of the zero coupon curve for period (t) / sum of the cash flows discounted at the interest rate of the zero coupon curve for period (t)".

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

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

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	6/30/2015	9/30/2015	12/31/2015	3/31/2016	6/30/2016
Cover pool	7.08	7.41	7.17	7.50	<b>7.27</b>
Privileged liabilities	5.40	5.70	5.52	5.92	<b>6.11</b>
<b>Gap in asset-liability duration</b>	<b>1.68</b>	<b>1.71</b>	<b>1.64</b>	<b>1.58</b>	<b>1.16</b>
Duration gap limit	3	3	3	3	3

## 2. Weighted average life gap

Changes in the gap in weighted average life can differ from the changes in the gap in duration over the same period, for the evolution 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)	6/30/2015	9/30/2015	12/31/2015	3/31/2016	6/30/2016
Cover pool	7.81	8.06	7.84	7.94	<b>7.58</b>
Privileged liabilities	5.86	6.11	5.95	6.21	<b>6.32</b>
<b>Gap in asset-liability weighted average life</b>	<b>1.95</b>	<b>1.94</b>	<b>1.89</b>	<b>1.72</b>	<b>1.27</b>

## 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. Caisse Française de Financement Local respects this 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.

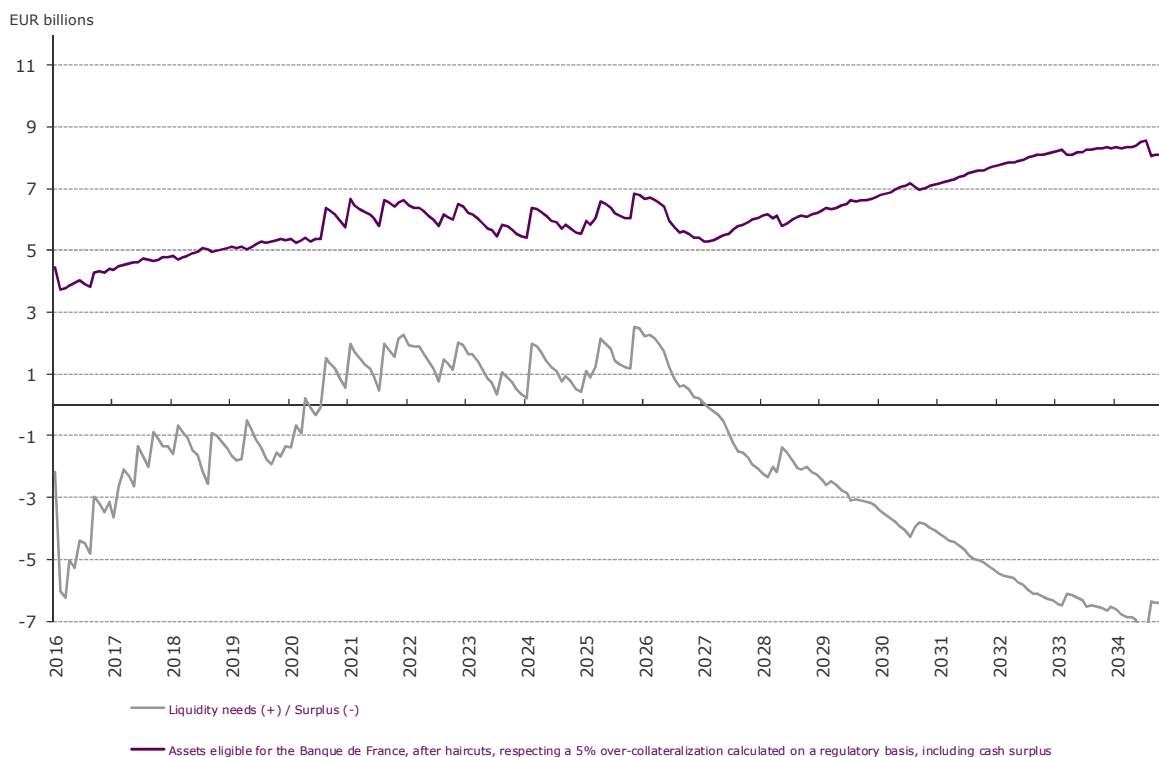
Because of the nature of the assets that make up its cover pool, Caisse Française de Financement Local has a large number of assets that are directly eligible for refinancing by the central bank, so that its need for cash can be easily covered. Since it is a credit institution, Caisse Française de Financement 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).

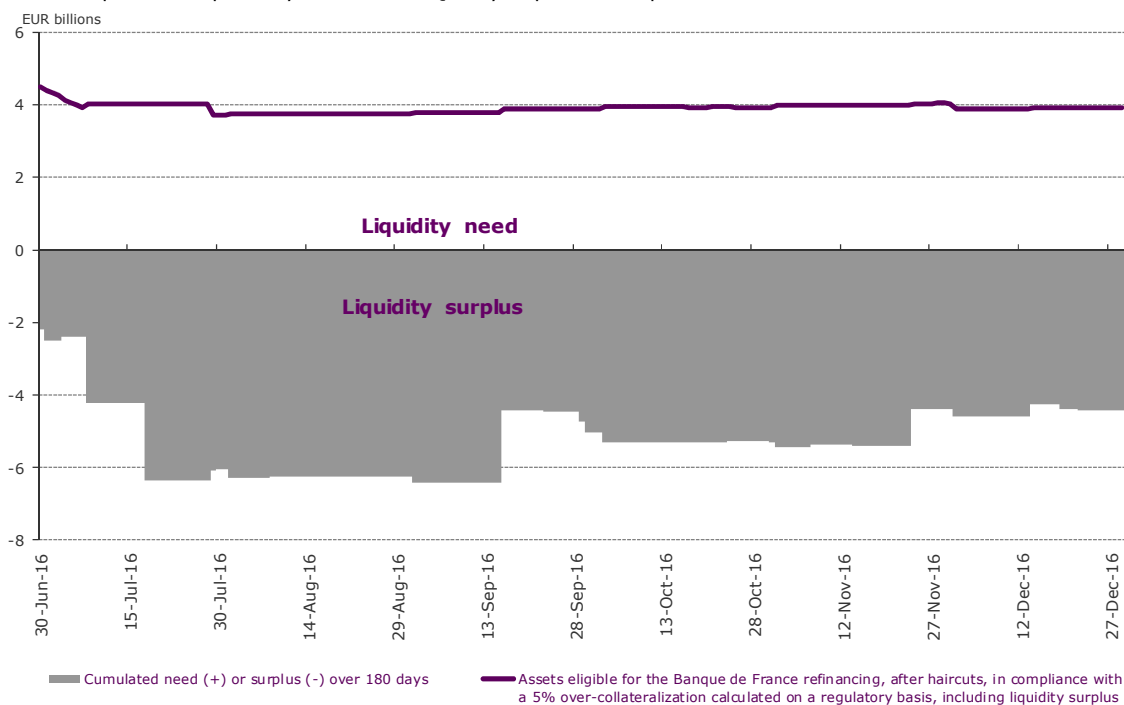
The maximum cumulated liquidity that Caisse Française de Financement Local might need in the future, in a run-off situation and if it were not able to issue new *obligations foncières*, is less than the maximum financing already occasionally obtained from the Banque de France in the past. This need is 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 Coverage Ratio (LCR), which was 1,799% as of June 30, 2016;
- 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 the 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 refinancing 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.



The movements observed for the next 180 days correspond to cash flows from amortization of *obligations foncières*, cash collateral, non-privileged liabilities and assets. As of June 2016, the liquidity situation showed a surplus over the whole period.

### 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 significant litigation or suit other than those described in the year's highlights (2.3).

#### b. Fiscal risk

In 2015, French tax authorities investigated the income declared and the tax paid for 2012 and 2013. Following the tax assessment, the tax authorities expressed their disagreement with the tax treatment of the following two points: the taxation in Ireland of the income from the Dublin branch of Dexia Municipal Agency, which has now been closed, and the deductibility of provisions for non-performing loans.

In order to take into account the risk of an unfavorable outcome in these proceedings, Caisse Française de Financement Local has recorded a provision for additional income tax in the amount of EUR 38 million. Nonetheless, Caisse Française de Financement Local does not agree with the position of the tax authorities and will appeal within the framework of legal recourse allowed by current tax regulations. Discussions with French tax authorities are still going on.

#### c. Operational 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 2015 annual financial report entitled Supplemental information – Report of the Chairman of the Supervisory Board.

#### d. Security and means of payment

Caisse Française de Financement Local does not put means of payment at the disposal of its customers.

## 9. Income for the half-year period

### 9.1 – INCOME ACCORDING TO 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 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, 2016 is presented in a synthetic form as follows.

IFRS EUR millions	1H 2015	2015	1H 2016	Change 1H 2016 / 1H 2015
Interest margin	31	115	90	190%
Net commissions	(14)	(26)	(2)	
Net result of assets at fair value	(15)	(32)	(45)	
Net result of financial assets available for sale	2	(2)	7	
Other income and expense	(0)	-	-	
<b>NET BANKING INCOME</b>	<b>4</b>	<b>55</b>	<b>50</b>	<b>1169%</b>
General operating expenses	(52)	(90)	(46)	
Taxes	(1)	(6)	(7)	
<b>OPERATING INCOME BEFORE COST OF RISK</b>	<b>(49)</b>	<b>(41)</b>	<b>(3)</b>	<b>93%</b>
Cost of risk	2	(14)	7	
<b>PRE-TAX INCOME</b>	<b>(47)</b>	<b>(55)</b>	<b>3</b>	<b>106%</b>
Income tax	13	(21)	(2)	
<b>NET INCOME</b>	<b>(34)</b>	<b>(76)</b>	<b>1</b>	<b>103%</b>

#### a. Income restated excluding non-recurring events

Income was strongly influenced by the following 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 2015 and 2016, as can be seen in the following table.

EUR millions	1H 2015	2015	1H 2016
Fair value adjustment on interest rate hedging	(18)	(36)	(44)

- 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 once Caisse Française de Financement Local decided to contribute to these funds (increase of the hospital fund in 2015); the impact on the cost of risk is presented below.

EUR millions	1H 2015	2015	1H 2016
Contribution to support funds for sensitive structured loans	-	(20)	-

- the provision covering the risk of additional tax to pay within the framework of the tax assessment. This provision was recorded at the end of 2015 in the annual financial statements for EUR 38 million. In the first half of 2016, this amount did not need to be adjusted.

Corrected for these items, net banking income went from EUR +22 million in 2015 to EUR +94 million in 2016, and half-year net income increased from EUR -22 million to EUR +30 million.

## b. Net banking income

Net banking income rose as compared with the first half of 2015, from EUR +4 million to EUR +50 million.

As indicated above, since 2013, fair value adjustments have an effect on existing hedging transactions the Company uses to cover its interest rate and foreign exchange risks. These adjustments impacted asymmetrically the hedged item and its hedging derivative, although the Company applies strict financial hedging rules, and this factor was therefore the cause of major changes in net banking income:

- fair value adjustments introduced by the new standard IFRS 13: Credit Value Adjustment / Debit Value Adjustment (CVA / DVA), Funding Value Adjustment (FVA);
- fair value adjustment 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;
- evaluation of the hedged risk of certain assets and liabilities that are swapped against an Euribor index different from that in the reference 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 in accounting.

These adjustments in the accounting value are recorded in the income statement mainly in the item Net result of assets at fair value.

Corrected for these items, net banking income totaled EUR +94 million in 2016, up EUR 72 million from the first half of 2015.

The interest margin rose by EUR 59 million. This margin 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). The increase in the interest margin was due for EUR 52 million to allocations in 2015 and to reversals in 2016 of provisions of interest on non performing loans, as well as to regular improvement in financing conditions and the good level of margins on loans, which contributes positively to the increase of the interest margin.

There was a EUR 12 million decline in net commissions paid, which principally correspond to billing by SFIL within the framework of its management agreement as defined in article L.513-15 of the Monetary and Financial Code.

Finally, the item Net result of financial assets available for sale was up EUR 5 million from the first half of 2015. This item mainly represents the results on early reimbursements of loans or issues, and if such is the case, on sales of portfolio securities.

## c. Other items

General expenses are stable compared to the first half of 2015. They are mainly made up of billing by the parent company for the operational management of the Company and the taxes (including the contribution to the Single Resolution Fund, reported in the General operating expenses item in the first half of 2015.)

The Cost of risk presents a profit in the first half of 2016 (see 8.1.c Non-performing loans, litigious loans, provisions), as in 2015. These profits correspond to reversals of provisions due to the gradual amelioration of the situation regarding litigious and non-performing loans. As a reminder, in the second half of 2015, the Cost of risk was impacted by accounting for the voluntary contributions of Caisse Française de Financement Local to the support funds for sensitive structured loans in the amount of EUR 20 million in 2015 (increased capacity of intervention for the public hospital fund).

Income tax for the first six months of 2016 totaled EUR -2 million. As a reminder, this includes the provision for tax risk for EUR 38 million (see 8.3.b Fiscal risk) constituted in the second half of 2015 and the effect of the non-deductibility of the contribution to the Single Resolution Fund.



Net income for the first six months of 2016 totaled EUR +1 million compared with EUR -34 million for the first half of 2015. Corrected for adjustments in fair value, extraordinary contributions to support funds and the provision for tax risk, net income increased, rising from EUR -22 million to EUR 30 million.

## 9.2 – INCOME ACCORDING TO FRENCH GAAP

Net income for the first half 2016 is presented below in a synthetic manner.

French GAAP EUR millions	1H 2015	2015	1H 2016	Change 1H 2016 / 1H 2015
Interest margin	82	186	151	84%
Net commissions	(14)	(26)	(2)	
Provisions and income on trading portfolio	-	0	0	
Provisions and income on securities	9	21	(14)	
Other income and expense	-	(0)	-	
<b>NET BANKING INCOME</b>	<b>77</b>	<b>181</b>	<b>135</b>	<b>75%</b>
General operating expenses	(52)	(90)	(46)	
Taxes	(1)	(6)	(7)	
<b>OPERATING INCOME BEFORE COST OF RISK</b>	<b>24</b>	<b>85</b>	<b>82</b>	<b>241%</b>
Cost of risk	2	(14)	7	
<b>OPERATING INCOME</b>	<b>26</b>	<b>71</b>	<b>89</b>	<b>242%</b>
Income (loss) on fixed assets	-	(5)	-	
Income tax	(3)	(96)	(17)	
Regulated provision on long- and medium- term loans	-	-	-	
<b>NET INCOME</b>	<b>23</b>	<b>(30)</b>	<b>72</b>	<b>213%</b>

The Company's business is piloted according to IFRS (as adopted by the European Commission). The French GAAP financial statements are published in accordance with legal requirements and serve as a base to calculate income subject to corporate income tax.

*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, but also by renegotiations, which generally accompany active debt management by borrowers, as well as swaps of liabilities which are canceled in order to back these liabilities by a portfolio of acquired loans. 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.*

Net banking income as of June 2016 was up 75%, or EUR 58 million, as compared with the same period in 2015, rising from EUR 77 million to EUR 135 million.

This trend was mainly due to the Interest margin for EUR +69 million (changes in provisions of interest on non-performing loans in the amount of EUR 52 million), the item Provisions and income on placement portfolio, in the amount of EUR -23 million (allocation of provisions in the first half of 2016, reflecting the deterioration of the market value of some placement securities) and the item Net commissions for EUR 12 million.

The Interest margin 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). 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 above), 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.

General expenses are stable compared to the first half of 2015. They are mainly made up of billing by the parent company for the operational management of the Company and the taxes (including the contribution to the Single Resolution Fund, reported in General operating expenses in the first half of 2015).

The Cost of risk presents a profit in the first half of 2016 (see 8.1.c Non-performing loans, litigious loans, provisions), as in the same period of 2015. These gains correspond to reversals of provisions due to the gradual amelioration of the situation regarding litigious and non-performing loans. As a reminder, in the second half of 2015, the Cost of risk was impacted by accounting for the voluntary contributions of Caisse Française de Financement Local to the support funds for sensitive structured loans in the amount of EUR 20 million in 2015 (increased capacity of intervention for the public hospital fund).

Income tax as of June 2016 totaled EUR -17 million. As a reminder, this includes the provision for tax risk for EUR 77 million constituted in the second half of 2015 (see 8.3.b Fiscal risk; the difference from the amount covered by a provision for this purpose in the IFRS accounts for EUR 38 million was due to the non-recognition of deferred taxes in French GAAP accounts) and the non-deductibility of the contribution to the Single Resolution Fund.

Net income as of June 2016 was up from EUR 23 million for the same period in 2015 to EUR 71 million.

## 10. Outlook for 2016

For the year 2016, Caisse Française de Financement Local and its parent company SFIL aim:

- to confirm their role as a major player in the market for loans to French local governments and public hospitals within the framework of cooperation with La Banque Postale (leading lender in this market in 2015);
- to give concrete shape to their new role in refinancing banks that work with French exporters for their large export credits. The first loan contracts, granted to SFIL in order to refinance two cruise vessels, were signed in June 2016.

In addition to these two responsibilities entrusted by the French State, within an operating framework approved by the European Commission, there is also the objective to reduce the volume of sensitive structured loans (already cut in half since the beginning of 2013). This activity, generally accompanied by new loans granted to the local governments concerned, has been very strong in the first half of 2016.

Caisse Française de Financement Local will thus see new loans enter its portfolio of assets in 2016. They represent exposures to the French local public sector and the French State.

To cover its financing needs, Caisse Française de Financement Local plans to issue between EUR 6.0 billion and EUR 7.0 billion of *obligations foncières* in 2016 with a long average maturity adapted to the profile of the new assets. Its program will mainly be developed through several benchmark issues in euros and private placements adapted to the needs of its large investor base.

Lastly, with regard to the effects of Brexit vote, Caisse Française de Financement Local does not anticipate at this stage any major direct impact of this event on its activities of issuing bonds and reducing the sensitivity of certain loans. The Company will, nonetheless, remain attentive to shifts in market trends in the conduct of operations linked to the refinancing of export credit. In addition, the cover pool of Caisse Française de Financement Local has very little exposure to the United Kingdom (EUR 0.4 billion in securities with government guarantee).

# Bonds and public sector loans as of June 30, 2016

EUR millions	6/30/2016				12/31/2015	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
<b>France</b>						
State			185		185	189
Banque de France	2,210				2,210	2,496
Regions	1,676	95	275		2,046	2,102
Departments	6,888		212		7,100	6,530
Municipalities	16,279	23	516		16,818	16,437
Groups of municipalities	10,384	95	187		10,666	10,441
Public sector entities:					-	-
- health	6,247				6,247	6,119
- social housing	1,424				1,424	1,545
- others	958	25	1		984	917
Credits institutions	2,138	600			2,738	2,343
<b>Subtotal</b>	<b>48,204</b>	<b>838</b>	<b>1,376</b>		<b>50,418</b>	<b>49,119</b>
<b>Germany</b>						
Länder		513			513	513
<b>Subtotal</b>		<b>513</b>			<b>513</b>	<b>513</b>
<b>Austria</b>						
Länder			193		193	194
<b>Subtotal</b>	<b>-</b>		<b>193</b>		<b>193</b>	<b>194</b>
<b>Belgium</b>						
Regions	13		41		54	63
Communities		50			50	50
Public sector entities	60				60	65
<b>Subtotal</b>	<b>73</b>	<b>50</b>	<b>41</b>		<b>164</b>	<b>178</b>
<b>Canada</b>						
Provinces		22			22	22
Communities	172				172	182
Public sector entities	129				129	129
<b>Subtotal</b>	<b>301</b>	<b>22</b>			<b>323</b>	<b>333</b>
<b>Spain</b>						
Regions		104			104	104
Municipalities	157				157	161
<b>Subtotal</b>	<b>157</b>	<b>104</b>			<b>261</b>	<b>265</b>
<b>United States</b>						
Federated States		251			251	253
<b>Subtotal</b>		<b>251</b>			<b>251</b>	<b>253</b>
<b>Finland</b>						
Municipalities	0				0	0
Public sector entities						
<b>Subtotal</b>	<b>0</b>				<b>0</b>	<b>0</b>

EUR millions	6/30/2016				12/31/2015	
	Direct exposure		Indirect exposure			
PAYS	Loans	Bonds	Loans	Bonds	Total	Total
<b>Italy</b>						
State		556			556	568
Regions		2,089			2,089	2,131
Provinces		588			588	610
Municipalities	9	2,034			2,043	2,100
<b>Subtotal</b>	<b>9</b>	<b>5,267</b>			<b>5,276</b>	<b>5,409</b>
<b>Japan</b>						
Municipalities		25			25	25
<b>Subtotal</b>		<b>25</b>			<b>25</b>	<b>25</b>
<b>Portugal</b>						
Municipalities	42				42	45
Public sector entities	6				6	6
<b>Subtotal</b>	<b>48</b>				<b>48</b>	<b>51</b>
<b>United Kingdom</b>						
State				362	362	403
Counties			398		398	398
Districts			28		28	28
Municipalities			1,368		1,368	1,368
Public sector entities			56		56	56
<b>Subtotal</b>			<b>1,850</b>	<b>362</b>	<b>2,212</b>	<b>2,253</b>
<b>Sweden</b>						
Municipalities	18		6		24	29
<b>Subtotal</b>	<b>18</b>		<b>6</b>		<b>24</b>	<b>29</b>
<b>Switzerland</b>						
Cantons	293		237		530	656
Municipalities	590				590	614
Public sector entities	91				91	91
<b>Subtotal</b>	<b>974</b>		<b>237</b>		<b>1,211</b>	<b>1,361</b>
<b>Supranational</b>						
International organizations	34				34	36
<b>Subtotal</b>	<b>34</b>				<b>34</b>	<b>36</b>
<b>TOTAL COVER POOL</b>	<b>49,818</b>	<b>7,070</b>	<b>3,703</b>	<b>362</b>	<b>60,953</b>	<b>60,019</b>

Loans and securities are off premium / discount.

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

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## Financial Statements

Half-year 2016 (*IFRS*)

## Assets as of June 30, 2016

EUR millions	Note	6/30/2015	12/31/2015	6/30/2016
Central banks	2.1	1,079	2,496	2,315
Financial assets at fair value through profit or loss		2	2	1
Derivatives	4.1	7,112	7,043	7,723
Financial assets available for sale	2.2	2,686	889	1,525
Loans and advances due from banks	2.3	5,297	4,865	4,597
Loans and advances to customers	2.4	62,830	60,854	61,788
Fair value revaluation of portfolio hedge		2,648	2,784	3,592
Financial assets held to maturity		-	-	-
Current tax assets	2.5	0	0	0
Deferred tax assets	2.5	117	108	143
Accruals and other assets	2.6	1	20	9
<b>TOTAL ASSETS</b>		<b>81,772</b>	<b>79,061</b>	<b>81,693</b>

## Liabilities as of June 30, 2016

EUR millions	Note	6/30/2015	12/31/2015	6/30/2016
Central banks	3.1	-	-	-
Financial liabilities at fair value through profit or loss		0	2	6
Derivatives	4.1	13,562	12,013	12,475
Due to banks	3.2	5,602	5,520	5,486
Customer borrowings and deposits		-	-	-
Debt securities	3.3	58,256	57,142	59,354
Fair value revaluation of portfolio hedge		1,466	1,446	1,491
Current tax liabilities	3.4	1	1	1
Deferred tax liabilities	3.4	-	-	-
Accruals and other liabilities	3.5	1,567	1,584	1,544
Provisions	3.6	-	38	38
Subordinated debt		-	-	-
<b>Equity</b>		<b>1,318</b>	<b>1,315</b>	<b>1,298</b>
Capital and related reserve		1,315	1,315	1,315
Reserves and retained earnings		189	189	113
Gains and losses through equity		(152)	(113)	(131)
Net income		(34)	(76)	1
<b>TOTAL LIABILITIES</b>		<b>81,772</b>	<b>79,061</b>	<b>81,693</b>

## Income statement

EUR millions	Note	H1 2015	2015	H1 2016
Interest income	5.1	2,083	4,047	1,725
Interest expense	5.1	(2,052)	(3,932)	(1,635)
Fee and commission income	5.2	0	0	0
Fee and commission expense	5.2	(14)	(26)	(2)
Net result of financial instruments at fair value through profit or loss	5.3	(15)	(32)	(45)
Net result of financial assets available for sale	5.4	2	(2)	7
Other income		0	0	0
Other expense		(0)	(0)	(0)
<b>NET BANKING INCOME</b>		<b>4</b>	<b>55</b>	<b>50</b>
Operating expense	5.5	(53)	(96)	(53)
<b>GROSS OPERATING INCOME</b>		<b>(49)</b>	<b>(41)</b>	<b>(3)</b>
Cost of risk	5.6	2	(14)	7
<b>OPERATING INCOME</b>		<b>(47)</b>	<b>(55)</b>	<b>3</b>
Net gains (losses) on other assets		-	-	-
<b>INCOME BEFORE TAX</b>		<b>(47)</b>	<b>(55)</b>	<b>3</b>
Income tax	5.7	13	(21)	(2)
<b>NET INCOME</b>		<b>(34)</b>	<b>(76)</b>	<b>1</b>
Earnings per share (in EUR)				
- Basic		(2.59)	(5.79)	0.08
- Diluted		(2.59)	(5.79)	0.08

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

EUR millions	H1 2015	2015	H1 2016
<b>Net income</b>	<b>(34)</b>	<b>(76)</b>	<b>1</b>
<b>Items will be reclassified subsequently to profit or loss</b>	<b>(5)</b>	<b>34</b>	<b>(18)</b>
Unrealized or deferred gains and losses of financial assets available for sale	(8)	49	(22)
Unrealized or deferred gains and losses of cash flow hedges	1	4	(6)
Taxes on items reclassified subsequently to profit or loss	2	(19)	10
<b>Items will not be reclassified subsequently to profit or loss</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total of unrealized or deferred gains and losses through equity</b>	<b>(5)</b>	<b>34</b>	<b>(18)</b>
<b>NET INCOME AND GAINS AND LOSSES THROUGH EQUITY</b>	<b>(39)</b>	<b>(42)</b>	<b>(17)</b>

## 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 available-for-sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax	Total	
<b>EQUITY AS OF DECEMBER 31,</b>	<b>1,315</b>	<b>113</b>	<b>1,428</b>	<b>(87)</b>	<b>(26)</b>	<b>(112)</b>	<b>1,315</b>
Shares issued	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Changes in fair value of available-for-sale financial assets through equity	-	-	-	(14)	-	(14)	(14)
Changes in fair value of derivatives through equity	-	-	-	-	(4)	(4)	(4)
Changes in fair value of available-for-sale financial assets through profit	-	-	-	-	-	-	-
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-
Net income for the period	-	1	1	-	-	-	1
Other movements	-	-	-	-	-	-	-
<b>EQUITY AS OF JUNE 30, 2016</b>	<b>1,315</b>	<b>114</b>	<b>1,429</b>	<b>(101)</b>	<b>(30)</b>	<b>(131)</b>	<b>1,298</b>

## Cash flow statement

EUR millions	H1 2015	2015	H1 2016
<b>NET INCOME BEFORE TAXES</b>	<b>(47)</b>	<b>(55)</b>	<b>3</b>
+/- Depreciation and write-downs	30	39	(27)
+/- Expense / income from investing activities	117	290	130
+/- Expense / income from financing activities	(44)	(184)	(84)
+/- Other non-cash items	(34)	102	212
<b>= Non-monetary items included in net income before tax and other adjustments</b>	<b>69</b>	<b>247</b>	<b>231</b>
+/- Cash from interbank operations	837	1,158	233
+/- Cash from customer operations	119	(772)	(1,029)
+/- Cash from financing assets and liabilities	(670)	3,222	(455)
+/- Cash from not financing assets and liabilities	0	(1,258)	(390)
- Income tax paid	(15)	(35)	(6)
<b>= Decrease / (increase) in cash from operating activities</b>	<b>271</b>	<b>2,315</b>	<b>(1,648)</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES (A)</b>	<b>293</b>	<b>2,507</b>	<b>(1,414)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>
+/- Cash from or for shareholders	-	-	-
+/- Other cash from financing activities	266	(540)	1,233
<b>CASH FLOW FROM FINANCING ACTIVITIES (C)</b>	<b>266</b>	<b>(540)</b>	<b>1,233</b>
<b>EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Increase / (decrease) in cash equivalents (A + B + C + D)</b>	<b>559</b>	<b>1,967</b>	<b>(181)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>533</b>	<b>533</b>	<b>2,500</b>
Cash and balances with central banks (assets & liabilities)	519	519	2,496
Interbank accounts (assets & liabilities) and loans / deposits at sight	14	14	4
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>1,092</b>	<b>2,500</b>	<b>2,319</b>
Cash and balances with central banks (assets & liabilities)	1,079	2,496	2,315
Interbank accounts (assets & liabilities) and loans / deposits at sight	13	4	4
<b>CHANGE IN NET CASH</b>	<b>559</b>	<b>1,967</b>	<b>(181)</b>



# 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, 2016, were examined by the Executive Board on September 5, 2016.

### 1.2 - HIGHLIGHTS OF THE PERIOD AND POST-CLOSING EVENTS

#### a. The covered bond market

The market for public issues of covered bonds in euros was extremely active in the first half of 2016, with an offering volume in the primary market of EUR 92 billion versus EUR 62 billion in the first half of 2015. Business was basically concentrated in the beginning of the year, at which time the abundant offer encouraged investors to be more selective and demanding in terms of issue premiums. After a period in which spreads widened, the market returned to a positive dynamic, beginning in February, as the relative value of the covered bond product improved, thereby making it possible to attract the buying interests of traditional investors. The market continued to benefit during this period from the strong support contributed by the Eurosystem's covered bonds purchase program. The end of the first quarter was marked by a significant and rapid tightening of secondary spreads after the announcement of a reinforcement of non-standard monetary policy measures at Eurosystem central banks. This tightening lasted until the end of the first half boosted by a decline in primary offer volumes.

In such a market environment, CAFFIL was regularly active in the market for public issues in euros. Altogether, four new *souches* were created in the last six months, thereby making it possible to complete the reference yield curve. In January, CAFFIL launched an issue for a total amount of EUR 1.5 billion made up of two *tranches* offering a maturity of six years and 15 years. In April a ten-year benchmark issue of EUR 1.25 billion was launched, and in June a nine-year benchmark issue of EUR 1 billion completed recent initiatives.

In addition to these benchmark public issues, CAFFIL benefited from investor demand for long maturities to carry out private placements of EUR 266 million and to increase the amount of existing *souches* (2026 and 2035). The average maturity of financing raised by CAFFIL in the first half is close to 10.5 years.

#### b. Events affecting the rating of *obligations foncières*

The ratings of the *obligations foncières* issued by Caisse Française de Financement Local were not altered in 2016. As of June 30, 2016, 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. Some of these customers initiated legal proceedings against Dexia Credit Local, Caisse Française de Financement Local and/or SFIL.

#### Decrease in outstanding sensitive structured loans

The policy applied by SFIL since its creation at the beginning of 2013 made it possible to effect a significant reduction in the size of the portfolio of sensitive structured loans of Caisse Française de Financement Local.

#### Creation of support funds contributing to the cost of sensitivity reduction

The two support funds created by the French government in 2013 and 2014 allow local governments and public hospitals eligible for this arrangement to finance the cost of eliminating their structured loans. These funds were fully operational as of 2015. In the second half of the year 2015, notifications of the amounts of assistance provided by the funds began to be sent to local governments and public hospitals that had requested such help. This made it possible to maintain a sustained pace of sensitivity reduction and resulted in a major decrease in the number of lawsuits.

The capacity for intervention of these funds was significantly 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 borne by customers holding loans indexed on the EUR/CHF exchange rate would not be greater, after assistance from the funds, than they would have been before the decision of the Swiss National Bank (SNB) in January 2015 to put an end to the floor rate of exchange of the Swiss franc (CHF). The fund earmarked for local governments now totals EUR 3.0 billion and the one for public hospitals EUR 400 million. Likewise, the ceiling of the assistance made available was significantly raised from 45% to 75% of penalties owed by the most fragile local governments.

Caisse Française de Financement Local 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 38 million.

To prepare its 2014, 2015 and 2016 annual financial statements, Caisse Française de Financement Local took into account the hypothesis that the solutions announced by the government would in fact rapidly be made available. It was notably a question of defining a legal base for other structured loan agreements contracted by public sector entities (which took effect on July 30, 2014), creating a support fund for local governments and then for public hospitals and finally the measures taken in 2015 to

counter the major rise in the exchange value of the Swiss franc decided by the Swiss National Bank 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 (rise in the two support funds and increase in the maximum rate of assistance granted).).

### Significant decline in the number of lawsuits

As of June 30, 2016, the number of borrowers who had brought suit totaled 54, down from 131 as of December 31, 2015 and 210 as of December 2014.

The law that created a legal basis to secure structured loan agreements subscribed by public sector entities took effect on July 30, 2014. Since then, a bank can no longer be condemned for reasons linked to the annual rate of charge (TEG) of structured loan agreements, in particular for the formal absence of the TEG in the fax preceding the signing of the contract, reasons which had motivated the decision of the Tribunal de Grande Instance de Nanterre (TGI) on February 8, 2013, concerning the loans granted to the Département de la Seine-Saint-Denis.

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

Since this first ruling in February 2013, a limited number of disputes were the subject of court decisions: four rulings in 2014 before the law creating a legal basis to secure structured loan agreements subscribed by public entities took effect, which Dexia Credit Local and Caisse Française de Financement Local appealed, three in 2015 and four in 2016.

Of the three rulings of the Tribunal de Grande Instance de Nanterre handed down in 2015, one ruling gave rise to a conviction in solidum against Dexia Credit Local and Caisse Française de Financement Local for the failure of Dexia Credit Local to provide adequate information and sufficient warning when it marketed the loan. This same ruling condemned the 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.

Concerning the four rulings handed down in 2016, the first one concerning vanilla loans condemned both Dexia Credit Local and CAFFIL in application of case-law following the February 8, 2013, decision on the TEG and the other three concerning structured loans, dismissed all the claims of the borrower.

As of June 30, 2016, all these rulings were being heard in appeal before the Cour d'Appel de Versailles, except for litigation in which a financial agreement had been reached. At the same time, 166 borrowers who had brought suit signed a financial settlement agreement with SFIL, Caisse Française de Financement Local and Dexia Credit Local, thereby putting an end to legal litigation.

## 1.3 - APPLICABLE ACCOUNTING STANDARDS

### a. Application of IFRS adopted by the European Commission

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

Since its publication in 2002, regulation EC 1606/2002 has been updated several times. Caisse Française de Financement Local's financial statements have therefore been prepared in accordance with all IFRS as adopted and endorsed by the European Commission up to the accounting closing on June 30, 2016, 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 detailed 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, 2016.

### **IASB and IFRIC texts endorsed by the European Commission and effective as of January 1, 2016**

- Amendments to IAS 1 - *Disclosure Initiative*: these amendments clarify the application of the concepts of materiality (specifying this is also applicable to the notes to the financial statements and that including non-relevant information can be detrimental to their understanding) and professional judgment (by modifying certain formulations judged as prescriptive).
- Annual Improvements to the IFRS 2012-2014 Cycle: these are minor changes to existing standards.
- Annual Improvements to the IFRS 2010-2012 Cycle: these are minor changes to existing standards.

The impact of these amendments is not significant.

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

- Amendments to IAS 12 - *Recognition of Deferred Tax Assets for Unrealised Losses*: these amendments clarify that unrealised losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can give rise to deductible temporary differences.
- Amendments to IAS 7 - *Disclosure Initiative*: these amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, whether or not these changes are related to financing cash flows.

## **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 reporting 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 listed 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 measurements 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**

Listed 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 measured 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, 2016, 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 does not hold any 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 measured 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 profit and loss.

### 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 reporting 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. Caisse Française de Financement Local recognizes provisions to cover all the interest due and accrued on non-performing loans.
- **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 determined by management as being irrecoverable, the outstanding specific impairment is reversed via the income statement in Cost of risk, and the net loss is recorded under the same heading. Subsequent recoveries are also recognized as Cost of Risk.

### **Reclassified financial assets**

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 profit or loss account in Cost of risk.

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

### **Financial assets available for sale**

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

- **Determination of impairment**

Financial assets available for sale held by Caisse Française de Financement Local are only debt securities. For the latter, 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 the payment of principal and interest uncertain.

## **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.

*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).

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

## f. Derivatives

All derivatives are initially recognized on the balance sheet at fair value and then are revalued at their fair value. The fair value of derivatives is calculated either on the basis of prices observed in listed markets or by using internal valuation models.

The amount registered on the balance sheet includes the premium paid or received after amortization, the amount of changes in fair value and accrued interest, which altogether make up the fair value of the derivative. Derivative instruments are recorded in the assets if their fair value is positive and in the liabilities if it is negative.

### Derivatives not documented 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, 2016, transaction derivatives were recorded. They result 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 affect the income statement.

### Hedging a portfolio's interest rate risk

Caisse Française de Financement Local makes use of the provisions of IAS 39 as adopted by the European Union (IAS 39 carve-out) because it better reflects the way Caisse Française de Financement Local manages its financial instruments. The objective of hedging relationships is to reduce the interest rate risk exposure stemming from certain categories of assets or liabilities designated as the qualifying hedged items.

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

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

The Company chose to put together homogeneous portfolios of loans and portfolios of bond issues. Based on this gap analysis, which is realized on a net basis, Caisse Française de Financement Local defines at inception the risk exposure to be hedged, the



length of the time-buckets and the manner and the frequency of testing.

The hedging instruments are portfolios of derivatives, whose positions may be offsetting. The hedging items are recognized at their fair value (including accrued interest expense or income) with adjustments recorded in the income statement.

Revaluation related to the hedged risk is recognized on the balance sheet (in assets or liabilities 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 for the sale of an asset or paid to sell 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.

Market 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 listed in an active market, valuation techniques are used. Valuation techniques include the use of market data from recent arm's length transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, and valuation models. A valuation model 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 reporting 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 listed market prices when available. When listed 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 listed prices are not available, the pricing models attempt to reflect as accurately as possible the market conditions on the valuation date as well as any changes in the credit quality of these financial instruments and the market liquidity. To determine the fair value of its derivatives, Caisse Française de Financement Local uses different discounting curves in function of the effective exchange of collateral with its counterparty. When Caisse Française de Financement Local receives collateral, future derivative cash flows are discounted with an overnight indexed swap (OIS). On the other hand, when no collateral is exchanged, they are discounted with a Euribor-type curve. As a reminder, Caisse Française de Financement Local does not pay collateral to its derivative counterparties, since they benefit from the legal privilege on assets for the same reason as holders of *obligations foncières*.

In addition, a value adjustment is taken into account in the valuation of derivatives to reflect the impact of a counterparty's credit risk (CVA - credit value adjustment) or the counterparty's net exposure to the credit risk of Caisse Française de Financement Local (DVA - debit value adjustment). This value adjustment enables to switch from a fair value based on risk-free rate discounted cash flows, 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 that are not measured 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.

Accrued interest is recognized on the balance sheet in the same item as the related financial asset or liability.

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.

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**

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 reporting 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 recognized directly in other comprehensive income, are also recognized directly in 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. The discount rate applied is a market rate.

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 on shares**

Dividends on shares are recognized in liabilities in the period in which they are disclosed (after authorization). Dividends of the year that are authorized after the reporting date are disclosed in the note on post-closing events.

#### **m. Earnings per share**

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

#### **n. Related-party transactions**

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

#### **o. Segment reporting**

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

Caisse Française de Financement Local conducts its business solely from France. The Company has no direct activities in other countries and is unable to present a relevant breakdown of its results by geographic region.

#### **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 (EUR millions)

## 2.1 - CENTRAL BANKS

	6/30/2015	12/31/2015	6/30/2016
Mandatory reserve deposits with central banks	-	-	-
Other deposits	1,079	2,496	2,315
<b>TOTAL</b>	<b>1,079</b>	<b>2,496</b>	<b>2,315</b>

## 2.2 - FINANCIAL ASSETS AVAILABLE FOR SALE

## a. Analysis by nature

	6/30/2015	12/31/2015	6/30/2016
Loans	-	-	-
Bonds	2,686	889	1,525
<b>TOTAL</b>	<b>2,686</b>	<b>889</b>	<b>1,525</b>

## b. Analysis by counterparty

	6/30/2015	12/31/2015	6/30/2016
Public sector	2,584	889	925
Credit institutions guaranteed by the public sector	102	-	-
<b>Total public sector</b>	<b>2,686</b>	<b>889</b>	<b>925</b>
Replacement assets	-	-	600
<b>TOTAL</b>	<b>2,686</b>	<b>889</b>	<b>1,525</b>
<i>of which eligible for central bank refinancing</i>	2,410	600	632

## c. Impairment

	6/30/2015	12/31/2015	6/30/2016
Public sector	2,686	889	925
Replacement assets	-	-	600
<b>Total performing assets</b>	<b>2,686</b>	<b>889</b>	<b>1,525</b>
Public sector	-	-	-
Replacement assets	-	-	-
<b>Total impaired assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
Specific impairment	-	-	-
<b>TOTAL ASSETS AFTER IMPAIRMENT</b>	<b>2,686</b>	<b>889</b>	<b>1,525</b>

## 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

	6/30/2015	12/31/2015	6/30/2016
Sight accounts	13	4	9
Other loans and advances due from banks	5,284	4,861	4,588
<b>Performing assets</b>	<b>5,297</b>	<b>4,865</b>	<b>4,597</b>
Impaired loans and advances	-	-	-
<b>Impaired assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets before impairment</b>	<b>5,297</b>	<b>4,865</b>	<b>4,597</b>
Specific impairment	-	-	-
Collective impairment	-	-	-
<b>TOTAL</b>	<b>5,297</b>	<b>4,865</b>	<b>4,597</b>

## b. Breakdown by counterparty

	6/30/2015	12/31/2015	6/30/2016
Credit institutions	2	0	-
Swiss cantonal banks benefiting from their cantons' legal guarantee	572	373	335
Banks guaranteed by a local government, <i>crédits municipaux</i>	67	58	37
Other credit institutions : loans benefiting from the assignment in guarantee of refinanced public debt	2,095	2,089	2,085
Replacement assets	2,561	2,345	2,140
<b>TOTAL</b>	<b>5,297</b>	<b>4,865</b>	<b>4,597</b>
<i>of which eligible for central bank refinancing</i>	-	-	-

## c. Replacement assets

	6/30/2015	12/31/2015	6/30/2016
SFIL - loans secured by public sector assets	2,548	2,341	2,131
Credit institutions - sight accounts	13	4	9
<b>TOTAL</b>	<b>2,561</b>	<b>2,345</b>	<b>2,140</b>

## 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

	6/30/2015	12/31/2015	6/30/2016
Public sector	58,909	56,585	58,215
Other - guaranteed by a State or local government	3,403	3,725	3,068
<b>Performing assets</b>	<b>62,312</b>	<b>60,310</b>	<b>61,283</b>
Impaired loans and advances	657	673	607
<b>Impaired assets</b>	<b>657</b>	<b>673</b>	<b>607</b>
<b>Total assets before impairment</b>	<b>62,969</b>	<b>60,983</b>	<b>61,890</b>
Specific impairment	(75)	(66)	(44)
Collective impairment	(64)	(63)	(58)
<b>TOTAL</b>	<b>62,830</b>	<b>60,854</b>	<b>61,788</b>
<i>of which eligible for central bank refinancing</i>	41,448	39,227	40,369

The loans depreciated concern customers that represent an identified credit risk (non-performing loans: EUR 542 million) and customers with unpaid loans corresponding to disagreement on the amount due (compromised non-performing loans : EUR 65 million).

At the end of June 2016, Caisse Française de Financement Local maintains a high level of collective impairment which amounted to EUR 58 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 to reduce the sensitivity of the loan.

There were 147 forborne contracts as of June 30, 2016, with 89 borrowers, for a total of EUR 1 157 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

	6/30/2015	12/31/2015	6/30/2016
Current income tax	-	-	-
Other taxes	0	0	0
<b>Current tax assets</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Deferred tax assets (see note 4.2)</b>	<b>117</b>	<b>108</b>	<b>143</b>
<b>TOTAL TAX ASSETS</b>	<b>117</b>	<b>108</b>	<b>143</b>

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, 2016, are recoverable on the basis of this analysis within seven years by taking into account the tax rules governing the treatment of past deficits.

In application of the 2013 law of Finances (article 24), the assignment 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

	6/30/2015	12/31/2015	6/30/2016
Cash collateral paid	-	-	-
Other accounts receivable	-	-	0
Prepaid charges	0	0	0
Other assets	1	20	9
<b>TOTAL ACCRUALS AND OTHER ASSETS</b>	<b>1</b>	<b>20</b>	<b>9</b>

## 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.513-11 of the Monetary and Financial Code.

	6/30/2015	12/31/2015	6/30/2016
Overnight borrowing	-	-	-
Term borrowing	-	-	-
Accrued interest	-	-	-
<b>TOTAL FUNDING FROM BANQUE DE FRANCE</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 3.2 - DUE TO BANKS

#### a. Analysis by nature

	6/30/2015	12/31/2015	6/30/2016
Demand deposits	-	-	5
Term deposits	5,602	5,520	5,481
<b>TOTAL</b>	<b>5,602</b>	<b>5,520</b>	<b>5,486</b>

At the end of June 2016, the funding borrowed from SFIL within the framework of the financing agreement was made up of different loans with maturities initially running from 29 days to 10 years borrowed with an Euribor or Eonia index.

	6/30/2015	12/31/2015	6/30/2016
Term borrowing - parent company	5,593	5,511	5,474
Interest accrued not yet due	9	9	7
Sight accounts	-	-	5
<b>TOTAL</b>	<b>5,602</b>	<b>5,520</b>	<b>5,486</b>

#### b. Analysis by residual maturity

See note 7.4

### 3.3 - DEBT SECURITIES

#### a. Analysis by nature

	6/30/2015	12/31/2015	6/30/2016
Obligations foncières	51,047	49,643	51,340
Registered covered bonds	7,209	7,499	8,014
<b>TOTAL</b>	<b>58,256</b>	<b>57,142</b>	<b>59,354</b>

#### b. Analysis by residual maturity

See note 7.4

**3.4 - TAX LIABILITIES**

	6/30/2015	12/31/2015	6/30/2016
Current income tax	0	0	0
Other taxes	1	1	1
<b>Current tax liabilities</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Deferred tax liabilities (see note 4.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL TAX LIABILITIES</b>	<b>1</b>	<b>1</b>	<b>1</b>

**3.5 - ACCRUALS AND OTHER LIABILITIES**

	6/30/2015	12/31/2015	6/30/2016
Cash collateral received	1,408	1,397	1,370
Other accrued charges	16	15	16
Deferred income	-	-	-
Contribution to support fund <sup>(1)</sup>	142	162	136
Other accounts payable and other liabilities	1	10	22
<b>TOTAL</b>	<b>1,567</b>	<b>1,584</b>	<b>1,544</b>

(1) This item represents the residual balance of the commitment made by Caisse Française de Financement Local to contribute to the pluri-annual support funds:

- in 2013, for local governments in the amount of EUR 10 million for 15 years (EUR 150 million),
- in 2014 and 2015 for public hospitals in the amount of respectively EUR 18 million (EUR 6 million for three years) and EUR 20 million (EUR 10 million for two years).

**3.6 - PROVISIONS**

In 2015, French tax authorities investigated the income declared and the tax paid for 2012 and 2013. Following the tax assessment, the tax authorities expressed their disagreement with the tax treatment of the following two points: the taxation in Ireland of the income from the Dublin branch of Dexia Municipal Agency, which has now been closed, and the deductibility of provisions for non-performing loans.

In order to take into account the risk of an unfavorable outcome in these proceedings, Caisse Française de Financement Local has recorded a provision for additional income tax in the amount of EUR 38 million. Nonetheless, Caisse Française de Financement Local does not agree with the position of the tax authorities and will appeal within the framework of legal recourse allowed by current tax regulations.

**4. OTHER NOTES ON THE BALANCE SHEET (EUR millions)****4.1 - DERIVATIVES****a. Analysis by nature**

	6/30/2015		12/31/2015		6/30/2016	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>Derivatives at fair value through profit or loss <sup>(1)</sup></b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>6</b>
Derivatives designated as fair value hedges	4,497	9,700	4,643	8,117	5,300	8,220
Derivatives designated as cash flow hedges	8	187	6	162	5	155
Derivatives designated as portfolio hedges	2,610	3,756	2,397	3,811	2,421	4,139
<b>Hedging derivatives</b>	<b>7,115</b>	<b>13,643</b>	<b>7,046</b>	<b>12,090</b>	<b>7,726</b>	<b>12,514</b>
<b>CVA / DVA Impact</b>	<b>(3)</b>	<b>(81)</b>	<b>(3)</b>	<b>(77)</b>	<b>(3)</b>	<b>(39)</b>
<b>TOTAL DERIVATIVES</b>	<b>7,114</b>	<b>13,562</b>	<b>7,045</b>	<b>12,015</b>	<b>7,724</b>	<b>12,481</b>

(1) Caisse Française de Financement Local is only authorized to conduct derivative transactions for purposes of hedging. Some hedging derivatives, which do not comply with all the conditions required by IFRS, are reported in the item Derivatives at fair value through profit and loss.

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

	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
<b>TOTAL</b>	<b>64,576</b>	<b>64,585</b>	<b>4,497</b>	<b>9,700</b>

	12/31/2015			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	7,052	6,952	482	372
Interest rate derivatives	57,560	57,541	4,161	7,745
<b>TOTAL</b>	<b>64,612</b>	<b>64,493</b>	<b>4,643</b>	<b>8,117</b>

	6/30/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	6,437	6,293	520	409
Interest rate derivatives	58,774	58,748	4,780	7,811
<b>TOTAL</b>	<b>65,211</b>	<b>65,041</b>	<b>5,300</b>	<b>8,220</b>

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

	6/30/2015			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,011	1,149	8	187
Interest rate derivatives	-	-	-	-
<b>TOTAL</b>	<b>1,011</b>	<b>1,149</b>	<b>8</b>	<b>187</b>
	12/31/2015			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	954	1,071	6	162
Interest rate derivatives	-	-	-	-
<b>TOTAL</b>	<b>954</b>	<b>1,071</b>	<b>6</b>	<b>162</b>
	6/30/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	874	977	5	155
Interest rate derivatives	-	-	-	-
<b>TOTAL</b>	<b>874</b>	<b>977</b>	<b>5</b>	<b>155</b>
6/30/2015 12/31/2015 6/30/2016				
Amount removed from cash flow hedge reserve 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

	6/30/2015			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	87,137	87,132	2,610	3,756
<b>TOTAL</b>	<b>87,137</b>	<b>87,132</b>	<b>2,610</b>	<b>3,756</b>
	12/31/2015			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	90,293	90,288	2,397	3,811
<b>TOTAL</b>	<b>90,293</b>	<b>90,288</b>	<b>2,397</b>	<b>3,811</b>
	6/30/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	81,392	81,387	2,421	4,139
<b>TOTAL</b>	<b>81,392</b>	<b>81,387</b>	<b>2,421</b>	<b>4,139</b>

## 4.2 - DEFERRED TAXES

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

## a. Analysis by nature

	6/30/2015	12/31/2015	6/30/2016
Deferred tax assets before impairment	117	108	143
Impairment on deferred tax assets	-	-	-
<b>Deferred tax assets</b>	<b>117</b>	<b>108</b>	<b>143</b>
<b>Deferred tax liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>117</b>	<b>108</b>	<b>143</b>

## b. Movements

	6/30/2015	12/31/2015	6/30/2016
<b>As of January 1</b>	<b>99</b>	<b>99</b>	<b>108</b>
Charge/credit recognized in the income statement	16	27	25
Effect of change in tax rates - impact on the income statement	-	-	-
Movements directly recognized in equity	2	(18)	10
Effect of change in tax rates - impact on equity	-	-	-
Translation adjustment	-	-	-
Other movements	-	-	-
<b>As of June 30</b>	<b>117</b>	<b>108</b>	<b>143</b>

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

	6/30/2015	12/31/2015	6/30/2016
Loans and loan loss provisions	(368)	80	(151)
Securities	67	46	43
Derivatives	618	167	54
Accruals and other assets	13	14	14
<b>TOTAL</b>	<b>330</b>	<b>307</b>	<b>(40)</b>

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

	6/30/2015	12/31/2015	6/30/2016
Borrowings, deposits and issues of debt securities	(213)	(199)	183
Derivatives	-	-	-
Provisions	-	-	-
Accruals and other liabilities	-	-	-
<b>TOTAL</b>	<b>(213)</b>	<b>(199)</b>	<b>183</b>

## 4.3 - TRANSACTIONS WITH RELATED-PARTIES

## Analysis by nature

	Parent company <sup>(1)</sup>			Other related parties <sup>(2)</sup>		
	6/30/2015	12/31/2015	6/30/2016	6/30/2015	12/31/2015	6/30/2016
<b>ASSETS</b>						
Loans and advances	2,548	2,341	2,131	-	-	-
Bonds	-	-	-	-	-	-
<b>LIABILITIES</b>						
Due to banks - sight accounts	-	-	-	-	-	-
Due to banks - term loans	5,602	5,520	5,482	-	-	-
<b>INCOME STATEMENT</b>						
Interest income on loans and advances	6	11	5	(4)	(9)	(6)
Interest income on bonds	-	-	-	-	-	-
Interest expense on borrowings	(20)	(37)	(14)	-	-	-
Fees and commissions	(10)	(19)	-	(0)	-	(0)
<b>OFF-BALANCE SHEET</b>						
Foreign exchange derivatives	4,719	4,399	4,107	-	-	-
Interest rate derivatives	18,329	17,487	14,361	-	-	-
Commitments and guarantees issued by the Group	2,598	2,391	2,181	140	140	-
Commitments and guarantees given by the Group	-	600	551	-	-	-

(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.

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

	6/30/2015	12/31/2015	6/30/2016
<b>Unrealized gains and losses on available for sale securities</b>	<b>(92)</b>	<b>(48)</b>	<b>(73)</b>
Canada	0	0	0
Germany	0	-	-
France	(2)	(2)	(4)
Italy	(81)	(42)	(65)
United States	(9)	(4)	(4)
<b>Unrealized gains and losses on loans and receivable securities</b>	<b>(98)</b>	<b>(85)</b>	<b>(83)</b>
Spain	(2)	(1)	(1)
France	4	3	3
Italy	(100)	(87)	(85)
<b>Unrealized gains and losses on derivatives designated as cash-flow hedges</b>	<b>(42)</b>	<b>(39)</b>	<b>(45)</b>
<b>TOTAL</b>	<b>(232)</b>	<b>(172)</b>	<b>(201)</b>
Deferred taxes on gains and losses, available for sale securities	32	17	25
Deferred taxes on gains and losses, loans and receivable securities	34	29	29
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	14	13	16
<b>TOTAL</b>	<b>(152)</b>	<b>(113)</b>	<b>(131)</b>

## 4.5 - BREAKDOWN OF GOVERNMENT BONDS IN 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.

	12/31/2015					Total
	Spain	Ireland	Italy	Portugal	Greece	
Government bonds	-	-	585	-	-	585
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>585</b>	<b>-</b>	<b>-</b>	<b>585</b>

	6/30/2016					Total
	Spain	Ireland	Italy	Portugal	Greece	
Government bonds	-	-	585	-	-	585
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>585</b>	<b>-</b>	<b>-</b>	<b>585</b>

	12/31/2015					Total
	Spain	Ireland	Italy	Portugal	Greece	
Financial assets available for sale	-	-	472	-	-	472
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	113	-	-	113
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>585</b>	<b>-</b>	<b>-</b>	<b>585</b>

<b>UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES</b>	-	-	(42)	-	-	(42)
<b>UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES</b>	-	-	-	-	-	-

	6/30/2016					Total
	Spain	Ireland	Italy	Portugal	Greece	
Financial assets available for sale	-	-	473	-	-	473
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	112	-	-	112
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>585</b>	<b>-</b>	<b>-</b>	<b>585</b>

<b>UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES</b>	-	-	(65)	-	-	(65)
<b>UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES</b>	-	-	-	-	-	-

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

## 5.1 - INTEREST INCOME - INTEREST EXPENSE

	H1 2015	H1 2016
<b>INTEREST INCOME</b>	<b>2,083</b>	<b>1,725</b>
Central banks	-	-
Loans and advances due from banks	31	15
Loans and advances to customers	863	751
Financial assets available for sale	20	20
Financial assets held to maturity	-	-
Derivatives used for hedging	1,169	939
Impaired assets	-	-
Other	-	0
<b>INTEREST EXPENSE</b>	<b>(2,052)</b>	<b>(1,635)</b>
Accounts with central banks	(0)	(5)
Due to banks	(20)	(11)
Customer borrowings and deposits	-	-
Debt securities	(952)	(828)
Subordinated debt	-	-
Derivatives used for hedging	(1,080)	(790)
Other	-	(1)
<b>INTEREST MARGIN</b>	<b>31</b>	<b>90</b>

## 5.2 - FEES AND COMMISSIONS

	H1 2015			H1 2016		
	Income	Expense	Net	Income	Expense	Net
Lending activity	0	-	0	0	-	0
Purchase and sale of securities	-	(1)	(1)	-	(0)	(0)
Services on securities other than custodian services	-	(3)	(3)	-	(2)	(2)
Issuance and underwriters of securities	-	(0)	(0)	-	(0)	(0)
Rebiling by parent company	-	(10)	(10)	-	-	-
<b>TOTAL</b>	<b>0</b>	<b>(14)</b>	<b>(14)</b>	<b>0</b>	<b>(2)</b>	<b>(2)</b>

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

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 and the revaluation of assets and liabilities qualified as hedges and the revaluation of the portfolio held for trading.

	H1 2015	H1 2016
Net trading income	(0)	(0)
Net result of hedge accounting	(15)	(45)
Net result of foreign exchange transactions	(0)	(0)
<b>TOTAL</b>	<b>(15)</b>	<b>(45)</b>

## Analysis of net result of hedge accounting

	H1 2015	H1 2016
<b>Fair value hedges</b>	<b>8</b>	<b>(7)</b>
Fair value changes in the hedged item attributable to the hedged risk	1,670	588
Fair value changes in the hedging derivatives	(1,662)	(595)
<b>Cash flow hedges</b>	<b>-</b>	<b>-</b>
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
<b>Portfolio hedge</b>	<b>(3)</b>	<b>(0)</b>
Fair value changes in the hedged item	(197)	421
Fair value changes in the hedging derivatives	194	(421)
<b>CVA / DVA Impact <sup>(1)</sup></b>	<b>(20)</b>	<b>(38)</b>
<b>TOTAL</b>	<b>(15)</b>	<b>(45)</b>

(1) As of June 30, 2016, the application of IFRS 13 shows a net impact of EUR -38 million comprised of EUR -37.5 million for DVA and EUR -0.2 million for CVA.

## 5.4 - NET RESULT OF FINANCIAL ASSETS AVAILABLE FOR SALE

	H1 2015	H1 2016
Net result of disposals of loans and securities available for sale	0	-
Net result of disposals of debt securities	(1)	(1)
Net result of the sale or cancellation of loans and advances	3	8
<b>TOTAL</b>	<b>2</b>	<b>7</b>

## 5.5 - OPERATING EXPENSE

	H1 2015	H1 2016
Payroll costs	-	-
Other general and administrative expense <sup>(1)</sup>	(52)	(46)
Taxes	(1)	(7)
<b>TOTAL</b>	<b>(53)</b>	<b>(53)</b>

(1) Of which EUR 44 million to the benefit of SFIL as of June 30, 2016.

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

Specific individual agreements have been established with entities that have transferred assets to the *société de crédit foncier*, and continue to ensure management for their national clientèle. At the end of June 2016, there were agreements with the following entities : Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium), and Dexia Crediop (Italy). These agreements already existed in previous years.

Starting in 2015, management of new registered covered bonds (RCB) is entrusted to Landesbank Baden-Württemberg (LBBW). Dexia Kommunalbank Deutschland continues to manage registered covered bonds issued prior to 2015.

## 5.6 - COST OF RISK

	H1 2015			Total
	Collective impairment	Specific impairment and losses	Contribution to support fund	
Credit (loans, commitments and securities held to maturity)	(2)	4	-	2
Fixed income securities available for sale	-	-	-	-
<b>TOTAL</b>	<b>(2)</b>	<b>4</b>	<b>0</b>	<b>2</b>

	H1 2016			Total
	Collective impairment	Specific impairment and losses	Contribution to support fund	
Credit (loans, commitments and securities held to maturity)	6	1	-	7
Fixed income securities available for sale	-	-	-	-
<b>TOTAL</b>	<b>6</b>	<b>1</b>	<b>-</b>	<b>7</b>

## Detail of collective and specific impairments

Collective impairment	H1 2015			H1 2016		
	Charges	Recoveries and uses	Total	Charges	Recoveries and uses	Total
Loans and borrowings	(2)	0	(2)	(2)	8	6
Off-balance sheet commitments	-	-	-	-	-	-
<b>TOTAL</b>	<b>(2)</b>	<b>0</b>	<b>(2)</b>	<b>(2)</b>	<b>8</b>	<b>6</b>

Specific Impairment	H1 2015					Total
	Allocations	Reversals	Losses	Recoveries		
Loans and advances due from banks	-	-	-	-	-	-
Loans and advances to customers	(6)	10	(0)	-	-	4
Financial assets held to maturity	-	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-	-
<b>Total credit</b>	<b>(6)</b>	<b>10</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>4</b>
Fixed income securities	-	-	-	-	-	-
<b>TOTAL</b>	<b>(6)</b>	<b>10</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>4</b>

Specific Impairment	H1 2016					Total
	Allocations	Reversals	Losses	Recoveries		
Loans and advances due from banks	-	-	-	-	-	-
Loans and advances to customers	(1)	2	0	-	-	1
Financial assets held to maturity	-	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-	-
<b>Total credit</b>	<b>(1)</b>	<b>2</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>1</b>
Fixed income securities	-	-	-	-	-	-
<b>TOTAL</b>	<b>(1)</b>	<b>2</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>1</b>

## 5.7 - CORPORATE INCOME TAX

## a. Breakdown of tax expense

	H1 2015	H1 2016
Current taxes	(3)	(27)
Deferred taxes	16	25
Tax on prior years' income	-	-
Deferred taxes on prior years	-	-
Provisions for tax litigation	-	-
<b>TOTAL</b>	<b>13</b>	<b>(2)</b>

## b. Effective tax expense as of June 30, 2016

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

	H1 2015	H1 2016
<b>INCOME BEFORE INCOME TAXES</b>	<b>(47)</b>	<b>(3)</b>
Net income from associates	-	-
<b>TAX BASE</b>	<b>(47)</b>	<b>(3)</b>
Applicable tax rate at end of the period	38.00%	34.43%
<b>THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE</b>	<b>18</b>	<b>(1)</b>
Tax effect of non-deductible expenses	(3)	(1)
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Other additional taxes or tax savings	(2)	0
Liability method	-	-
Provisions for tax litigation	-	-
<b>CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT</b>	<b>13</b>	<b>(2)</b>

## 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 (EUR millions)

## 6.1 - REGULAR WAY TRADE

	6/30/2015	12/31/2015	6/30/2016
Assets to be delivered	-	-	-
Liabilities to be received	577	-	-

## 6.2 - GUARANTEES

	6/30/2015	12/31/2015	6/30/2016
Guarantees received from credit institutions <sup>(1)</sup>	2,731	2,525	2,163
Enhanced guarantee <sup>(2)</sup>	-	-	551
Guarantees received from customers <sup>(3)</sup>	6,932	5,867	5,379

(1) At the end of June 2016, this amount was mainly composed of pledges of assets with benefits to Caisse Française de Financement Local, received as a guarantee for loans

(2) Guarantee received from Coface, on behalf of the State, with its guarantee. The French State will take over the rights and obligations related to this enhanced guarantee before the end of the year 2016.

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

## 6.3 - FINANCING COMMITMENTS

	6/30/2015	12/31/2015	6/30/2016
Loan commitments granted to credit institutions <sup>(1)</sup>	0	600	551
Loan commitments granted to customers <sup>(2)</sup>	297	293	289
Loan commitments received from credit institutions <sup>(3)</sup>	50	50	50
Loan commitments received from customers	-	-	-

(1) Within the framework of the new export credit refinancing business, the balance corresponded to a commitment of Caisse Française de Financement Local to finance its parent company (SFIL).

(2) The financing commitments on loans and lines of credit corresponded to contracts issued but not paid out as of June 30, 2016.

(3) This item concerned the amount of the overdraft authorized on the current account with SFIL, which totaled EUR 50 million as of June 30, 2016.

## 6.4 - OTHER COMMITMENTS

	6/30/2015	12/31/2015	6/30/2016
Commitments received	269	238	235

## 7 NOTES ON RISK EXPOSURE (EUR millions)

## 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.

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. Indeed, assets and liabilities present good congruence in interest rates and maturities and are meant to be held on the balance sheet to maturity, because of the specialized business the Company does.

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

	12/31/2015		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	2,315	2,315	-
Loans and advances due from banks	4,597	4,571	38
Loans and advances to customers	61,781	59,938	(1,387)
Financial assets available for sale	1,525	1,525	-
Derivatives	7,724	7,724	-
<b>TOTAL</b>	<b>76,149</b>	<b>74,800</b>	<b>(1,349)</b>

	6/30/2016		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	2,315	2,315	-
Loans and advances due from banks	4,597	4,619	22
Loans and advances to customers	61,788	59,896	(1,892)
Financial assets available for sale	1,525	1,525	-
Derivatives	7,724	7,724	-
<b>TOTAL</b>	<b>77,949</b>	<b>76,079</b>	<b>(1,870)</b>



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

	12/31/2015		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	5,520	5,542	22
Derivatives	12,015	12,015	-
Debt securities	57,142	57,665	523
<b>TOTAL</b>	<b>74,677</b>	<b>75,222</b>	<b>545</b>

	6/30/2016		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	5,486	5,522	36
Derivatives	12,481	12,481	-
Debt securities	59,354	60,726	1,372
<b>TOTAL</b>	<b>77,321</b>	<b>78,729</b>	<b>1,408</b>

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

The fair value of a financial instrument is determined on the basis of prices that can be observed in the market for the instrument itself or for a comparable instrument, or with the help of a technical evaluation utilizing observable market data.

A hierarchy of the methods used to establish fair value has been drawn up. It is composed of the following three levels.

- Level 1 corresponds to the instruments considered to be liquid, i.e. that their valuation is based on the price observed in a liquid market, for which Caisse Française de Financement Local assured itself of the existence of a large number of contributors. Level 1 securities include in particular certain government bonds.
- Level 2 uses another method to determine the value of instruments for which Caisse Française de Financement Local can not observe market prices, but observes such for similar instruments by the same issuer or guarantor listed in the market. In this case, observable prices and other data observable in the market are used and an adjustment is made to account for the degree of the security's lack of liquidity.
- In level 3, when there is no active market or observable market data, the fair value of instruments is determined by using a valuation spread developed from an internal model. Derivatives are valued using these internal models.

Caisse Française de Financement Local has reviewed its approach in the assessment of the value of derivative instruments. The measurement of derivatives is based on an analysis combining the observability of the market data used in the assessment and the robustness of the valuation models measured in terms of efficiency to provide a valuation in market consensus. The result of this application is that the derivatives used by the SFIL Group in hedging its activities are primarily of level 2.

For the derivatives in level 3, this classification mainly involves hybrid, structured products (interest rate – foreign exchange), spread (correlation) products and options on interest rates.

Fair value of financial assets	12/31/2015			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
Financial assets available for sale	691	198	-	889
Derivatives	-	5,519	1,526	7,045
<b>TOTAL</b>	<b>691</b>	<b>5,717</b>	<b>1,526</b>	<b>7,934</b>

Fair value of financial assets	6/30/2016			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
Financial assets available for sale	726	799	-	1,525
Derivatives	-	6,937	787	7,724
<b>TOTAL</b>	<b>726</b>	<b>7,736</b>	<b>787</b>	<b>9,249</b>

Fair value of financial liabilities	12/31/2015			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
Derivatives	-	7,748	4,267	12,015
<b>TOTAL</b>	<b>-</b>	<b>7,748</b>	<b>4,267</b>	<b>12,015</b>

Fair value of financial liabilities	6/30/2016			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
Derivatives	-	11,169	1,312	12,481
<b>TOTAL</b>	<b>-</b>	<b>11,169</b>	<b>1,312</b>	<b>12,481</b>

**d. Transfer between Levels 1 and 2**

	12/31/2015	6/30/2016
Level 1 to Niveau 2	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>

## e. Level 3 : analyses of flow

	Financial assets available for sale	Derivatives	TOTAL FINANCIAL ASSETS	Derivatives	TOTAL FINANCIAL LIABILITIES
Juste valeur des actifs financiers					
<b>12/31/2015</b>	-	1,526	<b>1,526</b>	4,267	<b>4,267</b>
Total gains and losses through profit and loss	-	(3)	<b>(3)</b>	(355)	<b>(355)</b>
Total unrealized or deferred gains and losses	-	132	<b>132</b>	(279)	<b>(279)</b>
Total OCI unrealized or deferred gains and losses	-	-	-	-	-
Purchase	-	3	<b>3</b>	14	<b>14</b>
Sale	-	-	-	-	-
Direct origination	-	-	-	-	-
Settlement	-	6	<b>6</b>	-	-
Transfer to activities available for sale	-	-	-	-	-
Transfert to level 3	-	-	-	109	<b>109</b>
Transfert out of level 3	-	(885)	<b>(885)</b>	(2,444)	<b>(2,444)</b>
Others variations	-	8	<b>8</b>	-	-
<b>6/30/2016</b>	-	787	<b>787</b>	1,312	<b>1,312</b>

## 7.2 - OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

	<b>12/31/2015</b>					
	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)	7,045	-	7,045	(5,631)	(1,312)	102
Loans and advances due from banks	4,865	-	4,865	-	(1,851)	3,014
Loans and advances to customers	60,854	-	60,854	-	-	60,854
<b>TOTAL</b>	<b>72,764</b>	<b>-</b>	<b>72,764</b>	<b>(5,631)</b>	<b>(3,163)</b>	<b>63,970</b>

	<b>6/30/2016</b>					
	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)	7,724	-	7,724	(6,375)	(1,204)	145
Loans and advances due from banks	4,597	-	4,597	-	(1,850)	2,747
Loans and advances to customers	61,788	-	61,788	-	-	61,788
<b>TOTAL</b>	<b>74,109</b>	<b>-</b>	<b>74,109</b>	<b>(6,375)</b>	<b>(3,054)</b>	<b>64,680</b>

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

	<b>12/31/2015</b>					
	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)	12,015	-	12,015	(5,631)	-	6,384
Due to banks	5,520	-	5,520	-	-	5,520
Customer borrowings and deposits	-	-	-	-	-	-
<b>TOTAL</b>	<b>17,535</b>	<b>-</b>	<b>17,535</b>	<b>(5,631)</b>	<b>-</b>	<b>11,904</b>

	<b>6/30/2016</b>					
	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)	12,481	-	12,481	(6,375)	-	6,106
Due to banks	5,486	-	5,486	-	-	5,486
Customer borrowings and deposits	-	-	-	-	-	-
<b>TOTAL</b>	<b>17,967</b>	<b>-</b>	<b>17,967</b>	<b>(6,375)</b>	<b>-</b>	<b>11,592</b>

### 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.

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

##### Analysis of exposure by geographic region

	12/31/2015	6/30/2016
France	59,399	61,307
Belgium	200	188
Italy	6,610	7,006
Spain	285	204
Germany	627	615
United Kingdom	2,263	2,259
Switzerland	2,123	2,051
Other European Union countries	88	88
United States and Canada	700	721
Japan	39	43
Other	226	228
<b>TOTAL EXPOSURE</b>	<b>72,560</b>	<b>74,710</b>

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

	12/31/2015	6/30/2016
States	5,343	5,677
Local public sector	64,005	65,856
Other assets guaranteed by public sector entities	133	15
Financial institutions	3,079	3,162
<b>TOTAL EXPOSURE</b>	<b>72,560</b>	<b>74,710</b>

Exposure on financial institutions is primarily comprised of counterparties in hedging derivatives and replacement assets.

As of June 30, 2016, Caisse Française de Financement Local had no asset-backed securities.

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

	12/31/2015	6/30/2016
Debt securities	889	1,526
Loans and advances	71,131	72,313
Financing commitments on loans	518	840
Derivatives	22	31
<b>TOTAL EXPOSURE</b>	<b>72,560</b>	<b>74,710</b>

#### b. 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 Caisse Française 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 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, 2016, 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 75% of the portfolio has a weighting of less than 5% and 96% of the portfolio has a weighting that is less than or equal to 20%.

	Risk weighting (Basel III)				Total
	from 0 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	
Debt securities	54	790	682	-	1,526
Loans and advances	55,491	14,572	1,921	329	72,313
Financing commitments on loans	832	8	-	0	840
Derivatives	-	-	17	14	31
<b>TOTAL EXPOSURE</b>	<b>56,377</b>	<b>15,370</b>	<b>2,620</b>	<b>343</b>	<b>74,710</b>
<b>SHARE</b>	<b>75.5%</b>	<b>20.6%</b>	<b>3.5%</b>	<b>0.5%</b>	<b>100.0%</b>

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

## 7.4 - LIQUIDITY RISK : ANALYSIS BY TERM TO MATURITY

## a. Analysis of assets

6/30/2016							
	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	2,315	-	-	-	-	-	2,315
Derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	600	44	75	553	0	1,272
Loans and advances due from banks	9	3,985	227	154	202	-	4,577
Loans and advances to customers	6	1,746	3,593	15,931	34,124	-	55,400
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	143	143
Accruals and other assets	-	7	-	-	-	2	9
<b>TOTAL</b>	<b>2,330</b>	<b>6,338</b>	<b>3,864</b>	<b>16,160</b>	<b>34,879</b>	<b>145</b>	<b>63,716</b>

6/30/2016					
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	2,315	-	-	-	2,315
Derivatives	-	474	7,250	-	7,724
Financial assets available for sale	1,272	7	246	-	1,525
Loans and advances due from banks	4,577	9	11	-	4,597
Loans and advances to customers	55,400	667	5,823	(102)	61,788
Fair value revaluation of portfolio hedge	-	-	3,592	-	3,592
Financial assets held to maturity	-	-	-	-	-
Tax assets	143	-	-	-	143
Accruals and other assets	9	-	-	-	9
<b>TOTAL</b>	<b>63,716</b>	<b>1,157</b>	<b>16,922</b>	<b>(102)</b>	<b>81,693</b>

## b. Analysis of liabilities, excluding equity

6/30/2016							
	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	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Due to banks	5	300	747	2,246	2,181	-	5,479
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	2,027	4,648	21,472	25,687	-	53,834
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	1	-	-	-	1
Accruals and other liabilities	-	1,408	-	56	80	-	1,544
Provisions	-	-	-	38	-	-	38
Subordinated debt	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>5</b>	<b>3,735</b>	<b>5,396</b>	<b>23,812</b>	<b>27,948</b>	<b>-</b>	<b>60,896</b>

6/30/2016				
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Derivatives	-	685	11,796	12,481
Due to banks	5,479	7	-	5,486
Customer borrowings and deposits	-	-	-	-
Debt securities	53,834	851	4,669	59,354
Fair value revaluation of portfolio hedge	-	-	1,491	1,491
Tax liabilities	1	-	-	1
Accruals and other liabilities	1,544	-	-	1,544
Provisions	38	-	-	38
Subordinated debt	-	-	-	-
<b>TOTAL</b>	<b>60,896</b>	<b>1,543</b>	<b>17,956</b>	<b>80,395</b>

## c. Net liquidity gap

6/30/2016							
	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
<b>AMOUNT</b>	<b>2,325</b>	<b>2,603</b>	<b>(1,532)</b>	<b>(7,652)</b>	<b>6,931</b>	<b>145</b>	<b>(1,522)</b>
<b>TOTAL</b>	<b>2,325</b>	<b>2,603</b>	<b>(1,532)</b>	<b>(7,652)</b>	<b>6,931</b>	<b>145</b>	<b>(1,522)</b>

This table presents the balance sheet at the closing date; it does not take into account the management decisions that will make it possible to manage differences in maturity or the future production of assets and liabilities. Caisse Française de Financement Local's liquidity is provided by its refinancing agreement with SFIL. 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	06/30/2015				
	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
<b>NET BALANCE SHEET POSITION</b>	-	-	-	-	-

Classification by original currency	12/31/2015				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	72,661	3,214	1,585	1,601	79,061
Total liabilities	72,661	3,214	1,585	1,601	79,061
<b>NET BALANCE SHEET POSITION</b>	-	-	-	-	-

Classification by original currency	6/30/2016				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	75,786	2,663	1,536	1,708	81,693
Total liabilities	75,786	2,663	1,536	1,708	81,693
<b>NET BALANCE SHEET POSITION</b>	-	-	-	-	-

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

## 7.6 - SENSITIVITY TO INTEREST RATE RISK

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 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.
- In the second step, Euribor lending and borrowing flows (naturally or after hedges) are swapped against Eonia generally over a sliding period of two years in order to eliminate 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.

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 stage and after the second level of hedges is monitored carefully and kept within strict limits. The set of limits on interest rate risk 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.

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

## Directional risk

Total sensitivity

End of quarter	Limit	Q3 2015	Q4 2015	Q1 2016	Q2 2016
<b>Sensitivity</b>	25.0	-	0.1	0.6	(3.7)

## Risk of slope between two distant points on the rate curve

Sum of sensitivities

End of quarter	Limit	Q3 2015	Q4 2015	Q1 2016	Q2 2016
<b>Short term</b>	10.0	3.5	0.6	-	(1.5)
<b>Medium term</b>	10.0	(0.8)	(0.4)	1.0	(1.8)
<b>Long term</b>	10.0	(0.5)	1.9	(0.7)	(0.5)
<b>Very long term</b>	10.0	(2.2)	(2.0)	0.3	0.1

## Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

End of quarter	Limit	Q3 2015	Q4 2015	Q1 2016	Q2 2016
<b>Short term</b>	20.0	5.2	6.2	4.8	4.5
<b>Medium term</b>	20.0	8.4	4.5	10.7	14.5
<b>Long term</b>	20.0	4.9	3.7	5.8	10.7
<b>Very long term</b>	20.0	3.8	3.8	6.5	6.4

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## Statutory auditor's report Half-year 2016 (*IFRS*)

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

For the period from January 1<sup>st</sup> to June 30<sup>th</sup>, 2016

*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 30<sup>th</sup>, 2016.

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 30<sup>th</sup>, 2016 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.

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, Septembre 9<sup>th</sup>, 2016

The statutory auditors  
*French original signed by*

MAZARS  
Anne VEAUTE

DELOITTE & ASSOCIES  
Sylvie BOURGUIGNON

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**Financial Statements**  
Half-year 2016 (*French Gaap*)



## Assets as of June 30, 2016

EUR millions	Notes	6/30/2015	12/31/2015	6/30/2016
Central banks	2.1	1,079	2,496	2,315
Government and public securities, eligible for central bank financing	2.2	6,087	3,866	3,797
Loans and advances due from banks	2.3	5,298	4,876	4,613
Loans and advances to customers	2.4	46,469	46,918	47,899
Bonds and other fixed income securities	2.5	4,257	3,562	3,994
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	1	19	3
Accruals and other assets	2.7	3,345	3,297	3,161
<b>TOTAL ASSETS</b>	<b>2.8</b>	<b>66,536</b>	<b>65,034</b>	<b>65,782</b>

## Liabilities as of June 30, 2016

EUR millions	Notes	6/30/2015	12/31/2015	6/30/2016
Central banks	3.1	-	-	-
Due to banks	3.2	5,602	5,520	5,486
Customer borrowings and deposits		-	-	-
Debt securities	3.3	54,342	53,185	54,294
Other liabilities	3.4	1,551	1,570	1,530
Accruals and other liabilities	3.5	3,502	3,200	2,843
Provisions	3.6	130	203	202
General banking risks reserve		-	-	-
Subordinated debt		-	-	-
<b>Equity</b>		<b>1,409</b>	<b>1,356</b>	<b>1,427</b>
Share capital	3.7	1,315	1,315	1,315
Additional paid-in capital	3.7	-	-	-
Reserves and retained earnings	3.7	71	71	41
Net income	3.7	23	(30)	71
<b>TOTAL LIABILITIES</b>	<b>3.8</b>	<b>66,536</b>	<b>65,034</b>	<b>65,782</b>

## Off-balance sheet items as of June 30, 2016

EUR millions	Notes	6/30/2015	12/31/2015	6/30/2016
<b>COMMITMENTS GRANTED</b>	<b>4.1</b>	<b>297</b>	<b>893</b>	<b>840</b>
Financing commitments		297	893	840
Guarantees granted		-	-	-
Other commitments granted		-	-	-
<b>COMMITMENTS RECEIVED</b>	<b>4.2</b>	<b>10,558</b>	<b>8,679</b>	<b>8,377</b>
Financing commitments		627	50	50
Guarantees received		9,931	8,629	8,327
Forward commitments		-	-	-
Other commitments received		-	-	-
Foreign currency transactions	4.3	18,903	16,030	16,293
Interest rate derivatives	4.4	143,538	148,022	140,343

## Income statement

EUR millions	Notes	H1 2015	2015	H1 2016
Interest income	5.0	862	2,808	2,190
Interest expense	5.0	(780)	(2,622)	(2,039)
Income from variable income securities		-	-	-
Commission income	5.1	-	0	-
Commission expense	5.1	(14)	(26)	(2)
Net gains (losses) on held for trading portfolio		-	0	0
Net gains (losses) on placement portfolio	5.2	9	21	(14)
Other banking income		0	0	0
Other banking expense		(0)	(0)	(0)
<b>NET BANKING INCOME</b>		<b>77</b>	<b>181</b>	<b>135</b>
General operating expense	5.3	(53)	(96)	(53)
Depreciation and amortization		-	-	-
<b>OPERATING INCOME BEFORE COST OF RISK</b>		<b>24</b>	<b>85</b>	<b>82</b>
Cost of risk	5.4	2	(14)	7
<b>INCOME FROM OPERATIONS</b>		<b>26</b>	<b>71</b>	<b>89</b>
Income (loss) on fixed assets	5.5	-	(5)	-
<b>INCOME BEFORE NON-RECURRING ITEMS AND TAXES</b>		<b>26</b>	<b>66</b>	<b>89</b>
Non-recurring items		-	-	-
Income tax	5.6	(3)	(96)	(18)
Net allocation to general banking risks reserve and regulated provisions		-	-	-
<b>NET INCOME</b>		<b>23</b>	<b>(30)</b>	<b>71</b>
Basic earnings per share		1.72	(2.30)	5.37
Diluted earnings per share		1.72	(2.30)	5.37

## Equity

EUR millions	Amount
<b>AS OF 12/31/2015</b>	
Share capital	1,315
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	71
Net income for the year	(30)
Interim dividends	-
<b>EQUITY AS OF 12/31/2015</b>	<b>1,356</b>
<b>MOVEMENTS FOR THE PERIOD</b>	<b>71</b>
Changes in share capital	-
Changes in additional paid-in capital	-
Changes in commitments to increase share capital and additional paid-in capital	-
Changes in reserves and retained earnings	-
Dividends paid (-)	-
Net income for the period	71
Other movements	-
<b>AS OF 6/30/2016</b>	
Share capital	1,315
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	41
Net income for the period	71
<b>EQUITY AS OF 6/30/2016</b>	<b>1,427</b>

## Cash flow statement

EUR millions	6/30/2015	12/31/2015	6/30/2016
<b>NET INCOME BEFORE TAXES</b>	<b>26</b>	<b>66</b>	<b>88</b>
+/- Depreciation and write-downs	30	39	(27)
+/- Expense / income from operating activities	28	141	70
+/- Expense / income from financing activities	(44)	(184)	(84)
+/- Other non cash items	(18)	130	187
<b>= Non monetary elements included in net income before tax and other adjustments</b>	<b>(4)</b>	<b>126</b>	<b>146</b>
+/- Cash from interbank operations	837	1,158	233
+/- Cash from customer operations (loans)	119	(772)	(1,030)
+/- Cash from customer financing assets	308	3,222	(455)
+/- Cash from hedging financial instruments	(978)	(1,258)	(390)
- Income tax paid	(15)	(35)	(6)
<b>= Decrease / (increase) in cash from operating activities</b>	<b>271</b>	<b>2,315</b>	<b>(1,648)</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES (A)</b>	<b>293</b>	<b>2,507</b>	<b>(1,414)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>
+/- Cash from or for shareholders	-	-	-
+/- Other cash from financing activities	266	(540)	1,233
<b>CASH FLOW FROM FINANCING ACTIVITIES (C)</b>	<b>266</b>	<b>(540)</b>	<b>1,233</b>
<b>EFFECT OF EXCHANGE RATES CHANGES ON CASH (D)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>INCREASE / (DECREASE) IN CASH EQUIVALENTS (A + B + C + D)</b>	<b>559</b>	<b>1,967</b>	<b>(181)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>533</b>	<b>533</b>	<b>2,500</b>
Central banks (assets and liabilities)	519	519	2,496
Interbank accounts (assets and liabilities) and loans / deposits at sight	14	14	4
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>1,092</b>	<b>2,500</b>	<b>2,319</b>
Central banks (assets and liabilities)	1,079	2,496	2,315
Interbank accounts (assets and liabilities) and loans / deposits at sight	13	4	4
<b>NET CASH</b>	<b>559</b>	<b>1,967</b>	<b>(181)</b>

# 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, 2016 were examined by the Executive Board on September 5, 2016.

### 1.2 – HIGHLIGHTS OF THE FIRST HALF OF 2016 AND POST-CLOSING EVENTS

#### a. The covered bond market

The market for public issues of covered bonds in euros was extremely active in the first half of 2016, with an offering volume in the primary market of EUR 92 billion versus EUR 62 billion in the first half of 2015. Business was basically concentrated in the beginning of the year, at which time the abundant offer encouraged investors to be more selective and demanding in terms of issue premiums. After a period in which spreads widened, the market returned to a positive dynamic, beginning in February, as the relative value of the covered bond product improved, thereby making it possible to attract the buying interests of traditional investors. The market continued to benefit during this period from the strong support contributed by the Eurosystem's covered bonds purchase program. The end of the first quarter was marked by a significant and rapid tightening of secondary spreads after the announcement of a reinforcement of non-standard monetary policy measures at Eurosystem central banks. This tightening lasted until the end of the first half boosted by a decline in primary offer volumes.

In such a market environment, CAFFIL was regularly active in the market for public issues in euros. Altogether, four new souches were created in the last six months, thereby making it possible to complete the reference yield curve. In January, CAFFIL launched an issue for a total amount of EUR 1.5 billion made up of two tranches offering a maturity of six years and 15 years. In April a ten-year benchmark issue of EUR 1.25 billion was launched, and in June a nine-year benchmark issue of EUR 1 billion completed recent initiatives.

In addition to these benchmark public issues, CAFFIL benefited from investor demand for long maturities to carry out private placements of EUR 266 million and to increase the amount of existing souches (2026 and 2035). The average maturity of financing raised by CAFFIL in the first half is close to 10.5 years.

#### b. Events affecting the rating of obligations foncières

The ratings of the obligations foncières issued by Caisse Française de Financement Local were not altered in 2016. As of June 30, 2016, the ratings were as follows: AA+ by Standard and Poor's, Aaa by Moody's and AA by Fitch.

#### 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. Some of these customers initiated legal proceedings against Dexia Credit Local, Caisse Française de Financement Local and/or SFIL.

#### Decrease in outstanding sensitive structured loans

The policy applied by SFIL since its creation at the beginning of 2013 made it possible to effect a significant reduction in the size of the portfolio of sensitive structured loans of Caisse Française de Financement Local.

#### Creation of support funds contributing to the cost of sensitivity reduction

The two support funds created by the French government in 2013 and 2014 allow local governments and public hospitals eligible for this arrangement to finance the cost of eliminating their structured loans. These funds were fully operational as of 2015. In the second half of the year 2015, notifications of the amounts of assistance provided by the funds began to be sent to local governments and public hospitals that had requested such help. This made it possible to maintain a sustained pace of sensitivity reduction and resulted in a major decrease in the number of lawsuits.

The capacity for intervention of these funds was significantly 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 borne by customers holding loans indexed on the EUR/CHF exchange rate would not be greater, after assistance from the funds, than they would have been before the decision of the Swiss National Bank (SNB) in January 2015 to put an end to the floor rate of exchange of the Swiss franc (CHF). The fund earmarked for local governments now totals EUR 3.0 billion and the one for public hospitals EUR 400 million. Likewise, the ceiling of the assistance made available was significantly raised from 45% to 75% of penalties owed by the most fragile local governments.

Caisse Française de Financement Local 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 38 million.

To prepare its 2014, 2015 and 2016 annual financial statements, Caisse Française de Financement Local took into account the hypothesis that the solutions announced by the government would in fact rapidly be made available. It was notably a question of defining a legal base for other structured loan agreements contracted by public sector entities (which took effect on July 30, 2014), creating a support fund for local governments and then for public hospitals and finally the measures taken in 2015 to counter the major rise in the exchange value of the Swiss franc decided by the Swiss National Bank 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 (rise in the two support funds and increase in the maximum rate of assistance granted).

### Significant decline in the number of lawsuits

As of June 30, 2016, the number of borrowers who had brought suit totaled 54, down from 131 as of December 31, 2015 and 210 as of December 2014.

The law that created a legal basis to secure structured loan agreements subscribed by public sector entities took effect on July 30, 2014. Since then, a bank can no longer be condemned for reasons linked to the annual rate of charge (TEG) of structured loan agreements, in particular for the formal absence of the TEG in the fax preceding the signing of the contract, reasons which had motivated the decision of the Tribunal de Grande Instance de Nanterre (TGI) on February 8, 2013, concerning the loans granted to the Département de la Seine-Saint-Denis.

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

Since this first ruling in February 2013, a limited number of disputes were the subject of court decisions: four rulings in 2014 before the law creating a legal basis to secure structured loan agreements subscribed by public entities took effect, which Dexia Credit Local and Caisse Française de Financement Local appealed, three in 2015 and four in 2016.

Of the three rulings of the Tribunal de Grande Instance de Nanterre handed down in 2015, one ruling gave rise to a conviction in solidum against Dexia Credit Local and Caisse Française de Financement Local for the failure of Dexia Credit Local to provide adequate information and sufficient warning when it marketed the loan. This same ruling condemned the 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.

Concerning the four rulings handed down in 2016, the first one concerning vanilla loans condemned both Dexia Credit Local and CAFFIL in application of case-law following the February 8, 2013, decision on the TEG and the other three concerning structured loans, dismissed all the claims of the borrower.

As of June 30, 2016, all these rulings were being heard in appeal before the Cour d'Appel de Versailles, except for litigation in which a financial agreement had been reached. At the same time, 166 borrowers who had brought suit signed a financial settlement agreement with SFIL, Caisse Française de Financement Local and Dexia Credit Local, thereby putting an end to legal litigation.

## 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 financial statements in compliance with Regulation n° 2014-07 issued on November 26, 2014, related to the annual accounts for the banking sector.

The financial statements as of June 30, 2016, were prepared using the same accounting principles as those used in the financial statements as of December 31, 2015.

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

- going concern principle,
- segregation of accounting periods,
- consistency of methods.

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

## 1.4 - ACCOUNTING PRINCIPLES 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 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, alert 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 recuperations 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 and the capacity to hold them to maturity. Securities in this category are subject to backed financing or interest-rate hedging over their residual maturity.

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 not 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 value the asset. Within this framework, Caisse Française de Financement Local relies on its own valuation models, making every effort to take into account the market conditions at the date of the valuation as well as any changes in the credit risk quality of these financial instruments and market liquidity.

When the decrease in the value of the security exceeds the unrealized gain on the micro-hedge, the decrease in net value is recorded as asset impairment as well as impairment reversals and capital gains and losses on sales.

Placement securities transferred to investment securities are recorded at their acquisition cost and previously recognized impairment is reversed over the residual 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 in the interest margin 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. Applied accounting principles 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 SFIL debt, 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 statement at cancellation.

### Monitoring market risks

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

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

The policy of Caisse Française de Financement Local is to avoid any foreign exchange risk. Market risks related to foreign exchange transactions are eliminated from the start by currency swaps when an asset or liability that is not denominated in euros is recorded on the balance sheet. General accounting verifies that at each end of a 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 – *pro rata 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 that is 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 an administrative assistance agreement with France (subsidiaries, branches, including *ad hoc* entities, and equity interest in other entities over which the Company has exclusive or joint (or *de facto*) control).

### l. Identity of the parent company consolidating the accounts of Caisse Française de Financement Local as of June 30, 2016

SFIL

1-3 rue du Passeur de Boulogne

92130 Issy-les-Moulineaux



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

## 2.1 - CENTRAL BANKS

	6/30/2015	12/31/2015	6/30/2016
Mandatory reserves	-	-	-
Other deposits	1,079	2,496	2,315
<b>TOTAL</b>	<b>1,079</b>	<b>2,496</b>	<b>2,315</b>

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

## a. Accrued interest included in this item : 34

## b. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
0	300	199	3,264	<b>3,763</b>

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

	Amount as of 6/30/2015	Amount as of 12/31/2015	Amount as of 6/30/2016	Impairment as of 6/30/2016	Unrealized capital gain or loss as of 6/30/2016 (2)
Listed securities (1)	5,728	3,501	3,462	-	(999)
Other securities	317	309	301	-	(54)
<b>TOTAL</b>	<b>6,045</b>	<b>3,810</b>	<b>3,763</b>	<b>-</b>	<b>(1,053)</b>

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

(2) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

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

Portfolio	Net amount as of 6/30/2015	Net amount as of 12/31/2015	Gross amount as of 12/31/2015	Increases	Decreases	Transfers	Subtotal as of 6/30/2016
Transaction	-	-	-	-	-	-	-
Placement	2,563	685	685	-	(0)	-	685
Investissement	3,482	3,125	3,125	-	(46)	-	3,079
<b>TOTAL</b>	<b>6,045</b>	<b>3,810</b>	<b>3,810</b>	<b>-</b>	<b>(46)</b>	<b>-</b>	<b>3,764</b>

Portfolio	Subtotal as of 6/30/2016	Conversion differences	Impairment as of 6/30/2016	Net amount as of 6/30/2016	Unrealized capital gain or loss as of 6/30/2016 <sup>(1)</sup>
Transaction	-	-	-	-	-
Placement	685	(0)	-	685	(36)
Investissement	3,079	(1)	-	3,078	(1,017)
<b>TOTAL</b>	<b>3,764</b>	<b>(1)</b>	<b>-</b>	<b>3,763</b>	<b>(1,053)</b>

(1) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

## 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

	6/30/2015	12/31/2015	6/30/2016
Sight accounts	13	4	9
Unallocated sums	-	0	0
<b>TOTAL</b>	<b>13</b>	<b>4</b>	<b>9</b>

## b. Term loans and advances due from banks

## b.1 Accrued interest included in this item: 9

## b.2 Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
3,985	227	154	229	<b>4,595</b>

## b.3 Analysis by initial maturity excluding accrued interest

	Net amount as of 6/30/2015	Net amount as of 12/31/2015	Gross amount as of 6/30/2016	Decrease in value as of 6/30/2016	Net amount as of 6/30/2016
Loans of less than 1 year	-	-	-	-	-
Loans of more than 1 year	5,267	4,865	4,595	-	4,595
<b>TOTAL</b>	<b>5,267</b>	<b>4,865</b>	<b>4,595</b>	<b>-</b>	<b>4,595</b>

## b.4 Breakdown by counterparty

	6/30/2015	12/31/2015	6/30/2016
Swiss cantonal banks benefiting from their cantons' legal guarantee	536	355	318
Banks guaranteed by a local government, crédits municipaux	67	56	36
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	2,118	2,115	2,112
Loans to parent company	2,546	2,339	2,129
<b>TOTAL</b>	<b>5,267</b>	<b>4,865</b>	<b>4,595</b>
- of which replacement assets	2,546	2,339	2,129

**2.4 - CUSTOMER LOANS AND ADVANCES****a. Accrued interest included in this item: 627****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
988	2,968	14,627	28,689	<b>47,272</b>

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

ECONOMIC SECTOR	6/30/2015	12/31/2015	6/30/2016
Public sector	42,818	43,480	44,630
Other sectors (1)	2,906	2,795	2,642
<b>TOTAL</b>	<b>45,724</b>	<b>46,275</b>	<b>47,272</b>

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

	Net amount as of 6/30/2015	Net amount as of 12/31/2015	Gross amount as of 6/30/2016	Impairment as of 6/30/2016	Net amount as of 6/30/2016
Loans of less than 1 year	5	6	6	-	6
Loans of more than 1 year	45,719	46,269	47,311	(45)	47,266
<b>TOTAL</b>	<b>45,724</b>	<b>46,275</b>	<b>47,317</b>	<b>(45)</b>	<b>47,272</b>

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

	Net amount as of 6/30/2015	Net amount as of 12/31/2015	Gross amount as of 6/30/2016	Impairment as of 6/30/2016	Net amount as of 6/30/2016
Performing commitments	45,165	45,682	46,720	-	46,720
Non-performing loans	312	274	248	(9)	239
Compromised non-performing loans	247	319	349	(36)	313
<b>TOTAL</b>	<b>45,724</b>	<b>46,275</b>	<b>47,317</b>	<b>(45)</b>	<b>47,272</b>

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 147 forborne contracts as of June 30, 2016, with 89 borrowers, for a total of EUR 1 157 million.

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

	6/30/2015	12/31/2015	Allocations	Reversals	Transfers	6/30/2016
<b>For non-performing loans</b>						
On loans	(4)	(2)	(1)	-	-	(3)
On interest	(13)	(12)	(4)	10	-	(6)
<b>For compromised non-performing loans</b>						
On loans	(5)	(4)	-	2	-	(2)
On interest	(53)	(48)	(6)	20	-	(34)
<b>TOTAL</b>	<b>(75)</b>	<b>(66)</b>	<b>(11)</b>	<b>32</b>	<b>-</b>	<b>(45)</b>

- 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: 14****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
601	47	580	2,752	<b>3,980</b>

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

	6/30/2015	12/31/2015	6/30/2016
Public sector	3,622	3,076	3,000
Other sectors (guaranteed by a State or by a local government)	620	463	380
Credit institution	-	-	600
<b>TOTAL</b>	<b>4,242</b>	<b>3,539</b>	<b>3,980</b>
- of which eligible for central bank refinancing	154	52	677
- of which replacement assets	-	-	600

**d. Replacement assets**

	6/30/2015	12/31/2015	6/30/2016
French bank bonds with a maturity lower than 100 days and a second step credit quality rating	-	-	600
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>600</b>

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

	Amount as of 6/30/2015	Amount as of 12/31/2015	Amount as of 6/30/2016	Impairment as of 6/30/2016	Unrealized capital gain or loss as of 6/30/2016 <sup>(1)</sup>
Listed securities	1,966	1,345	1,259	-	84
Other securities	2,276	2,194	2,721	-	(108)
<b>TOTAL</b>	<b>4,242</b>	<b>3,539</b>	<b>3,980</b>	<b>-</b>	<b>(24)</b>

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

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

Portfolio	Net amount as of 6/30/2015	Net amount as of 12/31/2015	Gross amount as of 12/31/2015	Increases	Decreases	Transfers	Subtotal as of 6/30/2016
Transaction	-	-	-	-	-	-	-
Placement	723	570	570	625	(36)	-	1,159
Investissement	3,519	2,969	2,969	-	(99)	-	2,870
<b>TOTAL</b>	<b>4,242</b>	<b>3,539</b>	<b>3,539</b>	<b>625</b>	<b>(135)</b>	<b>-</b>	<b>4,029</b>

Portfolio	Subtotal as of 6/30/2016	Conversion differences	Impairment as of 6/30/2016	Net amount as of 6/30/2016	Unrealized capital gain or loss as of 6/30/2016 <sup>(1)</sup>
Transaction	-	-	-	-	-
Placement	1,159	(50)	-	1,109	3
Investissement	2,870	1	-	2,871	(27)
<b>TOTAL</b>	<b>4,029</b>	<b>(49)</b>	<b>-</b>	<b>3,980</b>	<b>(24)</b>

(1) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

## g. Impairment breakdown by country

See note 2.9

## 2.6 - OTHER ASSETS

	6/30/2015	12/31/2015	6/30/2016
Other receivables	1	19	3
<b>TOTAL</b>	<b>1</b>	<b>19</b>	<b>3</b>

## 2.7 - ACCRUALS AND OTHER ASSETS

	6/30/2015	12/31/2015	6/30/2016
Deferred losses on hedging transactions	1,933	1,873	1,713
Deferred charges on bond issues	41	41	48
Deferred charges on hedging transactions	186	223	233
Premiums on acquisition of loans	165	182	221
Other prepaid charges	1	0	1
Accrued interest not yet due on hedging transactions	1,019	977	899
Translation adjustments	-	-	40
Other deferred income	-	-	0
Other accruals	-	1	6
<b>TOTAL</b>	<b>3,345</b>	<b>3,297</b>	<b>3,161</b>

## 2.8 - TOTAL ASSETS

Analysis by original currency	Amount in original currency as of 6/30/2015	Amount in euros as of 6/30/2015	Amount in original currency as of 12/31/2015	Amount in euros as of 12/31/2015	Amount in original currency as of 6/30/2016	Amount in euros as of 6/30/2016
EUR	60,128	60,128	59,436	59,436	60,682	60,682
AUD	530	365	20	14	20	13
CAD	1,018	731	1,017	674	966	672
CHF	1,921	1,846	1,896	1,746	1,521	1,403
GBP	643	906	637	867	542	655
HKD	206	24	201	24	206	24
JPY	94,721	693	95,050	726	94,614	829
NOK	1,012	115	1,039	108	1,012	109
PLN	38	9	39	9	40	9
SEK	335	36	0	0	2	0
USD	1,882	1,683	1,556	1,430	1,539	1,386
<b>TOTAL</b>		<b>66,536</b>		<b>65,034</b>		<b>65,782</b>

## 2.9 - IMPAIRMENT BREAKDOWN BY COUNTRY

	Amount as of 6/30/2015	Amount as of 12/31/2015	Amount as of 6/30/2016
<b>Government and public entity securities eligible for central bank refinancing - placement securities</b>	-	-	-
Italy	-	-	-
<b>Bonds and other fixed income securities - placement securities</b>	-	-	-
Germany	-	-	-
France	0	-	-
<b>Bonds and other fixed income securities - investment securities</b>	-	-	-
<b>Loans and advances to customers</b>	<b>(75)</b>	<b>(66)</b>	<b>(45)</b>
France	(75)	(66)	(45)

## 2.10 - BREAKDOWN OF GOVERNMENT BONDS IN A SELECTION OF EUROPEAN COUNTRIES

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

	12/31/2015					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	584	-	-	584
<b>TOTAL</b>	-	-	<b>584</b>	-	-	<b>584</b>

	6/30/2016					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	588	-	-	588
<b>TOTAL</b>	-	-	<b>588</b>	-	-	<b>588</b>

	12/31/2015					
	Spain	Ireland	Italy	Portugal	Greece	Total
Investment securities	-	-	472	-	-	472
Placement securities	-	-	112	-	-	112
<b>TOTAL</b>	-	-	<b>584</b>	-	-	<b>584</b>

	6/30/2016					
	Spain	Ireland	Italy	Portugal	Greece	Total
Investment securities	-	-	473	-	-	473
Placement securities	-	-	115	-	-	115
<b>TOTAL</b>	-	-	<b>588</b>	-	-	<b>588</b>

## 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 pledge 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.

	6/30/2015	12/31/2015	6/30/2016
Overnight borrowing	-	-	-
Time borrowing	-	-	-
Accrued interest	-	-	-
<b>TOTAL</b>	-	-	-

## 3.2 - DUE FROM BANKS

At the end of June 30, 2016, funding obtained from SFIL, within the framework of the financing agreement, was comprised of different loans with maturities initially between 29 days and 10 years, indexed on Euribor or Eonia.

	6/30/2015	12/31/2015	6/30/2016
Sight accounts	-	-	5
Current account - parent company	-	-	-
Interest accrued not yet due	-	-	-
Term borrowing - parent company	5,593	5,511	5,474
Interest accrued not yet due	9	9	7
Unallocated sums	-	-	-
<b>TOTAL</b>	<b>5,602</b>	<b>5,520</b>	<b>5,486</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 as of 6/30/2016
Sight	5	-	-	-	5
Term	300	747	2,246	2,181	5,474
<b>TOTAL</b>	<b>305</b>	<b>747</b>	<b>2,246</b>	<b>2,181</b>	<b>5,479</b>

## 3.3 - DEBT SECURITIES

a. Debt securities (*obligations foncières*) :

## a.1. Accrued interest included in this item: 717

## a.2. 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
<i>Obligations foncières</i>	2,026	4,532	21,110	19,494	<b>47,162</b>
of which issue premiums <sup>(1)</sup>	-	2	(35)	(43)	(76)

(1) The gross amount of issue premiums, positive or negative, totaled EUR -116 million before amortization.

## a.3. Changes during the year excluding accrued interest

12/31/2015	Increases	Decreases	Translation adjustments	6/30/2016
46,107	4,605	(3,583)	33	<b>47,162</b>

**b. Other bonds (registered covered bonds)****b.1. Accrued interest included in this item: 134****b.2. 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	-	123	254	5,904	<b>6,281</b>
of which issue premiums <sup>(1)</sup>	-	-	-	47	47

(1) The gross amount of issue premiums, positive or negative, totaled EUR 50 million before amortization.

**b.3. Analysis by residual maturity excluding accrued interest**

12/31/2015	Increases	Decreases	Translation adjustments	6/30/2016
6,137	145	(1)	-	<b>6,281</b>

**3.4 - OTHER LIABILITIES**

	6/30/2015	12/31/2015	6/30/2016
Cash collateral received	1,408	1,397	1,371
Accrued interest not yet due on cash collateral received	(0)	0	(0)
Taxes	1	11	23
Balances to pay on unwound hedging contracts	-	-	-
Contribution to the support fund <sup>(1)</sup>	142	162	136
Other creditors	0	-	0
<b>TOTAL</b>	<b>1,551</b>	<b>1,570</b>	<b>1,530</b>

(1) This item represents the commitments taken in 2013 by Caisse Française de Financement Local to contribute to the pluri-annual support funds :

-in 2013, for local governments in the amount of EUR 10 million for 15 years (EUR 150 million)

-in 2014 and 2015 for public hospitals in the amount of respectively EUR 18 million (EUR 6 million for three years) and EUR 20 million (EUR 10 million for two years).

**3.5 - ACCRUALS AND OTHER LIABILITIES**

	6/30/2015	12/31/2015	6/30/2016
Deferred gains on hedging transactions	-	-	-
Deferred income on hedging transactions	2,227	2,165	1,923
Deferred income on loans	165	166	157
Accrued interest not yet due on hedging transactions	923	836	748
Other accrued charges	16	15	15
Translation adjustments	170	18	-
Other accruals	1	-	-
<b>TOTAL</b>	<b>3,502</b>	<b>3,200</b>	<b>2,843</b>

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

	6/30/2015	12/31/2015	Increases	Decreases	Translation adjustments	6/30/2016
Loans commitments <sup>(1)</sup>	65	64	2	(8)	-	58
Financial instruments	36	24	14	(0)	-	38
Other provisions <sup>(2)</sup>	29	115	-	(9)	-	106
<b>TOTAL</b>	<b>130</b>	<b>203</b>	<b>16</b>	<b>(17)</b>	<b>-</b>	<b>202</b>

(1) Caisse Française de Financement Local maintained a high level of collective provisions in the amount of EUR 58 million.

(2) In 2015, French tax authorities investigated the income declared and the tax paid for 2012 and 2013. Following the tax assessment, the tax authorities expressed their disagreement with the tax treatment of the following two points: the taxation in Ireland of the income from the Dublin branch of Dexia Municipal Agency, which has now been closed, and the deductibility of provisions for non-performing loans.

In order to take into account the risk of an unfavorable outcome in the proceedings, Caisse Française de Financement Local has recorded a provision for additional income tax in the amount of EUR 86 million in its 2015 financial statements according to French GAAP. Nonetheless, Caisse Française de Financement Local does not agree with the position of tax authorities and will appeal within the framework of legal recourse allowed by current tax regulations. Discussions with the administration are still going on.

**3.7 EQUITY**

	6/30/2015	12/31/2015	6/30/2016
Share capital	1,315	1,315	1,315
Legal reserve	46	46	46
Retained earnings (+/-)	25	25	(5)
Net income (+/-)	23	(30)	71
<b>TOTAL</b>	<b>1,409</b>	<b>1,356</b>	<b>1,427</b>

On May 26, 2015, the Ordinary and Extraordinary Shareholders' Meeting decided to allocate the 2015 net loss of EUR 30 million to retained earnings, constituting income for distribution of EUR -5 million, after allocation to the legal reserve.

Caisse Française de Financement Local's share capital totaled EUR 1,315 million, comprising 13,150,000 shares.

**3.8 - TOTAL LIABILITIES**

Analysis by original currency	Amount in original currency as of 6/30/2015	Amount in euros as of 6/30/2015	Amount in original currency as of 12/31/2015	Amount in euros as of 12/31/2015	Amount in original currency as of 6/30/2016	Amount in euros as of 6/30/2016
EUR	60,128	60,128	59,436	59,436	60,682	60,682
AUD	530	365	20	14	20	13
CAD	1,018	731	1,017	674	966	672
CHF	1,921	1,846	1,896	1,746	1,521	1,403
GBP	643	906	637	867	542	655
HKD	206	24	201	24	206	24
JPY	94,721	693	95,050	726	94,614	829
NOK	1,012	115	1,039	108	1,012	109
PLN	38	9	39	9	40	9
SEK	335	36	0	0	2	0
USD	1,882	1,683	1,556	1,430	1,539	1,386
<b>TOTAL</b>		<b>66,536</b>		<b>65,034</b>		<b>65,782</b>

## 3.9 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Parent company <sup>(1)</sup>			Other related parties <sup>(2)</sup>		
	6/30/2015	12/31/2015	6/30/2016	6/30/2015	12/31/2015	6/30/2016
<b>ASSETS</b>						
Loans and advances due from banks - sight	-	-	-	-	-	-
Loans and advances due from banks - term	2,548	2,341	2,131	-	-	-
Bonds and other fixed income securities	-	-	-	-	-	-
<b>LIABILITIES</b>						
Due to banks - sight	-	-	-	-	-	-
Due to banks - term	5,602	5,520	5,482	-	-	-
<b>INCOME STATEMENT</b>						
Interest income on loans and advances	6	11	5	(3)	(9)	(6)
Interest income on debt securities	-	-	-	-	-	-
Interest expense on borrowings	(21)	(37)	(14)	-	-	-
Net commissions	(10)	(19)	-	-	-	-
<b>OFF-BALANCE SHEET</b>						
Interest rate derivatives	18,347	17,499	14,373	-	-	-
Foreign exchange derivatives	4,354	4,137	3,904	-	-	-
Commitments and guarantees received	3,145	2,391	2,181	140	140	-
Commitments and guarantees given	-	600	551	-	-	-

(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 Postal, shareholders of SFIL.

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

## 4.1 - COMMITMENTS GRANTED

	6/30/2015	12/31/2015	6/30/2016
Financing commitments granted to credit institutions <sup>(1)</sup>	-	600	551
Financing commitments granted to customers <sup>(2)</sup>	297	293	289
Other commitments given, assets assigned in guarantee	-	-	-
<b>TOTAL</b>	<b>297</b>	<b>893</b>	<b>840</b>

(1) Within the framework of the new export credit business, this amount corresponds to a commitment by Caisse Française de Financement Local to refinance its parent company, SFIL.

(2) Financing commitments on loans and advances correspond to contracts signed for loans not yet paid out to customers as of June 30, 2016.

## 4.2 - COMMITMENTS RECEIVED

	6/30/2015	12/31/2015	6/30/2016
Financing commitments received from credit institutions <sup>(1)</sup>	627	50	50
Currencies borrowed	-	-	-
Guarantees received from credit institutions <sup>(2)</sup>	2,731	2,525	2,163
Enhanced guarantee <sup>(3)</sup>	-	-	551
Guarantees received from local governments and asset transfers as guarantees of commitments on local governments	7,200	6,104	5,613
Other commitments received	-	-	-
<b>TOTAL</b>	<b>10,558</b>	<b>8,679</b>	<b>8,377</b>

(1) At the end of June 2016, this item corresponded 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, 2016, 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.

(3) Guarantee received from Coface, on behalf of the State, with its guarantee. The French State will take over the rights and obligations related to this enhanced guarantee before the end of the year 2016.

## 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.

	6/30/2015	12/31/2015	6/30/2016	Fair value as of 6/30/2016
Currencies to receive	9,366	8,006	8,167	413
Currencies to deliver	9,537	8,024	8,126	(492)
<b>TOTAL</b>	<b>18,903</b>	<b>16,030</b>	<b>16,293</b>	<b>(79)</b>

## 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	12/31/2015	Less than 1 year	1 year to 5 years	More than 5 years	6/30/2016
Unconditional transactions	148,022	47,584	36,524	56,235	140,343
of which deferred start	14,037	4,200	250	1,870	6,320

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

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

	6/30/2015	12/31/2015	6/30/2016
Interest rate swaps	143,538	148,022	140,343
Term contracts	-	-	-
Interest rate options	-	-	-
<b>TOTAL</b>	<b>143,538</b>	<b>148,022</b>	<b>140,343</b>

## c. Analysis of interest rate swap transactions

	6/30/2015	12/31/2015	6/30/2016	Fair value as of 6/30/2016
Micro-hedge	70,959	69,794	70,706	(832)
Macro-hedge	72,579	78,228	69,637	(3,923)
<b>TOTAL</b>	<b>143,538</b>	<b>148,022</b>	<b>140,343</b>	<b>(4,755)</b>

## d. Analysis of interest rate transactions by counterparty

	6/30/2015	12/31/2015	6/30/2016
Related parties	18,347	17,499	14,373
Other counterparties	125,191	130,523	125,970
<b>TOTAL</b>	<b>143,538</b>	<b>148,022</b>	<b>140,343</b>

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

## 5.0 - INTEREST AND RELATED INCOME / EXPENSE

	6/30/2015	6/30/2016
<b>INCOME</b>	<b>862</b>	<b>2,190</b>
Due from banks	31	15
Due from customers	737	2,059
Bonds and other fixed	48	37
Macro-hedge transactions	46	79
Other commitments	-	-
<b>EXPENSE</b>	<b>(780)</b>	<b>(2,039)</b>
Due to banks	(22)	(17)
Due to customers	(326)	(1,520)
Bonds and other fixed		
income securities	(97)	118
Macro-hedge transactions	(335)	(620)
Other commitments	-	-
<b>INTEREST MARGIN</b>	<b>82</b>	<b>151</b>

## 5.1 - ANALYSIS OF COMMISSIONS PAID

	6/30/2015	6/30/2016
Commission for business brokerage and securities portfolio management	(3)	(2)
Commission paid on securities transactions	(1)	(0)
Rebiling by the parent company	(10)	-
<b>TOTAL</b>	<b>(14)</b>	<b>(2)</b>

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

	6/30/2015	6/30/2016
Transactions on placement securities <sup>(1)</sup>	9	(14)
Transactions on investment securities	-	-
Transactions on interest rate derivatives	-	-
Foreign exchange transactions	0	0
<b>TOTAL</b>	<b>9</b>	<b>(14)</b>

(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. The general management of the operations of Caisse Française de Financement Local has been entrusted by an agreement to its parent company, SFIL, a credit institution.

Specific individual agreements have been established with entities that have transferred assets to the *société de crédit foncier*, and continue to ensure management for their national clientele. At the end of June 30, 2016,, there were agreements with the following entities: Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium), and Dexia Crediop (Italy). These agreements already existed in previous years.

Starting in 2015, management of new registered covered bonds (RCB) is entrusted to Landesbank Baden-Württemberg (LBBW). Dexia Kommunalbank Deutschland continues to manage registered covered bonds issued prior to 2015.

General operating expense can be broken down as follows.

	6/30/2015	6/30/2016
Taxes	(1)	(7)
Other general operating expense <sup>(1)</sup>	(52)	(46)
<b>TOTAL</b>	<b>(53)</b>	<b>(53)</b>

(1) of which EUR 44 million with SFIL.

## 5.4 - COST OF RISK

	6/30/2015	6/30/2016
Contribution to the support	-	-
Collective and specific impairments	2	7
<b>TOTAL</b>	<b>2</b>	<b>7</b>

## 5.5 - GAINS AND LOSSES ON FIXED ASSETS

	6/30/2015	6/30/2016
Transactions on investment securities	-	-
Other operations	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>

**5.6 - CORPORATE INCOME TAX**

	<b>6/30/2015</b>	<b>6/30/2016</b>
Income tax for the year <sup>(1)</sup>	(3)	(27)
Deferred tax <sup>(2)</sup>	-	9
<b>TOTAL</b>	<b>(3)</b>	<b>(18)</b>

(1) The corporate tax rate in France in 2016 is 34,43%.

(2) See note 3.6



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## Statutory auditor's report Half-year 2016 (*French Gaap*)

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

Period from January 1<sup>st</sup>, 2016 to June 30<sup>th</sup>, 2016

*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 1<sup>st</sup>, 2016 to June 30<sup>th</sup>, 2016;
- 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 30<sup>th</sup>, 2016 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.

### 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, September 9<sup>th</sup>, 2016

The Statutory Auditors

*French original signed by*

MAZARS  
Anne VEAUTE

DELOITTE & ASSOCIES  
Sylvie BOURGUIGNON

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



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

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

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

Issy-les-Moulineaux, September 9, 2016

Gilles GALLERNE  
Chairman of the executive board